

INTERNATIONAL PAPER CO /NEW/
Form 10-K
February 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 for the fiscal year ended December 31, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the transition period from _____ to _____

Commission File No. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York

13-0872805

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

6400 Poplar Avenue

Memphis, Tennessee

(Address of principal executive offices)

38197

(Zip Code)

Registrant's telephone number, including area code: (901) 419-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$1 per share par value

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (section 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the Company’s outstanding common stock held by non-affiliates of the registrant, computed by reference to the closing price as reported on the New York Stock Exchange, as of the last business day of the registrant’s most recently completed second fiscal quarter (June 30, 2013) was approximately \$19,567,052,215. The number of shares outstanding of the Company’s common stock as of February 19, 2014 was 438,800,916.

Documents incorporated by reference:

Portions of the registrant’s proxy statement filed within 120 days of the close of the registrant’s fiscal year in connection with registrant’s 2014 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the “Company” or “International Paper,” which may also be referred to as “we” or “us”) is a global paper and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia, Africa and the Middle East. We are a New York corporation, incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898. Our home page on the Internet is www.internationalpaper.com. You can learn more about us by visiting that site.

In the United States, at December 31, 2013, the Company operated 25 pulp, paper and packaging mills, 181 converting and packaging plants, 18 recycling plants and three bag facilities. Production facilities at December 31, 2013 in Europe, Asia, Africa, India, Latin America and South America included 16 pulp, paper and packaging mills, 72 converting and packaging plants, and two recycling plants. We distribute printing, packaging, graphic arts, maintenance and industrial products principally through over 81 distribution branches in the United States and 17 distribution branches located in Mexico and Asia. At December 31, 2013, we owned or managed approximately 332,000 acres of forestland in Brazil and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions.

For management and financial reporting purposes, our businesses are separated into four segments: Industrial Packaging; Printing Papers; Consumer Packaging; and Distribution. A description of these business segments can be found on pages 27 through 29 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations. The Company’s 50% equity interest in Ilim Holding S.A. is also a separate reportable industry segment.

On January 28, 2014, we announced that International Paper, xpedx Holding Company (“SpinCo”), a company we recently formed to hold xpedx, the business of which comprises our Distribution segment, UWW Holdings, Inc. (“Unisource”) and related entities had entered into a merger agreement, a contribution and distribution agreement and related agreements, providing for the pro rata, tax-free, spin-off distribution of shares of common stock of SpinCo to International Paper’s shareholders and the merger of Unisource with and into SpinCo with SpinCo as the surviving company in the

merger. As a result of the spin-off distribution and the merger, International Paper’s shareholders will own approximately 51%, and the sole shareholder of Unisource will own approximately 49%, of the shares of common stock of SpinCo on a fully diluted basis. We anticipate that the spin-off distribution and the merger will be completed in mid-2014. You can find discussions of the transaction in Item 1A. Risk Factors - Risks Relating to Our Operations and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Description of Industry Segments.

From 2009 through 2013, International Paper’s capital expenditures approximated \$5.0 billion, excluding mergers and acquisitions. These expenditures reflect our continuing efforts to improve product quality and environmental performance, as well as lower costs, maintain reliability of operations and improve forestlands. Capital spending for continuing operations in 2013 was approximately \$1.2 billion and is expected to be approximately \$1.4 billion in 2014. You can find more information about capital expenditures on page 35 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on pages 35 through 37 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

You can find discussions of restructuring charges and other special items on pages 25 through 27 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Throughout this Annual Report on Form 10-K, we “incorporate by reference” certain information in parts of other documents filed with the Securities and Exchange Commission (SEC). The SEC permits us to disclose important information by referring to it in that manner. Please refer to such information. Our annual reports on Form 10-K,

quarterly reports on Form 10-Q and current reports on Form 8-K, along with all other reports and any amendments thereto filed with or furnished to the SEC, are publicly available free of charge on the Investor Relations section of our Internet Web site at www.internationalpaper.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on or connected to our Web site is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we filed with or furnished to the SEC.

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

The financial information concerning segments is set forth in Note 19 Financial Information by Industry

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Segment and Geographic Area on pages 89 through 91 of Item 8. Financial Statements and Supplementary Data.

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND U.S. OPERATIONS

The financial information concerning international and U.S. operations and export sales is set forth in Note 19 Financial Information by Industry Segment and Geographic Area on page 91 of Item 8. Financial Statements and Supplementary Data.

COMPETITION AND COSTS

The markets in the pulp, paper and packaging product lines are large and fragmented. The major markets, both U.S. and non-U.S., in which the Company sells its principal products are very competitive. Our products compete with similar products produced by other forest products companies. We also compete, in some instances, with companies in other industries and against substitutes for wood and wood-fiber products.

Many factors influence the Company's competitive position, including price, cost, product quality and services. You can find more information about the impact of these factors on operating profits on pages 20 through 34 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. You can find information about the Company's manufacturing capacities on page A-4 of Appendix II.

MARKETING AND DISTRIBUTION

The Company sells paper, packaging products and other products directly to end users and converters, as well as through agents, resellers and paper distributors. We own a large merchant distribution business that sells products made both by International Paper and by other companies making paper, paperboard, packaging, graphic arts supplies and maintenance and industrial products. Sales offices are located throughout the United States as well as internationally.

DESCRIPTION OF PRINCIPAL PRODUCTS

The Company's principal products are described on pages 27 through 29 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Sales volumes of major products for 2013, 2012 and 2011 were as follows:

Sales Volumes by Product (1)

In thousands of short tons	2013	2012	2011
Industrial Packaging			
North American Corrugated Packaging (2)	10,393	10,523	7,424
North American Containerboard (2)	3,273	3,228	2,371
North American Recycling	2,379	2,349	2,435
North American Saturated Kraft	176	166	161
North American Gypsum/Release Kraft (2)	157	135	—
North American Bleached Kraft	132	114	95
EMEA Industrial Packaging (3)	1,342	1,032	1,047
Asian Box	416	410	444
Brazilian Packaging (4)	297	—	—
Industrial Packaging	18,565	17,957	13,977
Printing Papers			
U.S. Uncoated Papers	2,508	2,617	2,616
European and Russian Uncoated Papers	1,413	1,286	1,218
Brazilian Uncoated Papers	1,150	1,165	1,141
Indian Uncoated Papers	232	246	49
Uncoated Papers	5,303	5,314	5,024
Market Pulp (5)	1,711	1,593	1,410
Consumer Packaging			
North American Consumer Packaging	1,556	1,507	1,560
European and Russian Coated Paperboard	355	372	332
Asian Coated Paperboard	1,430	1,059	998
Consumer Packaging	3,341	2,938	2,890

(1) Includes third-party and inter-segment sales and excludes sales of equity investees.

(2) Includes Temple-Inland volumes from date of acquisition in February 2012.

(3) Includes Turkish box plants beginning in Q1 2013 when a majority ownership was acquired.

(4) Includes Brazil Packaging from date of acquisition in mid- January 2013.

(5) Includes internal sales to mills.

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RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several product laboratories. Additionally, the Company has an interest in ArborGen, Inc., a joint venture with certain other forest products companies.

We direct research and development activities to short-term, long-term and technical assistance needs of customers and operating divisions, and to process, equipment and product innovations. Activities include product development within the operating divisions; studies on innovation and improvement of pulping, bleaching, chemical recovery, papermaking, converting and coating processes; packaging design and materials development; mechanical packaging systems, environmentally sensitive printing inks and reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to manufacturing operations; innovations and improvement of products; and development of various new products. Our development efforts specifically address product safety as well as the minimization of solid waste. The cost to the Company of its research and development operations was \$18 million in 2013, \$13 million in 2012 and \$13 million in 2011.

We own numerous patents, copyrights, trademarks, trade secrets and other intellectual property rights relating to our products and to the processes for their production. We also license intellectual property rights to and from others where necessary. Many of the manufacturing processes are among our trade secrets. Some of our products are covered by U.S. and non-U.S. patents and are sold under well known trademarks. We derive a competitive advantage by protecting our trade secrets, patents, trademarks and other intellectual property rights, and by using them as required to support our businesses.

ENVIRONMENTAL PROTECTION

International Paper is subject to extensive federal and state environmental regulation as well as similar regulations internationally. Our continuing objectives include: (1) controlling emissions and discharges from our facilities into the air, water and groundwater to avoid adverse impacts on the environment, and (2) maintaining compliance with applicable laws and regulations. The Company spent \$61 million in 2013 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend approximately \$140 million in 2014 for similar capital projects, including expenditures associated with the U.S. Environmental Protection Agency's (EPA) Boiler MACT (maximum achievable control technology)

regulations. Capital expenditures for 2015 environmental capital projects are anticipated to be approximately \$160 million, including Boiler MACT costs. Capital expenditures for 2016 environmental capital projects are estimated to be \$110 million, including Boiler MACT costs. On January 31, 2013, the EPA issued the final Boiler MACT suite of regulations. These regulations require owners of specified boilers to meet revised air emissions standards for certain substances. Several lawsuits have been filed to challenge all or portions of the Boiler MACT regulations. As such, the projected capital expenditures for environmental capital projects represent our current best estimate of future expenditures with the recognition that the Boiler MACT regulations are subject to change.

In the U.S., air quality regulations finalized by the EPA during 2013 are not expected to have a material impact on the Company. To date, revisions to National Ambient Air Quality Standards (NAAQS) for sulfur dioxide (SO₂), nitrogen dioxide (NO₂), and fine particulate (PM_{2.5}) finalized between 2010 and 2012 have not had a material impact on the Company. Regulations addressing specific implementation issues related to the SO₂ NAAQS are being developed by the EPA and are expected to be finalized during the next two years. Potentially material capital investment might be required in response to these emerging requirements.

CLIMATE CHANGE

Climate change refers to any significant change in the measure of the earth's climatic conditions such as temperature, precipitation, or winds that persist for decades or longer. Climate change can be caused by natural factors, such as changes in the sun's intensity and ocean circulation, and human activities can also affect the composition of the earth's atmosphere, such as from the burning of fossil fuels. In an effort to mitigate the potential of climate change impacts

from human activities, various international, national and sub-national (regional, state and local) governmental actions have been undertaken. Presently, these efforts have not materially impacted International Paper, but such efforts might have a material impact on the Company in the future.

International Efforts

In 1997, the Kyoto Protocol established emission reduction obligations for certain countries where the Company had and continues to have operations. Though the Kyoto Protocol expired in 2012, several countries, and most notably the European Union (EU), extended their emissions commitments until 2020. A successor program to the Kyoto Protocol is the subject of on-going international negotiations. It is not yet clear if these negotiations will result in a new International

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Climate Change Agreement and, if so, what form it will take. Due to this uncertainty, it is not possible at this time to estimate the potential impacts of future international agreements on the Company.

To assist member countries in meeting obligations under the Kyoto Protocol, the EU established and continues to operate an Emissions Trading System (EU ETS). Currently, we have two sites directly subject to regulation under Phase III of the EU ETS, one in Poland and one in France. Other sites that we operate in the EU experience indirect impacts of the EU ETS through purchased power pricing. Neither the direct nor indirect impacts of the EU ETS have been material to the company, but they could be material to the company in the future depending on how allocation of and market prices for greenhouse gas (GHG) credits evolve over the coming years.

National Efforts

In the U.S., the Kyoto Protocol was not ratified and Congress has not passed GHG legislation. The U.S. EPA has acted regulatorily to control GHGs from mobile sources (through transportation fuel efficiency standards) and requires reporting of GHGs from sources of GHGs greater than 25,000 tons per year. In 2013, the Company reported to EPA the GHG emissions from 23 of our U.S. manufacturing sites and 7 landfills. In 2010, EPA issued GHG regulations for new and modified sources under the New Source Review and Title V Operating Permit programs. However, EPA deferred the applicability of these GHGs regulations to biomass emissions until the summer of 2014 to allow a Science Advisory Board (SAB) to provide input to EPA on how to incorporate the concept of carbon neutrality for biomass into their regulatory processes. Before EPA could act on the SAB report, the U.S. Court of Appeals for the District of Columbia ruled that the EPA could not administratively defer regulation of biomass GHG emissions. The mandate for the biomass deferral vacature has yet to be acted upon and thus it is unclear how EPA will incorporate the decision into climate change regulations.

EPA has also issued final regulations establishing New Source Performance Standards (NSPS) for new Electrical Generating Units (EGUs). This regulation is the first of several expected NSPSs that EPA will implement over the coming years. Currently, the EPA has not identified the pulp and paper industry in the first phase of sectors to be covered by the new standards. However, we anticipate that at some future time pulp and paper sources will be subject to new GHG NSPS rules. It is unclear what impacts, if any, future GHG NSPS rules will have on the Company's operations.

State, Regional and Local Measures

A few U.S. states have enacted or are considering legal measures to require the reduction of emissions of greenhouse gases by companies and public utilities, primarily through the development of greenhouse gas emission inventories or regional GHG cap-and-trade programs. One such state is California. The Company does not have any sites currently subject to California's GHG regulatory plan. There may be indirect impacts from changing input costs (such as electricity) at some of our California converting operations but these have yet to manifest themselves in material impacts. Although we are monitoring proposed programs in other states, it is unclear what impacts, if any, state level GHG rules will have on the Company's operations.

Summary

Regulation of greenhouse gases continues to evolve in various countries in which we do business. While it is likely that there will be increased governmental action regarding greenhouse gases and climate change, at this time it is not reasonably possible to estimate either a timetable for the implementation of any new regulations or our costs of compliance. In addition to possible direct impacts, future legislation and regulation could have indirect impacts on International Paper, such as higher prices for transportation, energy and other inputs, as well as more protracted air permitting processes, causing delays and higher costs to implement capital projects. International Paper has controls and procedures in place to stay adequately informed about developments concerning possible climate change legislation and regulation in the U.S. and in other countries where we operate. We regularly assess whether such legislation or regulation may have a material effect on the Company, its operations or financial condition, and whether we have any related disclosure obligations.

Additional information regarding climate change and International Paper, including our emissions for 2013, are available in our Sustainability Report found at <http://www.internationalpaper.com/US/EN/Company/Sustainability/SustainabilityReport.html>, though this information is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

EMPLOYEES

As of December 31, 2013, we had approximately 69,000 employees, 39,000 of whom were located in the United States. Of the U.S. employees, approximately 26,000 are hourly, with unions representing approximately 15,500 employees. Approximately 12,000 of the union employees are represented by the United Steel Workers (USW).

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International Paper and the USW have negotiated two master agreements covering our USW represented mills and converting facilities, respectively. These master agreements cover several specific items, including wages, select benefit programs, successorship, employment security, and health and safety. Individual facilities continue to have local agreements for other subjects not covered by the master agreements. If local facility agreements are not successfully negotiated at the time of expiration, under the terms of the master agreements the local contracts will automatically renew with the same terms in effect. The mill master agreement covers 18 of our U. S. pulp, paper, and packaging mills; the converting agreement includes 63 of our converting facilities. In addition, International Paper is party to a master agreement with District Council 2, International Brotherhood of Teamsters, covering 16 additional converting facilities.

During 2013, 36 local labor agreements were negotiated at 13 mills, 21 converting facilities and two distribution facilities. In 2014, 50 labor agreements are scheduled to be negotiated, including seven mills, 30 converting facilities and 13 distribution facilities. Thirty-one of these agreements will automatically renew under the terms of the applicable master agreement if new agreements are not reached.

EXECUTIVE OFFICERS OF THE REGISTRANT

John V. Faraci, 64, chairman and chief executive officer since 2003. Mr. Faraci joined International Paper in 1974. C. Cato Ealy, 57, senior vice president - corporate development since 2003. Mr. Ealy is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Ealy joined International Paper in 1992.

William P. Hoel, 57, senior vice president, Container The Americas, since February 2012. Mr. Hoel previously served as vice president, Container The Americas, from 2005 until 2012, senior vice president, corporate sales and marketing, from 2004 until 2005, and vice president, Wood Products, from 2000 until 2004. Mr. Hoel joined International Paper in 1983.

Tommy S. Joseph, 54, senior vice president - manufacturing, technology, EHS&S and global sourcing since January 2010. Mr. Joseph previously served as senior vice president - manufacturing, technology, EHS&S from February 2009 until December 2009, and vice president - technology from 2005 until February 2009. Mr. Joseph is a director of Ilim Holding S.A., a Swiss Holding Company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Joseph joined International Paper in 1983.

Thomas G. Kadien, 57, senior vice president - consumer packaging and IP Asia since January 2010. Mr. Kadien previously served as senior vice president and president - xpedx from 2005 until 2009. Mr. Kadien joined International Paper in 1978. Mr. Kadien serves on the board of directors of The Sherwin-Williams Company.

Paul J. Karre, 61, senior vice president - human resources and communications since May 2009. Mr. Karre previously served as vice president - human resources from 2000 until 2009. Mr. Karre joined International Paper in 1974.

Mary A. Laschinger, 53, senior vice president since 2007 and president - xpedx since January 2010. Ms. Laschinger previously served as president - IP Europe, Middle East, Africa and Russia from 2005 until 2010. Ms. Laschinger joined International Paper in 1992. Ms. Laschinger serves on the board of directors of the Kellogg Company.

Tim S. Nicholls, 52, senior vice president - printing and communications papers of the Americas since November 2011. Mr. Nicholls previously served as senior vice president and chief financial officer from 2007 until 2011 and vice president and executive project leader of IP Europe during 2007. Mr. Nicholls served as vice president and chief financial officer - IP Europe from 2005 until 2007. Mr. Nicholls joined International Paper in 1991.

Jean-Michel Ribieras, 51, senior vice president and president - IP Europe, Middle East, Africa and Russia since June 2013. Mr. Ribieras previously served as president - IP Latin America from 2009 until 2013. Mr. Ribieras is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Ribieras joined International Paper in 1993.

Carol L. Roberts, 54, senior vice president and chief financial officer since November 2011. Ms. Roberts previously served as senior vice president - industrial packaging from 2008 until 2011 and senior vice president - IP packaging solutions from 2005 until 2008. Ms. Roberts serves on the board of directors of Alcoa Inc. and Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Ms. Roberts joined International Paper in 1981.

Sharon R. Ryan, 54, senior vice president, general counsel and corporate secretary since November 2011. Ms. Ryan previously served as senior vice president, acting general counsel and corporate secretary from May 2011 until November 2011, and as vice president from March 2011 until May 2011. Ms. Ryan served as associate general counsel, chief ethics and compliance officer from 2009 until 2011,

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and as associate general counsel from 2006 until 2011. Ms. Ryan joined International Paper in 1988. Mark S. Sutton, 52, senior vice president - industrial packaging since November 2011. Mr. Sutton previously served as senior vice president - printing and communications papers of the Americas from 2010 until 2011, senior vice president - supply chain from 2008 to 2009, and vice president - supply chain from 2007 until 2008. Mr. Sutton served as vice president - strategic planning from 2005 until 2007. Mr. Sutton joined International Paper in 1984.

RAW MATERIALS

Raw materials essential to our businesses include wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers (OCC), and certain chemicals, including caustic soda and starch. Information concerning fiber supply purchase agreements that were entered into in connection with the Company's 2006 Transformation Plan and the CBPR acquisition in 2008 is presented in Note 11 Commitments and Contingent Liabilities on page 68 and 69 of Item 8. Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K that are not historical in nature may be considered "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "project," "estimate," "intend," and words of a similar nature. These statements are not guarantees of future performance and reflect management's current views with respect to future events, which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include but are not limited to: (i) the level of our indebtedness and increases in interest rates; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicity and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to the impairment of financial institutions, changes in currency exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we

experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through a joint venture; (vii) the receipt of governmental and other approvals and favorable rulings associated with the agreed-upon transaction combining xpedx with Unisource, the successful fulfillment or waiver of all other closing conditions for the transaction without unexpected delays or conditions, and the successful closing of the transaction within the estimated timeframe; and (viii) our ability to achieve the benefits we expect from all strategic acquisitions, divestitures and restructurings. These and other factors that could cause or contribute to actual results differing materially from such forward looking statements are discussed in greater detail below in "Item 1A. Risk Factors." We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

All financial information and statistical measures regarding our 50/50 Ilim joint venture in Russia ("Ilim"), other than historical International Paper Equity Earnings and dividends received by International Paper, have been prepared by the management of Ilim. Ilim management has indicated that the financial information was prepared in accordance with International Financial Reporting Standards and extracted from Ilim's financial statements, but International Paper has not verified or audited any of this information. Any projected financial information and statistical measures reflect the current views of Ilim management and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such projections.

ITEM 1A. RISK FACTORS

In addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K (particularly in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations), or in the Company's other filings with the Securities and Exchange Commission, the following are some important factors that could cause the Company's actual results to differ materially from those projected in any forward-looking statement.

RISKS RELATING TO INDUSTRY CONDITIONS

CHANGES IN THE COST OR AVAILABILITY OF RAW MATERIALS, ENERGY AND TRANSPORTATION COULD AFFECT OUR PROFITABILITY. We rely heavily on the use of certain raw materials (principally virgin wood fiber, recycled fiber, caustic soda and starch), energy sources (principally natural gas, coal and fuel oil) and third-party companies that transport our goods. The market price of virgin wood fiber varies based upon availability and source. Increased demand

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for biomass to meet a growing number of government mandates and incentives to promote the use of biomass for renewable electrical energy generation may also impact pricing and availability of virgin wood fiber. In addition, the increase in demand of products manufactured, in whole or in part, from recycled fiber, on a global basis, may cause an occasional tightening in the supply of recycled fiber. Energy prices, in particular prices for oil and natural gas, have fluctuated dramatically in the past and may continue to fluctuate in the future.

Our profitability has been, and will continue to be, affected by changes in the costs and availability of such raw materials, energy sources and transportation sources.

THE INDUSTRIES IN WHICH WE OPERATE EXPERIENCE BOTH ECONOMIC CYCLICALITY AND CHANGES IN CONSUMER PREFERENCES. FLUCTUATIONS IN THE PRICES OF, AND THE DEMAND FOR, OUR PRODUCTS COULD MATERIALLY AFFECT OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions. The length and magnitude of these cycles have varied over time and by product. In addition, changes in consumer preferences may increase or decrease the demand for our fiber-based products and non-fiber substitutes. These consumer preferences affect the prices of our products. Consequently, our operating cash flow is sensitive to changes in the pricing and demand for our products.

COMPETITION IN THE UNITED STATES AND INTERNATIONALLY COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS. We operate in a competitive environment, both in the United States and internationally, in all of our operating segments. Product innovations, manufacturing and operating efficiencies, and marketing, distribution and pricing strategies pursued or achieved by competitors could negatively impact our financial results.

RISKS RELATING TO MARKET AND ECONOMIC FACTORS

ADVERSE DEVELOPMENTS IN GENERAL BUSINESS AND ECONOMIC CONDITIONS COULD HAVE AN ADVERSE EFFECT ON THE DEMAND FOR OUR PRODUCTS AND OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS. General economic conditions may adversely affect industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels and consumer confidence, all of which impact demand for our

products. In addition, volatility in the capital and credit markets, which impacts interest rates, currency exchange rates and the availability of credit, could have a material adverse effect on our business, financial condition and our results of operations.

THE LEVEL OF OUR INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND IMPAIR OUR ABILITY TO OPERATE OUR BUSINESS. As of December 31, 2013, International Paper had approximately \$9.5 billion of outstanding indebtedness, including \$0 of indebtedness outstanding under our credit facilities and \$8.8 billion of indebtedness outstanding under our floating and fixed rate notes. The level of our indebtedness could have important consequences to our financial condition, operating results and business, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, product development, dividends, share repurchases, debt service requirements, acquisitions and general corporate or other purposes;

- a portion of our cash flows from operations will be dedicated to payments on indebtedness and will not be available for other purposes, including operations, capital expenditures and future business opportunities;

- the debt service requirements of our indebtedness could make it more difficult for us to satisfy other obligations;

- our indebtedness that is subject to variable rates of interest exposes us to increased debt service obligations in the event of increased interest rates;

- it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt; and

- it may increase our vulnerability to a downturn in general economic conditions or in our business, and may make us unable to carry out capital spending that is important to our growth.

In addition, we are subject to agreements that require meeting and maintaining certain financial ratios and covenants. A significant or prolonged downturn in general business and economic conditions may affect our ability to comply with these covenants or meet those financial ratios and tests and could require us to take action to reduce our debt or to act in a manner contrary to our current business objectives.

CHANGES IN CREDIT RATINGS ISSUED BY NATIONALLY RECOGNIZED STATISTICAL RATING

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ORGANIZATIONS COULD ADVERSELY AFFECT OUR COST OF FINANCING AND HAVE AN ADVERSE EFFECT ON THE MARKET PRICE OF OUR SECURITIES. Maintaining an investment-grade credit rating is an important element of our financial strategy, and a downgrade of the Company's ratings below investment grade may limit our access to the capital markets, have an adverse effect on the market price of our securities, increase our cost of borrowing and require us to post collateral for derivatives in a net liability position. The Company's desire to maintain its investment grade rating may cause the Company to take certain actions designed to improve its cash flow, including sale of assets, suspension or reduction of our dividend and reductions in capital expenditures and working capital.

Under the terms of the agreements governing approximately \$4.3 billion of our debt as of December 31, 2013, the applicable interest rate on such debt may increase upon each downgrade in our credit rating. As a result, a downgrade in our credit rating may lead to an increase in our interest expense. There can be no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Any such downgrade of our credit ratings could adversely affect our cost of borrowing, limit our access to the capital markets or result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur.

DOWNGRADES IN THE CREDIT RATINGS OF BANKS ISSUING CERTAIN LETTERS OF CREDIT WILL INCREASE OUR COST OF MAINTAINING CERTAIN INDEBTEDNESS AND MAY RESULT IN THE ACCELERATION OF DEFERRED TAXES. We are subject to the risk that a bank with currently issued irrevocable letters of credit supporting installment notes delivered to the Company in connection with our 2006 and Temple-Inland's 2007 sales of forestlands may be downgraded below a required rating. Since 2006, certain banks have fallen below the required ratings threshold and were successfully replaced, or waivers were obtained regarding their replacement. As a result of continuing uncertainty in the banking environment, a number of the letter-of-credit banks currently in place remain subject to risk of downgrade and the number of qualified replacement banks remains limited. The downgrade of one or more of these banks may subject the Company to additional costs of securing a replacement letter-of-credit bank or could result in an acceleration of deferred taxes if a replacement bank cannot be obtained. See Note 12 Variable Interest Entities and Preferred Securities of Subsidiaries on pages 72 through 75 of Item 8. Financial Statements and Supplementary Data for further information.

OUR PENSION AND HEALTH CARE COSTS ARE SUBJECT TO NUMEROUS FACTORS WHICH COULD CAUSE THESE COSTS TO CHANGE. We have defined benefit pension plans covering substantially all U.S. salaried employees hired prior to July 1, 2004 and substantially all hourly and union employees regardless of hire date. We provide retiree health care benefits to certain of our U.S. salaried and certain hourly employees. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns, changes in general interest rates and changes in the number of retirees may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets and health care reform could also increase pension and health care costs. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.

OUR PENSION PLANS ARE CURRENTLY UNDERFUNDED, AND OVER TIME WE MAY BE REQUIRED TO MAKE CASH PAYMENTS TO THE PLANS, REDUCING THE CASH AVAILABLE FOR OUR BUSINESS. We record a liability associated with our pension plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded under the provisions of Accounting Standards Codification (ASC) 715, "Compensation – Retirement Benefits," at December 31, 2013 was \$2.2 billion. This includes liability for the International Paper Company pension plans as well as the Temple-Inland Retirement Plan, for which we have responsibility in connection with the Temple-Inland acquisition. The amount and timing of future contributions will depend upon a number of factors, principally the actual earnings and changes in values of plan assets and changes in interest rates.

CHANGES IN INTERNATIONAL CONDITIONS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS. Our operating results and business prospects could be substantially affected by risks

related to the countries outside the United States in which we have manufacturing facilities or sell our products. Specifically, Brazil, Russia, Poland, China, India, and Turkey where we have substantial manufacturing facilities, are countries that are exposed to economic and political instability in their respective regions of the world. Downturns in economic activity, adverse tax consequences, fluctuations in the value of local currency versus the U.S. dollar, nationalization or any change in social, political or labor conditions in any of these countries or regions could negatively affect our financial results. Trade protection measures in favor of local producers of competing products, including

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governmental subsidies, tax benefits and other measures giving local producers a competitive advantage over International Paper, may also adversely impact our operating results and business prospects in these countries. In addition, our international operations are subject to regulation under U.S. law and other laws related to operations in foreign jurisdictions. For example, the Foreign Corrupt Practices Act prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. Failure to comply with domestic or foreign laws could result in various adverse consequences, including the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

RISKS RELATING TO LEGAL PROCEEDINGS AND COMPLIANCE COSTS

WE ARE SUBJECT TO A WIDE VARIETY OF LAWS, REGULATIONS AND OTHER GOVERNMENT REQUIREMENTS THAT MAY CHANGE IN SIGNIFICANT WAYS, AND THE COST OF COMPLIANCE WITH SUCH REQUIREMENTS COULD IMPACT OUR BUSINESS AND RESULTS OF OPERATIONS. Our operations are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and other government requirements -- including, among others, those relating to the environment, health and safety and to labor and employment. There can be no assurance that laws, regulations and government requirements will not be changed, applied or interpreted in ways that will require us to modify our operations and objectives or affect our returns on investments by restricting existing activities and products, subjecting them to escalating costs. For example, we have incurred, and expect that we will continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations. There can be no assurance that future remediation requirements and compliance with existing and new laws and requirements, including with global climate change laws and regulations, Boiler MACT and NAAQSs, will not require significant expenditures, or that existing reserves for specific matters will be adequate to cover future costs. We could also incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), natural resource damages claims, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws, regulations, codes and common law. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, liability may be imposed without regard to contribution or to whether we knew of, or caused, the release of

hazardous substances. As another example, we are subject to a number of labor and employment laws and regulations that could significantly increase our operating costs and reduce our operational flexibility.

RESULTS OF LEGAL PROCEEDINGS COULD HAVE A MATERIAL EFFECT ON OUR CONSOLIDATED FINANCIAL STATEMENTS. The costs and other effects of pending litigation against us cannot be determined with certainty. Although we believe that the outcome of any pending or threatened lawsuits or claims, or all of them combined, will not have a material effect on our business or consolidated financial statements, there can be no assurance that the outcome of any lawsuit or claim will be as expected.

RISKS RELATING TO OUR OPERATIONS

MATERIAL DISRUPTIONS AT ONE OF OUR MANUFACTURING FACILITIES COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS. We operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities. A material disruption at our corporate headquarters or one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial condition. Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- fires, floods, earthquakes, hurricanes or other catastrophes;
- the effect of a drought or reduced rainfall on its water supply;
- the effect of other severe weather conditions on equipment and facilities;
- terrorism or threats of terrorism;

domestic and international laws and regulations applicable to our Company and our business partners, including joint venture partners, around the world;

• unscheduled maintenance outages;

• prolonged power failures;

• an equipment failure;

• a chemical spill or
• release;

• explosion of a boiler;

• damage or disruptions caused by third parties operating on or adjacent to one of our manufacturing facilities;

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• disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
• labor difficulties; and
• other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned expenditures. If one of these machines or facilities were to incur significant downtime, our ability to meet our production targets and satisfy customer requirements could be impaired, resulting in lower sales and having a negative effect on our business and financial results.

WE ARE SUBJECT TO CYBER-SECURITY RISKS RELATED TO BREACHES OF SECURITY PERTAINING TO SENSITIVE COMPANY, CUSTOMER, EMPLOYEE AND VENDOR INFORMATION AS WELL AS BREACHES IN THE TECHNOLOGY THAT MANAGES OPERATIONS AND OTHER BUSINESS PROCESSES. International Paper business operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite careful security and controls design, implementation, updating and independent third party verification, our information technology systems, and those of our third party providers, could become subject to cyber attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation including, but not limited to interruption to systems availability, denial of access to and misuse of applications required by our customers to conduct business with International Paper. Access to internal applications required to plan our operations, source materials, manufacture and ship finished goods and account for orders could be denied or misused. Theft of intellectual property or trade secrets, and inappropriate disclosure of confidential company, employee, customer or vendor information, could stem from such incidents. Any of these operational disruptions and/or misappropriation of information could result in lost sales, business delays, negative publicity and could have a material effect on our business.

SEVERAL OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT. Several operations, particularly in emerging markets, are carried on by joint ventures such as the Ilim joint venture in Russia. In joint ventures, we share ownership and management of a company with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do. In general, joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint

venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to pay more attention to our relationship with our co-owners as well as with the joint venture, and if a co-owner changes, our relationship may be adversely affected. In addition, the benefits from a successful joint venture are shared among the co-owners, so that we do not receive all the benefits from our successful joint ventures.

THE AGREED-UPON TRANSACTION COMBINING XPEDX WITH UNISOURCE MAY NOT BE COMPLETED WITHIN THE EXPECTED TIMEFRAME, OR AT ALL, AND WE MAY NOT ACHIEVE THE EXPECTED BENEFITS FROM THIS DIVESTITURE OR FROM OTHER STRATEGIC ACQUISITIONS, JOINT VENTURES AND DIVESTITURES. On January 28, 2014, we announced that xpedx Holding Company (SpinCo) and Unisource will merge under the terms of a definitive agreement that will result in the creation of a new publicly traded company. The transaction will be accomplished through a Reverse Morris Trust structure in which International Paper will indirectly contribute the assets of xpedx to a newly formed wholly owned subsidiary, SpinCo, in exchange for shares of common stock of SpinCo, a special payment of \$400 million, subject to adjustments, expected to be financed with new debt in SpinCo's capital structure, as well as the potential for an additional cash payment pursuant to an "earn-out" provision. International Paper will distribute shares of SpinCo to International Paper shareholders on a pro rata basis in a manner intended to be tax-free to International Paper and its shareholders. The transaction is expected to be completed in mid-2014. Completion of the transaction is subject to the satisfaction (or waiver) of a number of important conditions that are beyond our control and may prevent, delay or otherwise negatively affect its completion.

The success of the transaction will depend, in part, on the ability of the combined company to realize anticipated growth opportunities, cost savings and other synergies. SpinCo's success in realizing these growth opportunities, cost

savings and other synergies, and the timing of this realization, depends on the successful integration of xpedx's business and operations with Unisource's business and operations. Even if the combined company is able to integrate the xpedx and Unisource businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities, cost savings and other synergies currently expected from this integration within the anticipated time frame or at all. Moreover, substantial expenses will be incurred in connection with the transaction and with the integration of xpedx's business

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with Unisource's business. Such expenses are difficult to estimate accurately and may exceed current estimates. Accordingly, the benefits from the transaction may be offset by costs or delays incurred in integrating the businesses. More broadly, our strategy for long-term growth, productivity and profitability depends, in part, on our ability to accomplish prudent strategic acquisitions, joint ventures and divestitures and to realize the benefits we expect from such transactions, and we are subject to the risk that we may not achieve the expected benefits. Among the benefits we expect from potential as well as recently completed acquisitions and joint ventures are synergies, cost savings, growth opportunities or access to new markets (or a combination thereof), and in the case of divestitures, the realization of proceeds from the sale of businesses and assets to purchasers placing higher strategic value on such businesses and assets than does International Paper.

IF THE SPIN-OFF DOES NOT QUALIFY AS A TAX-FREE SPIN-OFF UNDER SECTION 355 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, INCLUDING AS A RESULT OF SUBSEQUENT ACQUISITIONS OF STOCK OF INTERNATIONAL PAPER OR SPINCO, THEN INTERNATIONAL PAPER AND/OR THE INTERNATIONAL PAPER SHAREHOLDERS MAY BE REQUIRED TO PAY SUBSTANTIAL U.S. FEDERAL INCOME TAXES.

The spin-off and the merger are conditioned upon International Paper's receipt of a private letter ruling from the U.S. Internal Revenue Service ("IRS") to the effect that the spin-off and certain related transactions will qualify as tax-free to International Paper and the International Paper shareholders for U.S. federal income tax purposes. Although a private letter ruling from the IRS generally is binding on the IRS, the IRS ruling does not rule that the spin-off satisfies every requirement for a tax-free spin-off under Section 355 of the Code, and the parties will rely solely on the opinion of counsel for comfort that such additional requirements are satisfied.

If the spin-off does not qualify as a tax-free spin-off under Section 355 of the Code, then the receipt of SpinCo common stock would be taxable to the International Paper shareholders, International Paper might recognize a substantial gain on the spin-off, and SpinCo may be required to indemnify International Paper for the tax on such gain pursuant to a tax matters agreement. There can be no assurance that SpinCo would have the resources or liquidity required to indemnify International Paper for any such taxable gain.

In addition, the spin-off will be taxable to International Paper pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either International Paper or SpinCo, directly or indirectly, as part of a plan or series of related transactions that include the spin-off. Because the International Paper shareholders will collectively own more than 50% of our common stock following the merger, the merger alone will not cause the spin-off to be taxable to International Paper under Section 355(e) of the Code. However, Section 355(e) of the Code might apply if other acquisitions of stock of International Paper before or after the merger, or of SpinCo after the merger, are considered to be part of a plan or series of related transactions that include the spin-off.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FORESTLANDS

As of December 31, 2013, the Company owned or managed approximately 332,000 acres of forestlands in Brazil, and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. All owned lands in Brazil are independently third-party certified for sustainable forestry under CERFLOR and FSC.

MILLS AND PLANTS

A listing of our production facilities by segment, the vast majority of which we own, can be found in [Appendix I](#) hereto, which is incorporated herein by reference.

The Company's facilities are in good operating condition and are suited for the purposes for which they are presently being used. We continue to study the economics of modernization or adopting other alternatives for higher cost facilities.

CAPITAL INVESTMENTS AND DISPOSITIONS

Given the size, scope and complexity of our business interests, we continually examine and evaluate a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of properties. You can find a discussion about the level of planned capital investments for 2014 on page 38, and dispositions and restructuring activities as of December 31, 2013, on pages 25 through 27 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and on pages 59 and 60 and pages 63 and 64 of Item 8. Financial Statements and Supplementary Data.

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ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company's legal proceedings is set forth in Note 11 Commitments and Contingencies on pages 68 through 72 of Item 8. Financial Statements and Supplementary Data.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of ContentsPART II.ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Dividend per share data on the Company's common stock and the high and low sales prices for the Company's common stock for each of the four quarters in 2013 and 2012 are set forth on page 92 of Item 8. Financial Statements and Supplementary Data. As of

the filing of this Annual Report on Form 10-K, the Company's common shares are traded on the New York Stock Exchange. International Paper options are traded on the Chicago Board of Options Exchange. As of February 19, 2014, there were approximately 14,041 record holders of common stock of the Company.

The table below presents information regarding the Company's purchase of its equity securities for the time periods presented.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of (or Approximate Shares (or Units) Purchased as Part of Publicly Announced Programs	Maximum Number Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in billions)
October 1, 2013 - October 31, 2013	2,718,467	\$44.54	2,717,984	\$1.36
November 1, 2013 - November 30, 2013	4,855,900	44.67	4,855,900	1.14
December 1, 2013 - December 31, 2013	2,230,207	46.93	2,228,534	1.04
Total	9,804,574			

2,156 shares were acquired from employees from share withholdings to pay income taxes under the Company's (a) restricted stock programs. The remainder were purchased under the Company's \$1.5 Billion Share Repurchase Program announced on September 10, 2013.

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PERFORMANCE GRAPH

The performance graph shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

The following graph compares a \$100 investment in Company stock on December 30, 2008 with a \$100 investment in our Return on Invested Capital (ROIC) Peer Group and the S&P 500 also made at market close on December 30, 2008. The graph portrays total return, 2008–2013, assuming reinvestment of dividends.

Note: The companies included in the ROIC Peer Group are Domtar Inc., Fibria Celulose S.A., Klabin S.A., MeadWestvaco Corp., Metsa Board Corporate, Mondi Group, Packaging Corporation of America, Rock-Tenn Company, Smurfit Kappa Group, Stora Enso Group, and UPM-Kymmene Corp.

Table of ContentsITEM 6. SELECTED FINANCIAL DATAFIVE-YEAR FINANCIAL SUMMARY (a)

Dollar amounts in millions,

except per share amounts and 2013

2012

2011

2010

2009

stock prices

RESULTS OF OPERATIONS

Net sales \$29,080 \$27,833 \$26,034 \$25,179 \$23,366

Costs and expenses, excluding interest 27,619 26,137 24,035 23,749 21,498

Earnings (loss) from continuing operations before income taxes and equity earnings 849 (b) 1,024 (e) 1,458 (h) 822 (k) 1,199 (m)

Equity earnings (loss), net of taxes (39) 61 140 111 (26)

Discontinued operations, net of taxes 45 (c) 45 (f) 49 (i) — —

Net earnings (loss) 1,378 (b-d) 799 (e-g) 1,336 (h-j) 712 (k-l) 704 (m-n)

Noncontrolling interests, net of taxes (17) 5 14 21 18

Net earnings (loss) attributable to International Paper Company 1,395 (b-d) 794 (e-g) 1,322 (h-j) 691 (k-l) 686 (m-n)

FINANCIAL POSITION

Working capital \$3,898 \$3,907 \$5,718 \$3,525 \$3,539

Plants, properties and equipment, net 13,672 13,949 11,817 12,002 12,688

Forestlands 557 622 660 747 757

Total assets 31,528 32,153 27,018 25,409 25,543

Notes payable and current maturities of long-term debt 661 444 719 313 304

Long-term debt 8,827 9,696 9,189 8,358 8,729

Total shareholders' equity 8,105 6,304 6,645 6,875 6,018

BASIC EARNINGS PER SHARE ATTRIBUTABLETO INTERNATIONALPAPER COMPANYCOMMONSHAREHOLDERS

Earnings (loss) from continuing operations \$3.05 \$1.72 \$2.95 \$1.61 \$1.61

Discontinued operations 0.10 0.10 0.11 — —

Net earnings (loss) 3.15 1.82 3.06 1.61 1.61

DILUTED EARNINGS PERSHARE ATTRIBUTABLETO INTERNATIONALPAPER COMPANYCOMMON

SHAREHOLDERS

Earnings (loss) from continuing operations	\$3.01	\$1.70	\$2.92	\$1.59	\$1.61
Discontinued operations	0.10	0.10	0.11	—	—
Net earnings (loss)	3.11	1.80	3.03	1.59	1.61
Cash dividends	1.2500	1.0875	0.975	0.400	0.33
Total shareholders' equity	18.57	14.33	15.21	15.71	13.90

COMMON STOCK PRICES

High	\$50.33	\$39.88	\$33.01	\$29.25	\$27.79
Low	39.47	27.29	21.55	19.33	3.93
Year-end	49.03	39.84	29.60	27.24	26.78

FINANCIAL RATIOS

Current ratio	1.8	1.8	2.2	1.8	1.9	
Total debt to capital ratio	0.54	0.62	0.60	0.56	0.60	
Return on shareholders' equity	20.2	% (b-d) 11.6	% (e-g) 17.9	% (h-j) 11.4	% (k-l) 14.1	% (m-n)
Return on capital employed from continuing operations attributable to International Paper Company	7.2	% (b-d) 4.8	% (e-g) 7.5	% (h-j) 5.3	% (k-l) 5.1	% (m-n)

CAPITAL EXPENDITURES	\$1,198	\$1,383	\$1,159	\$775	\$534
NUMBER OF EMPLOYEES	69,000	70,000	61,500	59,500	56,100

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FINANCIAL GLOSSARY

Current ratio—

current assets divided by current liabilities.

Total debt to capital ratio—

long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt and total shareholders' equity.

Return on shareholders' equity—

net earnings attributable to International Paper Company divided by average shareholders' equity (computed monthly).

Return on capital employed—

the after-tax amount of earnings from continuing operations before interest divided by the average of total assets minus accounts payable and accrued liabilities (computed monthly).

FOOTNOTES TO FIVE-YEAR FINANCIAL SUMMARY

(a) All periods presented have been restated to reflect the Temple-Inland Building Products business as discontinued operations, if applicable.

2013:

Includes restructuring and other charges of \$210 million before taxes (\$131 million after taxes) including pre-tax charges of \$25 million (\$16 million after taxes) for early debt extinguishment costs, pre-tax charges of \$32 million (\$19 million after taxes) for costs associated with the restructuring of the Company's xpedx operations, pre-tax charges of \$118 million (\$72 million after taxes) for costs associated with the announced shutdown of our Courtland, Alabama mill, a pre-tax gain of \$30 million (\$19 million after taxes) for insurance reimbursements related to the 2012 Guaranty Bank legal settlement, a pre-tax charge of \$45 million (\$28 million after taxes) for costs associated with the permanent shutdown of a paper machine at our Augusta, Georgia mill, pre-tax charges of \$22 million (\$14 million after taxes) for costs associated with the spin-off of our xpedx operations and a net pre-tax gain of \$2 million (a loss of \$1 million after taxes) for other items. Also included are a pre-tax goodwill impairment charge of \$400 million (\$366 million after taxes) related to our xpedx business, a pre-tax goodwill and trade name intangible asset impairment of \$127 million (\$122 million after taxes) related to our India Papers business, pre-tax charges of \$9 million (\$5 million) to adjust the value of two Company airplanes to fair value, pre-tax charges of \$62 million (\$38 million after taxes) for integration costs associated with the acquisition of Temple-Inland, pre-tax charges of \$6

million (\$4 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, and a gain of \$13 million (before and after taxes) related to a bargain purchase adjustment on the acquisition of a majority share of our operations in Turkey.

Includes the operating results of the Temple-Inland Building Products business through the date of sale in July 2013 and pre-tax charges of \$24 million (\$19 million after taxes) for expenses associated with the divestiture of the Temple-Inland Building Products business.

(d) Includes a tax benefit of \$744 million associated with the closings of U.S. federal tax audits, a tax benefit of \$31 million for an income tax reserve release and a net tax loss of \$1 million for other items.

2012:

(e) Includes restructuring and other charges of \$109 million before taxes (\$70 million after taxes) including pre-tax charges of \$48 million (\$30 million after taxes) for early debt extinguishment costs, pre-tax charges of \$44 million (\$28 million after taxes) for costs associated with the restructuring of the Company's xpedx operations, and pre-tax charges of \$17 million (\$12 million after taxes) for costs associated with the restructuring of the Company's

Packaging business in EMEA. Also included are a pre-tax charge of \$20 million (\$12 million after taxes) related to the write-up of the Temple-Inland inventories to fair value, pre-tax charges of \$164 million (\$108 million after taxes) for integration costs associated with the acquisition of Temple-Inland, a pre-tax charge of \$62 million (\$38 million after taxes) to adjust the long-lived assets of the Hueneme mill in Oxnard, California to their fair value in anticipation of its divestiture, and pre-tax charges of \$29 million (\$55 million after taxes) for costs associated with the divestiture of three containerboard mills.

(f) Includes pre-tax charges of \$15 million (\$9 million after taxes) for expenses associated with pursuing the divestiture of the Temple-Inland Building Products business and the operating results of the Temple-Inland Building Products business.

(g) Includes a net tax expense of \$14 million related to internal restructurings and a \$5 million expense to adjust deferred tax assets related to post-retirement prescription drug coverage (Medicare Part D reimbursement).

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2011:

Includes restructuring and other charges of \$102 million before taxes (\$90 million after taxes) including pre-tax charges of \$49 million (\$34 million after taxes) for costs associated with the restructuring of the Company's xpedx operations, pre-tax charges of \$32 million (\$19 million after taxes) for early debt extinguishment costs, pre-tax charges of \$18 million (\$12 million after taxes) for costs associated with the acquisition of a majority share of Andhra Pradesh Paper Mills Limited in India, pre-tax charges of \$20 million (\$12 million after taxes) for costs associated with signing an agreement to acquire Temple-Inland, and a pre-tax gain of \$24 million (\$15 million (h) after taxes) related to the reversal of environmental and other reserves due to the announced repurposing of a portion of the Franklin mill. Also included are a pre-tax charge of \$27 million (\$17 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, a pre-tax charge of \$129 million (\$104 million after taxes) for a fixed-asset impairment of the North American Shorewood business, pre-tax charges of \$78 million (a gain of \$143 million after taxes) to reduce the carrying value of the Shorewood business based on the terms of the definitive agreement to sell this business, and a charge of \$11 million (before and after taxes) for asset impairment costs associated with the Inverurie, Scotland mill which was closed in 2009.

Includes a pre-tax gain of \$50 million (\$30 million after taxes) for an earnout provision related to the sale of the Company's Kraft Papers business completed in January 2007. Also, the Company sold its Brazilian Coated Paper (i) business in the third quarter 2006. Local country tax contingency reserves were included in the business' operating results in 2005 and 2006 for which the related statute of limitations has expired. The reserves were reversed and a tax benefit of \$15 million plus associated interest income of \$6 million (\$4 million after taxes) was recorded.

Includes a tax benefit of \$222 million related to the reduction of the carrying value of the Shorewood business and the write-off of a deferred tax liability associated with Shorewood, a \$24 million tax expense related to internal (j) restructurings, a \$9 million tax expense for costs associated with our acquisition of a majority share of Andhra Pradesh Paper Mills Limited in India, a \$13 million tax benefit related to the release of a deferred tax asset valuation allowance, and a \$2 million tax expense for other items.

2010:

Includes restructuring and other charges of \$394 million before taxes (\$242 million after taxes) including pre-tax charges of \$315 million (\$192 million after taxes) for shutdown costs related to the Franklin, Virginia mill, a pre-tax charge of \$35 million (\$21 million after taxes) for early debt extinguishment costs, pre-tax charges of \$7 million (\$4 million after taxes) for closure costs related to the Bellevue, Washington container plant, a pre-tax charge of \$11 million (\$7 million after taxes) for an Ohio Commercial Activity tax adjustment, a pre-tax charge of (k) \$6 million (\$4 million after taxes) for severance and benefit costs associated with the Company's S&A reduction initiative, and a pre-tax charge of \$8 million (\$5 million after taxes) for costs associated with the reorganization of the Company's Shorewood operations. Also included are a pre-tax charge of \$18 million (\$11 million after taxes) for an environmental reserve related to the Company's property in Cass Lake, Minnesota, and a pre-tax gain of \$25 million (\$15 million after taxes) related to the partial redemption of the Company's interests in Arizona Chemical.

Includes tax expense of \$14 million and \$32 million for tax adjustments related to incentive compensation and (l) Medicare Part D deferred tax write-offs, respectively, and a \$40 million tax benefit related to cellulosic bio-fuel tax credits.

2009:

(m) Includes restructuring and other charges of \$1.4 billion before taxes (\$853 million after taxes), including pre-tax charges of \$469 million (\$286 million after taxes), \$290 million (\$177 million after taxes), and \$102 million (\$62

million after taxes) for shutdown costs for the Albany, Oregon, Franklin, Virginia and Pineville, Louisiana mills, respectively, a pre-tax charge of \$82 million (\$50 million after taxes) for costs related to the shutdown of a paper machine at the Valliant, Oklahoma mill, a pre-tax charge of \$148 million (\$92 million after taxes) for severance and benefit costs associated with the Company's 2008 overhead cost reduction initiative, a pre-tax charge of \$185 million (\$113 million after taxes) for early debt extinguishment costs, a pre-tax charge of \$23 million (\$28 million after taxes) for closure costs associated with the Inverurie, Scotland mill, and a charge of \$31 million, before and after taxes, for severance and other costs associated with the planned closure of the Etienne mill in France, and a pre-tax charge of \$23 million (\$14 million after taxes) for other items. Also included are a pre-tax gain of \$2.1 billion (\$1.4 billion after taxes) related to alternative fuel mixture credits, a pre-tax charge of \$87 million (\$54 million

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after taxes) for integration costs associated with the CBPR acquisition, and a charge of \$56 million to write down the assets at the Etienne mill in France to estimated fair value.

- (n) Includes a \$156 million tax expense for the write-off of deferred tax assets in France, a \$15 million tax expense for the write-off of a deferred tax asset for a recycling credit in the state of Louisiana and a \$26 million tax benefit related to the settlement of the 2004 and 2005 U.S. federal income tax audit and related state income tax effects.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
EXECUTIVE SUMMARY

Operating Earnings (a non-GAAP measure) is defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. International Paper generated Operating Earnings per diluted share attributable to common shareholders of \$3.16 in 2013, compared with \$2.65 in 2012, and \$3.12 in 2011. Diluted earnings (loss) per share attributable to common shareholders were \$3.11 in 2013, compared with \$1.80 in 2012 and \$3.03 in 2011.

International Paper delivered strong results during 2013, driven by margin expansion across many of our businesses. Year-over-year revenues grew despite a challenging economic environment. We generated record cash flow from operations of \$3 billion. Strong free cash flow enabled the Company to return cash to our shareholders in the form of a share buy-back program instituted during the 2013 third quarter and a 17% increase in the quarterly dividend beginning with the 2013 fourth quarter dividend payment.

Our 2013 results reflect the significant progress we made on the pricing front particularly in our North American Industrial Packaging business along with solid manufacturing operations. Year-over-year sales volumes were down but we managed to offset some of this decline as the year progressed, mainly through our North American Industrial Packaging business. Input costs were a headwind in 2013, as expected, largely driven by increased fiber costs in the second half of the year. We made decisions during 2013 to rationalize capacity in our Consumer Packaging and North American Printing Papers businesses through the shutdown of a paper machine at our Augusta facility and initiating the closure of our Courtland mill, respectively. Also during the year, we finalized acquisitions in Turkey and Brazil and completed the sale of the Temple-Inland Building Products business. There was steady progress in the ramp-ups of the two capital projects at our Ilim joint venture in Russia but the operational benefits were offset by higher costs of the start-ups and unfavorable foreign currency movements driven by Ilim's U.S. dollar denominated debt. Finally, we made significant progress during 2013 towards the spin-off of the xpedx distribution business to our shareholders culminating in the signing of a definitive merger agreement in January 2014.

Overall, 2013 reflects our successful efforts to drive margin growth through greater price realizations coupled with solid operational performance. We generated returns in excess of our cost of capital while further strengthening our balance sheet through debt pay downs and favorable

movements in our net pension liability. We exited 2013 with significant momentum with the expectation that we will continue to generate a stronger performance in the business in 2014.

Looking ahead to the 2014 first quarter, seasonally lower sales volumes in the Brazilian and European Printing Papers businesses combined with the impact from the full shutdown at Courtland and the coated paperboard project at our Kwidzyn will more than offset the volume benefits from two additional shipping days in our North American Industrial Packaging business. Additionally, the severe weather events impacting much of the U.S. in early 2014 will further negatively impact volumes. The full implementation of the cutsize price increase in the 2013 fourth quarter will improve pricing for our North American Printing Papers business. Sales margins in the North American and Brazilian Industrial Packaging businesses are expected to reflect more favorable mix and pricing. The negative impact from input costs in the 2014 first quarter will be significant due in large part to the extreme temperatures affecting much of the U.S. both in terms of unit cost pressure and higher consumption. Planned maintenance downtime costs should increase in North America as we pull more outages into the 2014 first quarter while costs in our European Printing Papers business should be lower. Equity earnings from our Ilim joint venture are expected to be relatively flat with 2013 fourth quarter results absent any negative impact from foreign currency movements driven by Ilim's U.S. dollar denominated debt.

For the 2014 full year, we do not anticipate macroeconomic conditions significantly better than those experienced during 2013. Even in light of this, we expect a meaningful increase in year-over-year earnings. There are significant optimization opportunities in our North American Industrial Packaging business which we expect to further realize during 2014. Additionally, the Ilim project and cost synergy projects at Orsa will provide opportunities to increase earnings during 2014. We expect input cost inflation similar to that experienced during 2013. The 2014 tax rate should return to a more normal level due to the non-repeat of benefits recognized in 2013. Finally, free cash flow generation should continue to grow which will enable us to continue a balanced approach to cash allocation and to return a significant amount of cash to our shareholders.

Free cash flow (a non-GAAP measure) of \$1.8 billion generated in 2013 was higher than the \$1.6 billion generated in 2012 and the \$1.7 billion generated in 2011 (see reconciliation on page 35).

Operating Earnings per share attributable to common shareholders of \$0.83 in the fourth quarter of 2013 were lower than the \$1.05 in the 2013 third quarter and higher than the \$0.69 in the 2012 fourth quarter. Diluted earnings (loss) per share attributable to common shareholders

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were \$0.98 in the fourth quarter of 2013, compared with \$0.85 in the third quarter of 2013 and \$0.53 in the fourth quarter of 2012.

Free cash flow of \$595 million generated in the 2013 fourth quarter was higher than the \$454 million generated in the 2013 third quarter and the \$384 million generated in the 2012 fourth quarter (see reconciliation on page 35).

Operating Earnings is a non-GAAP measure. Diluted earnings (loss) per share attributable to International Paper Company common shareholders is the most direct comparable GAAP measure. The Company calculates Operating Earnings by excluding the after-tax effect of items considered by management to be unusual from the earnings reported under GAAP, non-operating pension expense and discontinued operations. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. The Company believes that using this information, along with the most direct comparable GAAP measure, provides for a more complete analysis of the results of operations. The following are reconciliations of Operating Earnings per share attributable to International Paper Company common shareholders to diluted earnings (loss) per share attributable to International Paper Company common shareholders.

	2013	2012	2011
Operating Earnings (Loss) Per Share Attributable to Shareholders	\$3.16	\$2.65	\$3.12
Non-operating pension expense	(0.44	) (0.26	) (0.06
Special items	0.29	(0.69	) (0.14
Diluted Earnings (Loss) Per Share from Continuing Operations	3.01	1.70	2.92
Discontinued operations	0.10	0.10	0.11
Diluted Earnings (Loss) Per Share Attributable to Shareholders	\$3.11	\$1.80	\$3.03

	Three Months Ended December 31, 2013	Three Months Ended September 30, 2013	Three Months Ended December 31, 2012
Operating Earnings (Loss) Per Share Attributable to Shareholders	\$0.83	\$1.05	\$0.69
Non-operating pension expense	(0.11	) (0.11	) (0.07
Special items	0.25	(0.07	) (0.11
Diluted Earnings (Loss) Per Share from Continuing Operations	0.97	0.87	0.51
Discontinued operations	0.01	(0.02	) 0.02
Diluted Earnings (Loss) Per Share Attributable to Shareholders	\$0.98	\$0.85	\$0.53

Results of Operations

Industry segment operating profits are used by International Paper's management to measure the earnings performance of its businesses. Management believes that this measure allows a better understanding of trends in costs, operating efficiencies, prices and volumes. Industry segment operating profits are defined as earnings before taxes, equity earnings, noncontrolling interests, interest expense, corporate items and corporate special items. Industry segment operating profits are defined by the Securities and Exchange Commission as a non-GAAP financial measure, and are not GAAP alternatives to net income or any other operating measure prescribed by accounting principles generally accepted in the United States.

International Paper operates in four segments: Industrial Packaging, Printing Papers, Consumer Packaging and Distribution.

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The following table presents a reconciliation of net earnings (loss) attributable to International Paper Company to its total industry segment operating profit:

In millions	2013	2012	2011
Net Earnings (Loss) Attributable to International Paper Company	\$1,395	\$794	\$1,322
Deduct – Discontinued operations:			
(Earnings) from operations	(64	)(54)—
(Gain) loss on sales or impairment	19	9	(49
Earnings (Loss) From Continuing Operations Attributable to International Paper Company	1,350	749	1,273
Add back (deduct):			
Income tax provision	(523	)331	311
Equity (earnings) loss, net of taxes	39	(61	)(140
Net earnings attributable to noncontrolling interests	(17	)5	14
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	849	1,024	1,458
Interest expense, net	612	672	541
Noncontrolling interests / equity earnings included in operations	(1	)—	(10
Corporate items	29	51	102
Special items:			
Restructuring and other charges	32	51	82
Net losses (gains) on sales and impairments of businesses	—	(2)—
Non-Operating Pension Expense	323	159	43
	\$1,844	\$1,955	\$2,216
Industry Segment Operating Profit			
Industrial Packaging	\$1,801	\$1,066	\$1,147
Printing Papers	271	599	872
Consumer Packaging	161	268	163
Distribution	(389	)22	34
Total Industry Segment Operating Profit	\$1,844	\$1,955	\$2,216

Industry segment operating profits in 2013 included a net loss from special items of \$772 million compared with \$335 million in 2012 and \$253 million in 2011. Operationally, compared with 2012, the net benefit of higher average sales price realizations and an unfavorable mix (\$653 million) were offset by lower sales volumes (\$76 million), higher operating costs (\$16 million), higher input costs (\$207 million), and higher other costs (\$28 million).

The principal changes in operating profit by segment were as follows:

Industrial Packaging's profits of \$1.8 billion were \$735 million higher than in 2012 as the net benefit of higher average sales price realizations and unfavorable mix were partially offset by lower sales volumes, higher operating costs and higher maintenance outage costs. In addition, 2013 operating profits included \$62 million of costs associated with the integration of Temple-Inland and a \$13 million gain for a bargain purchase adjustment on the acquisition of a majority share of our operations in Turkey. Operating profits in 2012 included \$184 million of costs associated with the integration of Temple-Inland, a \$62 million charge to adjust the long-lived assets of the Hueneme mill to their fair value, and \$29 million of costs associated with the divestiture of three containerboard mills.

Printing Papers' profits of \$271 million were \$328 million lower than in 2012. The benefits of lower operating costs and maintenance outage costs were more than offset by lower average sales price realizations, lower sales volumes, higher input costs and higher other costs. Operating profits in 2013 included \$118 million of costs associated with the

announced shutdown of our Courtland, Alabama mill and net charges of \$123 million for the impairment of the goodwill and a trade name intangible asset of the Company's India Papers business.

Consumer Packaging's profits of \$161 million were \$107 million lower than in 2012. The benefits from higher sales volumes were more than offset by lower average sales price realizations, an unfavorable mix, higher operating costs and higher input costs. Operating profits in 2013 included costs of \$45 million associated with the permanent shutdown of a paper machine at our Augusta, Georgia mill.

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Distribution's loss of \$389 million was lower than the operating profit of \$22 million in 2012. The benefits from lower operating costs were more than offset by lower sales volumes and lower average sales price realizations. Operating profits in 2013 included a \$400 million charge for the impairment of goodwill in the Company's xpedx business. In addition, reorganization expenses were \$32 million in 2013 and \$49 million in 2012.

Corporate items, net, of \$29 million of expense in 2013 were lower than the \$51 million of expense in 2012 due to lower supply chain initiative expenses. The decrease in 2012 from the expense of \$102 million in 2011 primarily reflects lower supply chain initiative expenses.

Corporate special items, including restructuring and other items and net losses on sales and impairments of businesses were a loss of \$32 million in 2013 compared with a loss of \$49 million in 2012 and a loss of \$76 million in 2011.

Interest expense, net, was \$612 million in 2013 compared with \$672 million in 2012 and \$541 million in 2011. The decrease in 2013 compared with 2012 reflects lower average debt levels and the reversal of interest reserves related to U.S. federal income tax audits. The increase in 2012 compared with 2011 is due to interest expense associated with the Temple-Inland acquisitions.

A net income tax benefit of \$523 million was recorded for 2013, including a tax benefit of \$770 million associated with the settlement of tax audits and a net tax benefit of \$4 million for other items. The 2012 income tax provision of \$331 million includes a net expense of \$14 million related to internal restructurings and an expense of \$5 million to adjust deferred tax assets related to post-retirement prescription drug coverage (Medicare Part D reimbursements). The 2011 income tax provision of \$311 million includes a tax benefit of \$222 million related to the reduction of the carrying value of the Shorewood business and the write-off of a deferred tax liability associated with Shorewood, a \$24 million expense related to internal restructurings, a \$9 million expense for costs associated with our acquisition of a majority interest in Andhra Pradesh Paper Mills Limited, a \$13 million benefit related to the release of a deferred tax asset valuation allowance and a \$2 million expense for other items.

Discontinued Operations

In 2013, \$64 million of operating profits for the Temple-Inland Building Products business were recorded in discontinued operations. In addition, \$19 million of after-tax expenses associated with the divestiture of this business were included.

In 2012, \$54 million of operating profits for the Temple-Inland Building Products business were recorded in discontinued operations. In addition, \$9 million of after-

tax expenses associated with pursuing the divestiture of this business were included.

In 2011, \$49 million of net income adjustments were recorded relating to prior sales of discontinued businesses.

Liquidity and Capital Resources

For the year ended December 31, 2013, International Paper generated \$3.0 billion of cash flow from continuing operations compared with \$3.0 billion in 2012. Capital spending for 2013 totaled \$1.2 billion, or 77% of depreciation and amortization expense. Cash expenditures for acquisitions totaled \$505 million, while net decreases in debt totaled \$604 million. Our liquidity position remains strong, supported by approximately \$2.0 billion of credit facilities that we believe are adequate to meet future liquidity requirements. Maintaining an investment-grade credit rating for our long-term debt continues to be an important element in our overall financial strategy.

We expect to generate strong free cash flow again in 2014 and will continue our balanced use of cash through investments in capital projects, the reduction of total debt, including the Company's unfunded pension obligation, returning value to shareholders and strengthening our businesses through acquisitions, as appropriate.

Capital spending for 2014 is targeted at \$1.4 billion, or about 95% of depreciation and amortization.

Critical Accounting Policies and Significant Accounting Estimates

Accounting policies that may have a significant effect on our reported results of operations and financial position, and that can require judgments by management in their application, include accounting for contingent liabilities, impairments of long-lived assets and goodwill, pension and postretirement benefit obligations, stock options and income taxes. See pages 39 through 42 for a discussion of the Company's critical accounting policies and significant accounting estimates.

Legal

See Note 11 Commitments and Contingent Liabilities on pages 68 through 72 of Item 8. Financial Statements and Supplementary Data for a discussion of legal matters.

CORPORATE OVERVIEW

While the operating results for International Paper's various business segments are driven by a number of business-specific factors, changes in International Paper's operating results are closely tied to changes in general economic conditions in North America, Europe, Russia, Latin America, Asia, Africa and the Middle East. Factors that impact the demand for our products include

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industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels, and movements in currency exchange rates.

Product prices are affected by general economic trends, inventory levels, currency movements and worldwide capacity utilization. In addition to these revenue-related factors, net earnings are impacted by various cost drivers, the more significant of which include changes in raw material costs, principally wood, recycled fiber and chemical costs; energy costs; freight costs; salary and benefits costs, including pensions; and manufacturing conversion costs.

The following is a discussion of International Paper's results of operations for the year ended December 31, 2013, and the major factors affecting these results compared to 2012 and 2011.

RESULTS OF OPERATIONS

For the year ended December 31, 2013, International Paper reported net sales of \$29.1 billion, compared with \$27.8 billion in 2012 and \$26.0 billion in 2011. International net sales (including U.S. exports) totaled \$9.6 billion or 33% of total sales in 2013. This compares with international net sales of \$8.5 billion in 2012 and \$8.7 billion in 2011.

Full year 2013 net earnings attributable to International Paper Company totaled \$1.4 billion (\$3.11 per share), compared with net earnings of \$794 million (\$1.80 per share) in 2012 and \$1.3 billion (\$3.03 per share) in 2011.

Amounts in all periods include the results of discontinued operations.

Earnings from continuing operations attributable to International Paper Company after taxes in 2013 were \$1.4 billion, including \$129 million of net special items gains and \$197 million of non-operating pension expense compared with income of \$749 million, including \$305 million of net special items charges and \$113 million of non-operating pension expense in 2012, and \$1.3 billion, including \$63 million of net special items charges and \$29 million of non-operating pension expense in 2011. Compared with 2012, the net benefit from higher average sales price realizations and unfavorable mix, lower corporate and other costs, lower interest expense, and lower tax expense were offset by lower sales volumes, higher operating costs and higher input costs. In addition, 2013 results included lower equity earnings, net of taxes, relating to the Company's investment in Ilim Holdings, SA.

See Industry Segment Results on pages 29 through 34 for a discussion of the impact of these factors by segment.

Discontinued Operations

2013:

In 2013, \$45 million of net income adjustments were recorded relating to discontinued businesses, including \$19 million of costs associated with the sale of the Temple-Inland Building Products business. Also included are the operating profits for the Temple-Inland Building Products business through the date of sale of July 19, 2013.

2012:

In 2012, \$45 million of net income adjustments were recorded relating to discontinued businesses, including \$9 million of costs associated with the announced agreement to sell the Temple-Inland Building Products business. Also included are the operating profits for the Temple-Inland Building Products business.

2011:

In 2011, \$49 million of net income adjustments were recorded relating to prior sales of discontinued businesses, including a \$30 million earnout payment received by the Company in 2011 associated with the sale of the Kraft Papers businesses in 2007 and a \$15 million tax benefit for the reversal of local country tax contingency reserves, for which the related statute of limitations has now expired, plus associated interest income of \$4 million recorded in 2011 related to the 2006 sale of the Brazilian Coated Papers business.

Income Taxes

A net income tax benefit of \$523 million was recorded for 2013, including a tax benefit of \$770 million related to the settlement of tax audits and a net benefit of \$4 million for other items. Excluding these items, a \$150 million net tax benefit for other special items and a \$126 million tax benefit related to non-operating pension expense, the tax provision was \$527 million, or 27% of pre-tax earnings before equity earnings.

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A net income tax provision of \$331 million was recorded for 2012, including a net tax expense of \$14 million related to internal restructurings and a \$5 million expense to adjust deferred tax assets related to post-retirement prescription drug coverage (Medicare Part D reimbursements). Excluding these items, a \$98 million net tax benefit for other special items and a \$46 million tax benefit related to non-operating pension expense, the tax provision was \$456 million, or 29% of pre-tax earnings before equity earnings.

A net income tax provision of \$311 million was recorded for 2011, including a tax benefit of \$222 million related to the reduction of the carrying value of the Shorewood business and the write-off of a deferred tax liability associated with Shorewood, a \$24 million expense related to internal restructurings, a \$9 million expense for costs associated with our acquisition of a majority share of Andhra Pradesh Paper Mills Limited in India, a \$13 million benefit related to the release of a deferred tax asset valuation allowance and a \$2 million expense for other items. Excluding these items, a \$66 million net tax benefit for other special items and \$14 million tax benefit related to non-operating pension expense, the tax provision was \$591 million, or 32% of pre-tax earnings before equity earnings.

Equity Earnings, Net of Taxes

Equity earnings, net of taxes in 2013, 2012 and 2011 consisted principally of the Company's share of earnings from its 50% investment in Ilim Holding S.A. in Russia (see pages 34).

Corporate Items and Interest Expense

Corporate items totaled \$29 million of expense for the year ended December 31, 2013 compared with \$51 million in 2012 and \$102 million in 2011. The decrease in 2013 from 2012 reflects lower supply chain initiative expenses, partially offset by higher pension expense. The decrease in 2012 from 2011 reflects lower supply chain initiative expenses.

Net interest expense totaled \$612 million in 2013, \$672 million in 2012 and \$541 million in 2011. The decrease in 2013 compared with 2012 reflects lower average debt levels and the reversal of interest reserves related to U.S. federal income tax audits. The increase in 2012 compared with 2011 is due to interest expense associated with the Temple-Inland acquisition.

Net earnings attributable to noncontrolling interests totaled a loss of \$17 million in 2013 compared with earnings of \$5 million in 2012 and \$14 million in 2011. The decrease in 2013 primarily reflects lower earnings for the Shandong IP & Sun Food Packaging Co., Ltd. joint venture in China due to competitive pressures on sales prices and higher pulp costs. In addition, 2013 includes a \$15 million pre-tax charge for the impairment

of a tradename intangible asset related to our India Papers business which has a net \$3 million impact on noncontrolling interest. The decrease in 2012 primarily reflects lower earnings for the Shandong IP & Sun Food Packaging Co., Ltd. joint venture in China due to start-up costs associated with a new paper machine.

Special Items

Restructuring and Other Charges

International Paper continually evaluates its operations for improvement opportunities targeted to (a) focus our portfolio on our core businesses, (b) rationalize and realign capacity to operate fewer facilities with the same revenue capability and close high cost facilities, and (c) reduce costs. Annually, strategic operating plans are developed by each of our businesses. If it subsequently becomes apparent that a facility's plan will not be achieved, a decision is then made to (a) invest additional capital to upgrade the facility, (b) shut down the facility and record the corresponding charge, or (c) evaluate the expected recovery of the carrying value of the facility to determine if an impairment of the asset value of the facility has occurred. In recent years, this policy has led to the shutdown of a number of facilities and the recording of significant asset impairment charges and severance costs. It is possible that additional charges and costs will be incurred in future periods in our core businesses should such triggering events occur.

2013: During 2013, corporate restructuring and other charges totaling \$17 million before taxes (\$11 million after taxes) were recorded. These charges included:

a \$25 million charge before taxes (\$16 million after taxes) for costs related to the early extinguishment of debt (see Note 13 Debt and Lines of Credit on pages 75 and 76 of Item 8. Financial Statements and Supplementary Data),

a \$22 million charge before taxes (\$14 million after taxes) for costs associated with the evaluation of the spin-off of our xpedx operations, and

a \$30 million gain before taxes (\$19 million after taxes) for insurance reimbursements related to the Guaranty Bank legal settlement.

In addition, restructuring and other charges totaling \$193 million before taxes (\$120 million after taxes) were recorded in the Industrial Packaging, Printing Papers, Consumer Packaging and Distribution industry segments including:

a \$118 million charge before taxes (\$72 million after taxes) for costs related to the shutdown of the Courtland, Alabama mill,

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a \$32 million charge before taxes (\$19 million after taxes) for restructuring costs related to the Company's xpedx business,
a \$45 million charge before taxes (\$28 million after taxes) for costs related to the shutdown of a paper machine at the Augusta, Georgia mill, and
a \$2 million gain before taxes (loss of \$1 million after taxes) for other items.
2012: During 2012, corporate restructuring and other charges totaling \$51 million before taxes (\$35 million after taxes) were recorded. These charges included:

a \$48 million charge before taxes (\$30 million after taxes) for costs related to the early extinguishment of debt (see Note 13 Debt and Lines of Credit on pages 75 and 76 of Item 8. Financial Statements and Supplementary Data), and
a \$3 million charge before taxes (\$5 million after taxes) for other items.

In addition, restructuring and other charges totaling \$58 million before taxes (\$39 million after taxes) were recorded in the Industrial Packaging, Consumer Packaging and Distribution industry segments including:

a \$17 million charge before taxes (\$12 million after taxes) related to the restructuring of our Packaging business in EMEA,
a \$44 million charge before taxes (\$28 million after taxes) for restructuring costs related to the Company's xpedx business, and
a \$3 million gain before taxes (\$1 million after taxes) for other items.
2011: During 2011, corporate restructuring and other charges totaling \$55 million before taxes (\$33 million after taxes) were recorded. These charges included:

a \$32 million charge before taxes (\$19 million after taxes) for costs related to the early extinguishment of debt (see Note 13 Debt and Lines of Credit on pages 75 and 76 of Item 8. Financial Statements and Supplementary Data),
an \$18 million charge before taxes (\$12 million after taxes) related to International Paper's acquisition of a majority share of APPM in India, and
a \$5 million charge before taxes (\$2 million after taxes) for other items.

In addition, restructuring and other charges totaling \$47 million before taxes (\$33 million after taxes) were recorded in the Industrial Packaging, Printing Papers, Consumer Packaging and Distribution industry segments including:

a \$20 million charge before taxes (\$12 million after taxes) for costs associated with the signing of an agreement to acquire Temple-Inland,
a \$24 million gain before taxes (\$15 million after taxes) related to a change in the estimate of closure costs related to the Franklin, Virginia mill due to the Company's decision to repurpose a portion of the mill to produce fluff pulp,
a \$49 million charge before taxes (\$34 million after taxes) for restructuring costs related to the Company's xpedx business, and
a \$2 million charge before taxes (\$2 million after taxes) for other items.
Impairments of Goodwill

In the fourth quarter of 2013, in conjunction with the annual testing of its reporting units for possible goodwill impairments, the Company calculated the estimated fair value of its India Papers business using expected discounted future cash flows and determined that due to a change in the strategic outlook, all of the goodwill of this business, totaling \$112 million, should be written off.

Also in the fourth quarter of 2013, the Company calculated the estimated fair value of its xpedx business using the discounted future cash flows and wrote off all of the goodwill of its xpedx business, totaling \$400 million. The decline in fair value of the xpedx reporting unit and resulting impairment charge was due to a significant decline in earnings and a change in the strategic outlook for the xpedx operations.

As a result, during the fourth quarter of 2013, the Company recorded a total goodwill impairment charge of \$512 million, representing all of the recorded goodwill of the xpedx business and the India Papers business.

Also during 2013, the Company recorded a pre-tax charge of \$15 million (\$7 million after taxes and noncontrolling interest) for the impairment of a trade name intangible asset related to our India Papers business.

No goodwill impairment charges were recorded in 2012 or 2011.

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Net Losses (Gains) on Sales and Impairments of Businesses

Net losses (gains) on sales and impairments of businesses included in special items totaled a pre-tax loss of \$3 million (\$1 million after taxes) in 2013, a pre-tax loss of \$86 million (\$87 million after taxes) in 2012 and a pre-tax loss of \$218 million (a gain of \$36 million after taxes and noncontrolling interest) in 2011. The principal components of these gains/losses were:

2013: During 2013, the Company recorded net pre-tax charges of \$3 million (\$1 million after taxes) for adjustments related to the divestiture of three containerboard mills in 2012 and the sale of the Shorewood business.

2012: As referenced in Note 6 Acquisitions and Joint Ventures on pages 60 through 63 in Item. 8 Financial Statements and Supplementary Data, on July 2, 2012, International Paper finalized the sales of its Ontario and Oxnard (Hueneme), California containerboard mills to New-Indy Containerboard LLC, and its New Johnsonville, Tennessee containerboard mill to Hood Container Corporation. During 2012, the Company recorded pre-tax charges of \$29 million (\$55 million after taxes) for costs associated with the divestitures of these mills. Also during 2012, in anticipation of the divestiture of the Hueneme mill, a pre-tax charge of \$62 million (\$38 million after taxes) was recorded to adjust the long-lived assets of the mill to their fair value.

2011: On August 22, 2011, International Paper announced that it had signed an agreement to sell its Shorewood business to Atlas Holdings. As a result, during 2011, net pre-tax charges of \$207 million (after a \$246 million tax benefit and a gain of \$8 million related to a noncontrolling interest, a net gain of \$47 million) were recorded to reduce the carrying value of the Shorewood business to fair market value. As part of the transaction, International Paper retained a minority interest of approximately 40% in the newly combined AGI-Shorewood business outside the U.S. Since the interest retained represents significant continuing involvement in the operations of the business, the operating results of the Shorewood business were included in continuing operations in the accompanying consolidated statement of operations instead of Discontinued operations. The sale of the U.S. portion of the Shorewood business to Atlas Holdings closed on December 31, 2011. The sale of the remainder of the Shorewood business occurred during January 2012.

Also during 2011, the Company recorded charges totaling \$11 million (before and after taxes) to further write down the long-lived assets of its Inverurie, Scotland mill to their estimated fair value.

Industry Segment Operating Profits

Industry segment operating profits of \$1.8 billion in 2013 decreased from \$2.0 billion in 2012. The net benefit from higher average sales price realizations and an unfavorable mix (\$653 million) were offset by lower sales volumes (\$76 million), higher operating costs (\$16 million), higher input costs (\$207 million) and higher other costs (\$28 million). Special items were a \$772 million net loss in 2013 compared with a net loss of \$335 million in 2012.

Market-related downtime in 2013 decreased to approximately 484,000 tons from approximately 692,000 tons in 2012. Looking ahead to the first quarter of 2014, sales volumes are expected to improve for North American packaging due to two additional shipping days for boxes. North American paper sales volumes should decline as a result of the repositioning related to the shutdown of our Courtland mill. Demand is expected to be seasonally lower in EMEA and Brazil, but stable in Asia. Average sales price realizations in North America are expected to increase in the domestic paper market, and sales margins in the packaging markets are expected to reflect a more favorable mix. Average sales prices in Europe are likely to be steady for both paper and packaging. In Brazil, paper prices are expected to increase in both the Brazilian domestic and the Latin American export markets, while packaging prices should be stable. Input costs in North America are expected to increase for energy and to reflect the impact of the unusually cold weather. Planned maintenance downtime costs should increase in North America, while costs in Europe and Brazil should be lower. Earnings from our xpedx distribution business are expected to be flat despite seasonally lower sales volumes. Equity earnings from our Ilim joint venture are expected to be stable.

DESCRIPTION OF INDUSTRY SEGMENTS

International Paper's industry segments discussed below are consistent with the internal structure used to manage these businesses. All segments are differentiated on a common product, common customer basis consistent with the business segmentation generally used in the forest products industry.

Industrial Packaging

International Paper is the largest manufacturer of containerboard in the United States. Our production capacity is about 13 million tons annually. Our products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. About 80% of our production is converted domestically into corrugated boxes and other packaging by our 172 U.S. container plants. Additionally, we recycle approximately

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one million tons of OCC and mixed and white paper through our 20 recycling plants. In EMEA, our operations include three recycled fiber containerboard mills in Morocco and Turkey and 28 container plants in France, Italy, Spain, Morocco and Turkey. In Brazil our operations include three containerboard mills and four box plants. In Asia, our operations include 17 container plants in China and additional container plants in Indonesia, Malaysia, Singapore, and Thailand. Our container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives.

Printing Papers

International Paper is one of the world's leading producers of printing and writing papers. Products in this segment include uncoated and coated papers, uncoated bristols and pulp.

Uncoated Papers: This business produces papers for use in copiers, desktop and laser printers and digital imaging. End use applications include advertising and promotional materials such as brochures, pamphlets, greeting cards, books, annual reports and direct mail. Uncoated papers also produces a variety of grades that are converted by our customers into envelopes, tablets, business forms and file folders. Uncoated papers are sold under private label and International Paper brand names that include Hammermill, Springhill, Williamsburg, Postmark, Accent, Great White, Chamex, Ballet, Rey, Pol, and Svetocopy. The mills producing uncoated papers are located in the United States, France, Poland, Russia, Brazil and India. The mills have uncoated paper production capacity of approximately 5 million tons annually. Brazilian operations function through International Paper do Brasil, Ltda, which owns or manages approximately 332,000 acres of forestlands in Brazil.

Pulp: Pulp is used in the manufacture of printing, writing and specialty papers, towel and tissue products and filtration products. Pulp is also converted into products such as diapers and sanitary napkins. Pulp products include fluff, and southern softwood pulp, as well as southern and birch hardwood paper pulps. These products are produced in the United States, France, Poland, Russia, and Brazil and are sold around the world. International Paper facilities have annual dried pulp capacity of about 1.7 million tons.

Consumer Packaging

International Paper is the world's largest producer of solid bleached sulfate board with annual U.S. production capacity of about 1.6 million tons. Our coated paperboard business produces high quality coated paperboard for a variety of packaging and commercial printing end uses. Our Everest[®], Fortress[®], and Starcote[®] brands are used in packaging

applications for everyday products such as food, cosmetics, pharmaceuticals, computer software and tobacco products. Our Carolina[®] brand is used in commercial printing end uses such as greeting cards, paperback book covers, lottery tickets, direct mail and point-of-purchase advertising. Our U.S. capacity is supplemented by about 371,000 tons of capacity at our mills producing coated board in Poland and Russia and by our International Paper & Sun Cartonboard Co., Ltd. joint venture in China which has annual capacity of 1.4 million tons.

Our Foodservice business produces cups, lids, food containers and plates through three domestic plants and four international facilities.

Distribution

xpedx, our North American merchant distribution business, distributes products and services to a number of customer markets including: commercial printers with printing papers and graphic pre-press, printing presses and post-press equipment; building services and away-from-home markets with facility supplies; manufacturers with packaging supplies and equipment; and to a growing number of customers, we exclusively provide distribution capabilities including warehousing and delivery services. xpedx is a leading wholesale distribution marketer in these customer and product segments in North America, operating 86 distribution centers in the U.S. and Mexico.

On January 28, 2014, International Paper, SpinCo, a company we recently formed to hold xpedx, Unisource and related entities entered into a merger agreement, a contribution and distribution agreement and related agreements, providing for the pro rata, tax-free, spin-off distribution of shares of common stock of SpinCo to International Paper's shareholders and the merger of Unisource with and into SpinCo with SpinCo as the surviving company in the merger. As a result of the spin-off distribution and the merger, International Paper's shareholders will own approximately 51%, and the sole shareholder of Unisource will own approximately 49%, of the shares of common stock of SpinCo on a fully diluted basis. We anticipate that the spin-off distribution and the merger will be completed in mid-2014. You can

find discussions of the transaction in Item 1A. Risk Factors - Risks Relating to Our Operations.
Ilim Holding S.A.

In October 2007, International Paper and Ilim Holding S.A. (Ilim) completed a 50:50 joint venture to operate a pulp and paper business located in Russia. Ilim's facilities include three paper mills located in Bratsk, Ust-Ilimsk, and Koryazhma, Russia, with combined total pulp and paper capacity of over 2.6 million tons. Ilim has exclusive harvesting rights on timberland and forest

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areas exceeding 14.1 million acres (5.7 million hectares).

Products and brand designations appearing in italics are trademarks of International Paper or a related company.

INDUSTRY SEGMENT RESULTS

Industrial Packaging

Demand for Industrial Packaging products is closely correlated with non-durable industrial goods production, as well as with demand for processed foods, poultry, meat and agricultural products. In addition to prices and volumes, major factors affecting the profitability of Industrial Packaging are raw material and energy costs, freight costs, manufacturing efficiency and product mix.

Industrial Packaging net sales and operating profits include the results of the Temple-Inland packaging operations from the date of acquisition in February 2012 and the results of the Brazil Packaging business from the date of acquisition in January 2013. In addition, due to the acquisition of a majority share of Olmuksa International Paper Sabanci Ambalaj Sanayi Ve Ticaret A.S., (now called Olmuksan International Paper or Olmuksan) net sales for our corrugated packaging business in Turkey are included in the business segment totals beginning in the first quarter of 2013 and the operating profits reflect a higher ownership percentage than in previous years. Net sales for 2013 increased 12% to \$14.8 billion compared with \$13.3 billion in 2012, and 42% compared with \$10.4 billion in 2011. Operating profits were 69% higher in 2013 than in 2012 and 57% higher than in 2011. Excluding costs associated with the acquisition and integration of Temple-Inland, the divestiture of three containerboard mills and other special items, operating profits in 2013 were 36% higher than in 2012 and 59% higher than in 2011. Benefits from the net impact of higher average sales price realizations and an unfavorable mix (\$749 million) were offset by lower sales volumes (\$73 million), higher operating costs (\$64 million), higher maintenance outage costs (\$16 million) and higher input costs (\$102 million). Additionally, operating profits in 2013 include costs of \$62 million associated with the integration of Temple-Inland, a gain of \$13 million related to a bargain purchase adjustment on the acquisition of a majority share of our operations in Turkey, and a net gain of \$1 million for other items, while operating profits in 2012 included costs of \$184 million associated with the acquisition and integration of Temple-Inland, mill divestiture costs of \$91 million, costs associated with the restructuring of our European Packaging business of \$17 million and a \$3 million gain for other items.

Industrial Packaging

In millions	2013	2012	2011
Sales	\$14,810	\$13,280	\$10,430
Operating Profit	1,801	1,066	1,147

North American Industrial Packaging net sales were \$12.5 billion in 2013 compared with \$11.6 billion in 2012 and \$8.6 billion in 2011. Operating profits in 2013 were \$1.8 billion (both including and excluding costs associated with the integration of Temple-Inland and other special items) compared with \$1.0 billion (\$1.3 billion excluding costs associated with the acquisition and integration of Temple-Inland and mill divestiture costs) in 2012 and \$1.1 billion (both including and excluding costs associated with signing an agreement to acquire Temple-Inland) in 2011.

Sales volumes decreased in 2013 compared with 2012 reflecting flat demand for boxes and the impact of commercial decisions. Average sales price realizations were significantly higher mainly due to the realization of price increases for domestic containerboard and boxes. Input costs were higher for wood, energy and recycled fiber. Freight costs also increased. Planned maintenance downtime costs were higher than in 2012. Manufacturing operating costs decreased, but were offset by inflation and higher overhead and distribution costs. The business took about 850,000 tons of total downtime in 2013 of which about 450,000 were market-related and 400,000 were maintenance downtime. In 2012, the business took about 945,000 tons of total downtime of which about 580,000 were market-related and about 365,000 were maintenance downtime. Operating profits in 2013 included \$62 million of costs associated with the integration of Temple-Inland. Operating profits in 2012 included \$184 million of costs associated with the acquisition and integration of Temple-Inland and \$91 million of costs associated with the divestiture of three containerboard mills.

Looking ahead to 2014, compared with the fourth quarter of 2013, sales volumes in the first quarter are expected to increase for boxes due to a higher number of shipping days offset by the impact from the severe winter weather events

impacting much of the U.S. Input costs are expected to be higher for energy, recycled fiber, wood and starch. Planned maintenance downtime spending is expected to be about \$51 million higher with outages scheduled at six mills compared with four mills in the 2013 fourth quarter. Manufacturing operating costs are expected to be lower. However, operating profits will be negatively impacted by the adverse winter weather in the first quarter of 2014. EMEA Industrial Packaging net sales in 2013 include the sales of our packaging operations in Turkey which are now fully consolidated. Net sales were \$1.3 billion in 2013 compared with \$1.0 billion in 2012 and \$1.1 billion in 2011. Operating profits in 2013 were \$43 million (\$32

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million excluding a gain on a bargain purchase price adjustment on the acquisition of a majority share of our operations in Turkey and restructuring costs) compared with \$53 million (\$72 million excluding restructuring costs) in 2012 and \$66 million (\$61 million excluding a gain for a bargain purchase price adjustment on an acquisition by our then joint venture in Turkey and costs associated with the closure of our Etienne mill in France in 2009) in 2011. Sales volumes in 2013 were higher than in 2012 reflecting strong demand for packaging in the agricultural markets in Morocco and Turkey. In Europe, sales volumes decreased slightly due to continuing weak demand for packaging in the industrial markets, and lower demand for packaging in the agricultural markets resulting from poor weather conditions. Average sales margins were significantly lower due to input costs for containerboard rising ahead of box sales price increases. Other input costs were also higher, primarily for energy. Operating profits in 2013 and 2012 included net gains of \$13 million and \$10 million, respectively, for insurance settlements and Italian government grants, partially offset by additional operating costs, related to the earthquakes in Northern Italy in May 2012 which affected our San Felice box plant.