INTERNATIONAL PAPER CO /NEW/
Form 10-K
February 22, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2016
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) 419-9000

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 ý 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 ý
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 ý 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 ý 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. ý
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 x	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 ý
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, 2016) was approximately $17,330,052,160.
The number of shares outstanding of the Company’s common stock as of February 17, 2017 was 411,255,197.
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 2017 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

1

Table of Contents

INTERNATIONAL PAPER COMPANY
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2016

PART I.		1
ITEM 1.	BUSINESS.	1
	General	1
	Financial Information Concerning Industry Segments	1
	Financial Information About International and U.S. Operations	1
	Competition and Costs	1
	Marketing and Distribution	2
	Description of Principal Products	2
	Sales Volumes by Product	2
	Research and Development	3
	Environmental Protection	3
	Climate Change	3
	Employees	5
	Executive Officers of the Registrant	5
	Raw Materials	6
	Forward-looking Statements	7
ITEM 1A.	RISK FACTORS.	7
ITEM 1B.	UNRESOLVED STAFF COMMENTS.	11
ITEM 2.	PROPERTIES.	11
	Forestlands	11
	Mills and Plants	11
	Capital Investments and Dispositions	11
ITEM 3.	LEGAL PROCEEDINGS.	12
ITEM 4.	MINE SAFETY DISCLOSURES.	12
PART II.		12
ITEM 5.	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.	12
ITEM 6.	SELECTED FINANCIAL DATA.	14
ITEM 7.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.	18
	Executive Summary	18
	Results of Operations	21
	Description of Industry Segments	24
	Industry Segment Results	25
	Liquidity and Capital Resources	30
	Critical Accounting Policies and Significant Accounting Estimates	34
	Recent Accounting Developments	37
	Legal Proceedings	37
	Effect of Inflation	37
	Foreign Currency Effects	38

Market Risk	38

Table of Contents

INTERNATIONAL PAPER COMPANY
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2016

ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	38
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.	39
	Report of Management on Financial Statements, Internal Control over Financial Reporting and Internal Control Environment and Board of Directors Oversight	39
	Reports of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	41
	Consolidated Statement of Operations	43
	Consolidated Statement of Comprehensive Income	44
	Consolidated Balance Sheet	45
	Consolidated Statement of Cash Flows	46
	Consolidated Statement of Changes in Equity	47
	Notes to Consolidated Financial Statements	48
	Interim Financial Results (Unaudited)	83
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.	85
ITEM 9A.	CONTROLS AND PROCEDURES.	85
ITEM 9B.	OTHER INFORMATION.	86
PART III.		86
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.	86
ITEM 11.	EXECUTIVE COMPENSATION.	87
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.	87
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.	87
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES.	87
PART IV.		87
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.	87
	Additional Financial Data	87
	Schedule II – Valuation and Qualifying Accounts	90
	SIGNATURES	91
APPENDIX I	2016 LISTING OF FACILITIES	A-1
APPENDIX II	2016 CAPACITY INFORMATION	A-4

Table of Contents

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 producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Latin America, Europe, North Africa, Asia and Russia. 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, 2016, the Company operated 29 pulp, paper and packaging mills, 170 converting and packaging plants, 16 recycling plants and three bag facilities. Production facilities at December 31, 2016 in Canada, Europe, Asia, Africa, India, Latin America included 17 pulp, paper and packaging mills, 68 converting and packaging plants, and two recycling plants. We operate a printing and packaging products distribution business principally through 12 branches in Asia. At December 31, 2016, we owned or managed approximately 329,000 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; Global Cellulose Fibers; Printing Papers; and Consumer Packaging. Subsequent to the acquisition of the Weyerhaeuser pulp business in December 2016, the Company began reporting the Global Cellulose Fibers business as a separate busines segment due to the increased materiality of the results of this business. This segment includes the Company's legacy pulp business and the newly acquired pulp business. As such, amounts related to the legacy pulp business have been reclassified out of the Printing Papers business segment and into the new Global Cellulose Fibers business segment for all prior periods.

A description of these business segments can be found on pages 24 and 25 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. ("Ilim") is also a separate reportable industry segment.

From 2012 through 2016, International Paper’s capital expenditures approximated $6.8 billion, excluding mergers and acquisitions. These expenditures reflect

our continuing efforts to improve product quality and environmental performance, as well as lower costs and maintain reliability of operations. Capital spending in 2016 was approximately $1.3 billion and is expected to be approximately $1.5 billion in 2017. You can find more information about capital expenditures on pages 30 and 31 of Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on page 31 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 23 and 24 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 Segment and Geographic Area on pages 79 through 81 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 81 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

Table of Contents

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-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 18 through 30 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 products directly to end users and converters, as well as through agents, resellers and paper distributors.

DESCRIPTION OF PRINCIPAL PRODUCTS

The Company's principal products are described on pages 24 and 25 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SALES VOLUMES BY PRODUCT

Sales volumes of major products for 2016, 2015 and 2014 were as follows:
Sales Volumes by Product (1)

In thousands of short tons (except as noted)	2016	2015	2014
Industrial Packaging			
North American Corrugated Packaging (3)	10,392	10,284	10,355
North American Containerboard	3,091	3,110	3,035
North American Recycling	2,402	2,379	2,459
North American Saturated Kraft	182	156	186
North American Gypsum/Release Kraft	200	171	168
North American Bleached Kraft	24	23	26
EMEA Industrial Packaging (3) (4)	1,477	1,417	1,379
Asian Box (3) (5)	208	426	407
Brazilian Packaging	371	348	362
Industrial Packaging	18,347	18,314	18,377
Cellulose Fibers (in thousands of metric tons) (2)	1,870	1,575	1,612
Printing Papers			
U.S. Uncoated Papers	1,872	1,879	1,968
European and Russian Uncoated Papers	1,536	1,493	1,531
Brazilian Uncoated Papers	1,114	1,125	1,141
Indian Uncoated Papers	241	241	231
Uncoated Papers	4,763	4,738	4,871
Consumer Packaging			
North American Consumer Packaging	1,189	1,425	1,486
European and Russian Coated Paperboard	393	381	354
Asian Coated Paperboard (6)	—	958	1,358
Consumer Packaging	1,582	2,764	3,198

(1) Includes third-party and inter-segment sales and excludes sales of equity investees.
(2) Includes North American, European and Brazilian volumes and internal sales to mills. Includes sales volumes from the newly acquired pulp business beginning December 1, 2016.
(3) Volumes for corrugated box sales reflect consumed tons sold (CTS). Board sales by these businesses reflect invoiced tons.
(4) Excludes newsprint sales volumes at Madrid, Spain mill.

(5) Includes sales volumes through the date of sale on June 30, 2016.
(6) Includes sales volumes through the date of sale in October 2015.

2

Table of Contents

RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several other product development facilities, including the Global Cellulose Fibers technology center in Federal Way, Washington that was acquired in 2016. 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 $20 million in 2016, $27 million in 2015, and $16 million in 2014.

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 advantageous or 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 $83 million in 2016 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. The 2016 spend

included costs associated with the U.S. Environmental Protection Agency’s (EPA) Boiler MACT (maximum achievable control technology) regulations. We expect to spend $111 million in 2017 for environmental capital projects. Capital expenditures for 2018 environmental projects are anticipated to be approximately $54 million. Capital expenditures for 2019 environmental projects are estimated to be $51 million. On January 31, 2013, EPA issued the final suite of Boiler MACT 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. On December 23, 2016, the U.S. Court of Appeals for the D.C. Circuit remanded the Boiler MACT regulations to EPA requiring the agency to revise emission standards for boiler subcategories that had been affected by flawed calculations. The Court determined that the existing MACT standards should remain in place while the revised standards are being developed, but did not establish a deadline for EPA to complete the rulemaking. As such, the projected capital expenditures for environmental projects represent our current best estimate of future expenditures with the recognition that the Boiler MACT regulations could change as a result of new, revised standards.

Amendments lowering National Ambient Air Quality Standards (NAAQS) for sulfur dioxide (SO2), nitrogen dioxide (NO2), fine particulate (PM2.5), and ozone have been finalized in recent years but to date have not had a material impact on the Company.

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 may have a material impact on the Company in the future.

International Efforts

A successor program to the 1997 Kyoto Protocol, the Paris Agreement went into effect in November 2016 which continued international efforts and voluntary commitments toward reducing Greenhouse gasses (GHGs). Consistent with this objective, participating

Table of Contents

countries aim to balance GHG emissions generation and removal in the second half of this century, or in effect achieve a net-zero global GHG emissions. As part of the Paris agreement, many countries, including the U.S. and EU member states, established non-binding emissions reduction targets. The U.S non-binding commitment is for GHG emissions to be 7% below 2005 GHG emissions levels by 2020 and 26% to 28% below by 2025. Other countries in which we do business made similar non-binding commitments. The Company's voluntary GHG reductions, which are set out in the annual Global Reporting Initiative (GRI) report, are roughly in line with the percentages of the U.S. target reductions. It is not clear at this time what, if any, further reductions by the Company might be required by the countries in which we operate. Due to this uncertainty, it is not possible at this time to estimate the potential impacts of 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 the Paris Agreement non-binding commitments or allocation of and market prices for GHG credits under existing rules evolve over the coming years.

National Efforts

In the U.S., the 1997 Kyoto Protocol was not ratified and Congress has not passed GHG legislation. EPA however has enacted regulations to: (i) control GHGs from mobile sources by adopting transportation fuel efficiency standards; (ii) control GHG emissions from new Electric Generating Units (EGUs), (iii) require reporting of GHGs from sources of GHGs greater than 25,000 tons per year, (iv) in 2015, require states to develop plans to reduce GHGs from utility electric generating units (EGUs) and (v) in 2016 EPA took the first steps in the process of developing emissions standards for existing sources in the oil and gas sector. The EPA has not yet identified the pulp and paper industry in the sectors to be covered by new standards. However, we anticipate that at some future time pulp and paper sources may 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.

In 2015, EPA promulgated the Clean Power Plan (CPP) rule to address climate change by reducing carbon dioxide (CO2) and other designated greenhouse gas pollutant emissions from utility EGUs. In response,

states are to develop and begin implementing programs to reduce GHGs from EGUs by about 32 percent by the 2022 to 2033 timeframe as compared to 2005 baseline levels. These plans, if implemented could pose potential cost increases for electricity purchased by the Company. The magnitude of cost increases to the Company, if any, are not possible to estimate reliably at this time. Adding to the uncertainty, states and some industry parties have filed lawsuits challenging the rule, and on February 9, 2016, the U.S. Supreme Court granted a stay of the Clean Power Plan. The stay will remain in effect until final disposition of the case, and as such, the rule's potential impact on the Company remains unclear.

State, Regional and Local Measures

A few U.S. states have enacted or are considering legal measures to require the reduction of emissions of GHGs by companies and public utilities, primarily through the development of GHG emission inventories or regional GHG cap-and-trade programs. California has already enacted such a program and similar actions are being considered by Oregon. The Company does not have any sites currently subject to California's GHG regulatory plan and since the Oregon program is still being developed, it is too early to know how or if Company owned sites in Oregon may be affected. 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. Further state measures are under substantive review as they respond to EPA's 2015 Clean Power Plan and develop an implementation plan over the next 1 to 3 years. The CPP allows significant flexibility in how states develop their plans, so the uncertainty regarding potential impacts will remain high until more specificity is reached and individual power companies develop their compliance strategies.

Summary

Regulation of GHGs continues to evolve in various countries in which we do business. While it is likely that there will be increased governmental action regarding GHGs and climate change, any material impact to the company is not likely to occur before 2020 and at this time it is not reasonably possible to estimate Company costs of compliance with rules that have not yet been adopted or implemented and may not be adopted or implemented in the future. 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,

Table of Contents

causing delays and higher costs to implement capital projects. International Paper has controls and procedures in place to stay 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 is available in our 2015 Global Reporting Initiative (GRI) report found at http://www.internationalpaper.com/docs/default-source/english/sustainability/2015-gri-report.pdf?sfvrsn=26 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, 2016, we have approximately 55,000 employees, nearly 36,000 of whom are located in the United States. Of the U.S. employees, approximately 25,000 are hourly, with unions representing approximately 15,000 employees. Approximately 11,500 of this number are represented by the United Steelworkers union (USW). International Paper, the USW, and several other unions have entered into two master agreements covering various mills and converting facilities. 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 19 of our U.S. pulp, paper, and packaging mills; the converting agreement includes 61 of our converting facilities. In addition, International Paper is party to a master agreement with District Council 2, International Brotherhood of Teamsters, covering 13 additional converting facilities.

During 2016, local labor agreements were negotiated at four mills and 13 converting facilities. Two of these were locations not covered by a master agreement. In 2017, local labor agreements are scheduled to be negotiated at 24 facilities, including seven mills and 17 converting facilities. 23 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

Mark S. Sutton, 55, chairman (since January 1, 2015) & chief executive officer (since November 1, 2014). Mr. Sutton previously served as president & chief operating officer from June 1, 2014 to October 31, 2014, senior vice president - industrial packaging from November 2011 to May 31, 2014, senior vice president - printing and communications papers of the Americas from 2010 until 2011, senior vice president - supply chain from 2008 to 2009, vice president - supply chain from 2007 until 2008, and vice president - strategic planning from 2005 until 2007. Mr. Sutton joined International Paper in 1984. Mr. Sutton serves on the board of directors of The Kroger Company. He is a member of The Business Council and the Business Roundtable and serves on the American Forest & Paper Association board of directors and the international advisory board of the Moscow School of Management - Skolkovo. He was appointed chairman of the U.S. Russian Business Council and was also appointed to the U.S. Section of the U.S.-Brazil CEO Forum. He also serves on the board of directors of Memphis Tomorrow and board of governors for New Memphis Institute. Mr. Sutton has been a director since June 1, 2014.

W. Michael Amick, Jr., 53, senior vice president - paper the Americas since January 1, 2017. Mr. Amick previously served as senior vice president - North American papers & consumer packaging from July 2016 until December 2016, senior vice president - North American papers, pulp & consumer packaging from November 2014 until June 2016, vice president - president, IP India, from August 2012 to October 2014, and vice president and general manager for the coated paperboard business from 2010 to 2012. Mr. Amick joined International Paper in 1990.

C. Cato Ealy, 60, 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, 60, senior vice president since January 2017. Mr. Hoel previously served as senior vice president - Container The Americas from February 2012 until December 2016, 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, 57, senior vice president - manufacturing, technology, EH&S and global sourcing since January 2010. Mr. Joseph previously

Table of Contents

served as senior vice president - manufacturing, technology, EH&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, 60, senior vice president - human resources, government relations & global citizenship since November 1, 2014. Mr. Kadien previously served as senior vice president - consumer packaging and IP Asia from January 2010 to October 31, 2014, and senior vice president and president - xpedx from 2005 until 2009. Mr. Kadien serves on the board of directors of The Sherwin-Williams Company. Mr. Kadien joined International Paper in 1978.

Glenn R. Landau, 48, senior vice president - finance since January 1, 2017. Mr. Landau previously served as senior vice president - president, IP Latin America from November 2014 through December 2016, vice president - president IP Latin America from 2013 to October 2014, vice president - investor relations from 2011 to 2013, and vice president and general manager, containerboard and recycling from 2007 to 2011. Mr. Landau joined International Paper in 1991.

Timothy S. Nicholls, 55, senior vice president - industrial packaging the Americas since January 1, 2017. Mr. Nicholls previously served as senior vice president - industrial packaging from November 2014 through December 2016, senior vice president - printing and communications papers of the Americas from November 2011 through October 2014, senior vice president and chief financial officer from 2007 until 2011, vice president and executive project leader of IP Europe during 2007, and vice president and chief financial officer - IP Europe from 2005 until 2007. Mr. Nicholls joined International Paper in 1991.

Jean-Michel Ribieras, 54, senior vice president - global cellulose fibers since July 2016. Mr. Ribieras previously served as senior vice president - president, IP Europe, Middle East, Africa & Russia from 2013 until June 2016, and 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, 57, senior vice president & 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 Corp., VF Corporation, the Yale University Presidents Advisory Council, and the local governing board of the University of Memphis. Ms. Roberts joined International Paper in 1981.

Sharon R. Ryan, 57, senior vice president, general counsel & corporate secretary since November 2011. Ms. Ryan previously served as vice president, acting general counsel & corporate secretary from May 2011 until November 2011, vice president from March 2011 until May 2011, associate general counsel, chief ethics and compliance officer from 2009 until 2011, and associate general counsel from 2006 until 2009. Ms. Ryan joined International Paper in 1988.

John V. Sims, 54, senior vice president - president, IP Europe, Middle East, Africa & Russia since July 2016. Mr. Sims previously served as vice president and general manager, European papers from March 2016 until June 2016, vice president & general manager, North American papers from 2013 until February 2016, and vice president, finance and strategy, industrial packaging, from 2009 until 2013. Mr. Sims 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. Sims joined International Paper in 1994.

Catherine I. Slater, 53, senior vice president - consumer packaging since December 2016. Ms. Slater joined International Paper from Weyerhaeuser Company in December 2016, effective with the completion of the acquisition of Weyerhaeuser's cellulose fibers business, which she previously led. Ms. Slater's 24-year career with Weyerhaeuser included leadership roles in manufacturing, printing papers, consumer products, wood products, distribution and the cellulose fibers business.

Gregory T. Wanta, 51, senior vice president - North American container since December 2016. Mr. Wanta has served in a variety of roles of increasing responsibility in manufacturing and commercial leadership roles in specialty papers, coated paperboard, printing papers, foodservice and industrial packaging, including vice president, central region, Container the Americas, from January 2012 through November 2016. Mr. Wanta joined International Paper in 1991.

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, the 2008 acquisition of Weyerhaeuser Company's Containerboard, Packaging and Recycling business and the 2016 acquisition of Weyerhaeuser's pulp business is presented in Note 11 Commitments and Contingent Liabilities on page 61 of Item 8. Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (including the exhibits hereto) 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, "appear," "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 changes 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, cyclicality 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) changes in our estimates for the costs and insurance coverage associated with the recent incident at our Pensacola, Florida mill and for the time required to resume full operations at the mill; (vi) whether we experience a material disruption at one of our other manufacturing facilities; (vii) risks inherent in conducting business through a joint venture; (viii) the failure to realize the expected synergies and cost-savings from our purchase of the cellulose fibers business of Weyerhaeuser Company; and (ix) our ability to achieve the benefits we expect from all other 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.

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. 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, 2016, International Paper had approximately $11.3 billion of outstanding indebtedness. 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 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 $2.3 billion of our debt as of December 31, 2016, the applicable interest rate on such debt may increase upon each downgrade in our credit rating below investment grade. As a result, a downgrade in our credit rating below investment grade 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 Temple-Inland in connection with Temple-Inland's 2007 sales of forestlands may be downgraded below a required rating. Since 2007, 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 payments of up to $831 million in deferred income taxes if replacement banks cannot be obtained. The deferred taxes are currently recorded in the Company's consolidated financial statements. See Note 12, Variable Interest Entities, on pages 64 through 66, and Note 10, Income Taxes, on pages 59 through 61, in 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 former U.S. hourly employees, as well as financial assistance towards the cost of individual retiree medical coverage for certain former U.S. salaried 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 could increase pension costs. Health care reform under the Patient Protection and Affordable Care Act of 2010, and modifications thereto, could also increase costs with respect to medical coverage of the Company’s full-time employees. 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, 2016 was $3.4 billion. The amount and timing of future contributions will depend upon a number of factors, including 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, Russia, Brazil, Poland, 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. Fluctuations in the value of local currency versus the U.S. dollar, downturns in economic activity, adverse tax consequences, 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 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, labor and employment, data privacy, and health care. 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

Table of Contents

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 do not believe that the outcome of any pending or threatened lawsuits or claims will 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 or other equipment;
- damage or disruptions caused by third parties operating on or adjacent to one of our manufacturing facilities;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- widespread outbreak of an illness or any other communicable disease, or any other public health crisis;
- 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.

For example, on January 22, 2017, we experienced significant structural damage to the largest pulp digester as well as the power house at our Pensacola pulp and paper mill in Cantonment, Florida. We restarted the power house and resumed partial operations producing fluff pulp at the mill using a series of small batch digesters within a couple weeks. Repairing the damaged digester will take more time, however, and we know that we will not be able to resume full operations producing containerboard at the mill during the first quarter of 2017.

WE ARE SUBJECT TO INFORMATION TECHNOLOGY RISKS RELATED TO BREACHES OF SECURITY PERTAINING TO SENSITIVE COMPANY, CUSTOMER, EMPLOYEE AND VENDOR INFORMATION AS WELL AS BREACHES IN THE TECHNOLOGY USED TO MANAGE OPERATIONS AND OTHER BUSINESS PROCESSES. Our business operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite careful security and controls design,

Table of Contents

implementation, updating and independent third party verification, our information technology systems, and those of our third party providers, could become subject to employee error or malfeasance, cyber attacks, or natural disasters. 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.

CERTAIN OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT. Certain operations in Russia are carried on by a joint venture, Ilim. 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 we receive only our portion of those benefits.

WE MAY NOT ACHIEVE THE EXPECTED BENEFITS FROM ACQUISITIONS, JOINT VENTURES, DIVESTITURES AND OTHER CORPORATE TRANSACTIONS. Our strategy for long-term growth, productivity and profitability depends, in part, on our ability to accomplish prudent acquisitions, joint ventures, divestitures and other corporate transactions 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 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 who place higher strategic value on such businesses and assets

than does International Paper.

On December 1, 2016, for example, we completed our acquisition of Weyerhaeuser's pulp business. The success of the acquisition will depend, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from integrating the acquired business with our existing businesses. The integration process may be complex, costly and time-consuming, and we may not accomplish the integration of the business smoothly, successfully or within the anticipated costs or timeframe. Potential integration risks include, among other things, our ability to successfully implement our business plan for the combined business and retain key customers, suppliers and employees.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FORESTLANDS

As of December 31, 2016, the Company owned or managed approximately 329,000 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 the Brazilian National Forest Certification Program (CERFLOR) and the Forest Stewardship Council (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 2017 on page 31 and 32, and dispositions and restructuring activities as of December 31, 2016, on pages 23 and 24 of Item 7. Management's Discussion and Analysis of Financial

Table of Contents

Condition and Results of Operations, and on page 54 and pages 56 and 57 of Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company's legal proceedings is set forth in Note 11 Commitments and Contingencies on pages 61 through 63 of Item 8. Financial Statements and Supplementary Data.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART 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 2016 and 2015 are set forth on page 83 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. As of February 17, 2017, there were approximately 12,311 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 Shares (or Units) Purchased as Part of Publicly Announced Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in billions)
October 1, 2016 - October 31, 2016	—	$—	—	$0.933
November 1, 2016 - November 30, 2016	9,096	45.03	—	0.933
December 1, 2016 - December 31, 2016	2,642	52.29	—	0.933
Total	11,738			

(a) 11,738 shares were acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. During these periods, no shares were purchased under our share repurchase program, which was was approved by our Board of Directors and announced on July 8, 2014. Through this program, which does not have an expiration date, we were authorized to purchase, in open market transactions (including block trades), privately negotiated transactions or otherwise, up to $1.5 billion of shares of our common stock. As of February 17, 2017, approximately $933 million of shares of our common stock remained authorized for purchase under this program.

Table of Contents

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 31, 2011 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 31, 2011. The graph portrays total return, 2011–2016, assuming reinvestment of dividends.

Note 1: The companies included in the ROIC Peer Group are Domtar Inc., Fibria Celulose S.A., Graphic Packaging Holding Company, Klabin S.A., Metsa Board Corporation, Mondi Group, Packaging Corporation of America, Smurfit Kappa Group, Stora Enso Group, and UPM-Kymmene Corp. MeadWestvaco Corp. and Rock-Tenn Company are included in the ROIC Peer Group results through 2014 and subsequently, after the merger of those companies, WestRock was added to the Peer group beginning in 2015.

Note 2: Returns are calculated in $USD.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL SUMMARY (a)

Dollar amounts in millions, except per share amounts and stock prices	2016		2015		2014		2013		2012	
RESULTS OF OPERATIONS										
Net sales	$21,079		$22,365		$23,617		$23,483		$21,852	
Costs and expenses, excluding interest	19,603		20,544		22,138		21,643		20,214	
Earnings (loss) from continuing operations before income taxes and equity earnings	956	(b)	1,266	(e)	872	(g)	1,228	(j)	967	(m)
Equity earnings (loss), net of taxes	198		117		(200)		(39)		61	
Discontinued operations, net of taxes	(5)	(c)	—		(13)	(h)	(309)	(k)	77	(n)
Net earnings (loss)	902	(b-d)	917	(e-f)	536	(g-i)	1,378	(j-l)	799	(m-o)
Noncontrolling interests, net of taxes	(2)		(21)		(19)		(17)		5	
Net earnings (loss) attributable to International Paper Company	904	(b-d)	938	(e-f)	555	(g-i)	1,395	(j-l)	794	(m-o)
FINANCIAL POSITION										
Current assets less current liabilities	$2,897		$2,553		$3,050		$3,898		$3,907	
Plants, properties and equipment, net	13,990		11,980		12,728		13,672		13,949	
Forestlands	456		366		507		557		622	
Total assets	33,345		30,531		28,637		31,488		32,106	
Notes payable and current maturities of long-term debt	239		426		742		661		444	
Long-term debt	11,075		8,844		8,584		8,787		9,649	
Total shareholders’ equity	4,341		3,884		5,115		8,105		6,304	
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS										
Earnings (loss) from continuing operations	$2.21		$2.25		$1.33		$3.85		$1.65	
Discontinued operations	(0.01)		—		(0.03)		(0.70)		0.17	
Net earnings (loss)	2.20		2.25		1.30		3.15		1.82	
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS										
Earnings (loss) from continuing operations	$2.19		$2.23		$1.31		$3.80		$1.63	
Discontinued operations	(0.01)		—		(0.02)		(0.69)		0.17	
Net earnings (loss)	2.18		2.23		1.29		3.11		1.80	
Cash dividends	1.783		1.640		1.450		1.250		1.088	
Total shareholders’ equity	10.56		9.43		12.18		18.57		14.33	
COMMON STOCK PRICES										
High	$54.68		$57.90		$55.73		$50.33		$39.88	
Low	32.50		36.76		44.24		39.47		27.29	
Year-end	53.06		37.70		53.58		49.03		39.84	

FINANCIAL RATIOS					
Current ratio	1.7	1.7	1.6	1.8	1.8
Total debt to capital ratio	0.72	0.70	0.65	0.54	0.62
Return on shareholders’ equity	22.1 % (b-d)	20.0 % (e-f)	7.7 % (g-i)	20.2 % (j-l)	11.6 % (m-o)
CAPITAL EXPENDITURES	$1,348	$1,487	$1,366	$1,198	$1,383
NUMBER OF EMPLOYEES	55,000	56,000	58,000	64,000	65,000

Table of Contents

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).
FOOTNOTES TO FIVE-YEAR FINANCIAL SUMMARY

(a) All periods presented have been restated to reflect the xpedx business and the Temple-Inland Building Products business as discontinued operations and prior period amounts have been adjusted to conform with current year presentation, if applicable.

2016:

(b) Includes the following charges (gains):

In millions	2016 Before Tax	2016 After Tax
Riegelwood mill conversion costs	$9	$6
India Packaging evaluation write-off	17	11
Write-off of certain regulatory pre-engineering costs	8	5
Early debt extinguishment costs	29	18
Costs associated with the newly acquired pulp business	31	21
Asia Box impairment / restructuring	70	58
Gain on sale of investment in Arizona Chemical	(8)	(5)
Turkey mill closure	7	6
Amortization of Weyerhaeuser inventory fair value step-up	19	11
Total special items	$182	$131
Non-operating pension expense	610	375
Total	$792	$506

(c) Includes a pre-tax charge of $8 million ($5 million after taxes) for a legal settlement associated with the xpedx business.

(d) Includes the following tax expenses (benefits):

In millions	2016
Cash pension contribution	$23
U.S. Federal audit	(14)
Brazil goodwill	(57)
International legal entity restructuring	(6)
Luxembourg tax rate change	31
Total	$(23)

2015:

(e) Includes the following charges (gains):

In millions	2015 Before Tax	2015 After Tax
Riegelwood mill conversion costs, net of proceeds from sale of the Carolina Coated Bristols brand	$8	$4
Timber monetization restructuring	16	10
Early debt extinguishment costs	207	133
IP-Sun JV impairment	174	180
Legal reserve adjustment	15	9
Refund and state tax credits	(4)	(2)
Impairment of Orsa goodwill and trade name intangible	137	137
Other items	6	5
Total special items	$559	$476
Non-operating pension expense	258	157
Total	$817	$633

(f) Includes the following tax expenses (benefits):

In millions	2015
IP-Sun JV impairment	$(67)
Cash pension contribution	23
Other items	7
Total	$(37)

Table of Contents

2014:

(g) Includes the following charges (gains):

In millions	2014 Before Tax	2014 After Tax
Temple-Inland integration	$16	$10
Courtland mill shutdown	554	338
Early debt extinguishment costs	276	169
India legal contingency resolution	(20)	(20)
Multi-employer pension plan withdrawal liability	35	21
Foreign tax amnesty program	32	17
Asia Industrial Packaging goodwill impairment	100	100
Loss on sale by investee and impairment of investment	47	36
Other items	12	9
Total special items	$1,052	$680
Non-operating pension expense	212	129
Total	$1,264	$809

(h) Includes the operating earnings of the xpedx business prior to the spin-off and the following charges (gains):

In millions	2014 Before Tax	2014 After Tax
xpedx spinoff	$24	$16
Building Products divestiture	16	9
xpedx restructuring	1	(1)
Total	$41	$24

(i) Includes the following tax expenses (benefits):

In millions	2014
State legislative tax change	$10
Internal restructuring	(90)
Other items	(1)
Total	$(81)

2013:

(j) Includes the following charges (gains):

In millions	2013 Before Tax	2013 After Tax
Temple-Inland integration	$62	$38
Courtland mill shutdown	118	72
Early debt extinguishment costs	25	16
Insurance reimbursement related to legal settlement	(30)	(19)
Shut down of paper machine at Augusta mill	45	28
India Papers tradename and goodwill impairment	127	122
Fair value adjustment of company airplanes	9	5
Cass Lake environmental reserve	6	4
Bargain purchase adjustment - Turkey	(13)	(13)
Other items	(5)	2
Total	$344	$255
Non-operating pension expense	323	197
Total	$667	$452

(k) Includes the operating earnings of the xpedx business for the full year and the Temple-Inland Building Products business through the date of sale in July 2013. Also includes the following charges (gains):

In millions	2013 Before Tax	2013 After Tax
xpedx spinoff	$22	$14
xpedx goodwill impairment	400	366
Building Products divestiture	23	19
xpedx restructuring	32	19
Total	$477	$418

(l) Includes the following tax expenses (benefits):

In millions	2013
Settlement of U.S. federal tax audits	$(744)
Income tax reserve release	(31)
Other items	1
Total	$(774)

Table of Contents

2012:

(m) Includes the following charges (gains):

In millions	2012 Before Tax	2012 After Tax
Temple-Inland integration	$164	$105
Early debt extinguishment costs	48	30
EMEA packaging business restructuring	17	12
Temple-Inland inventory fair value adjustment	20	12
Hueneme mill long-lived asset fair value adjustment	62	38
Containerboard mill divestitures	29	55
Other	(5)	(5)
Total	$335	$247
Non-operating pension expense	159	113
Total	$494	$360

(n) Includes the operating earnings of the xpedx business and the Temple-Inland Building Products business for the full year. Also includes the following charges (gains):

In millions	2012 Before Tax	2012 After Tax
Building Products divestiture	$15	$ 9
xpedx restructuring	44	28
Total	$59	$ 37

(o) Includes the following tax expenses (benefits):

In millions	2012
Internal restructuring	$ 14
Deferred tax asset adjustment related to Medicare Part D reimbursement	5
Other	6
Total	$ 25

Table of Contents

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

EXECUTIVE SUMMARY

Diluted earnings (loss) attributable to common shareholders were $904 million ($2.18 per share) in 2016, compared with $938 million ($2.23 per share) in 2015 and $555 million ($1.29 per share) in 2014. Adjusted Operating Earnings is a non-GAAP measure and is defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. International Paper generated Adjusted Operating Earnings Attributable to Common Shareholders of $1.4 billion ($3.35 per share) in 2016, compared with $1.5 billion ($3.65 per share) in 2015, and $1.3 billion ($3.00 per share) in 2014 (see reconciliation on page 19).

Despite a tough global environment, International Paper delivered another year of solid performance, with continued strong cash flow generation and a return on invested capital in excess of our cost of capital. During 2016, we took steps to further strengthen our portfolio. We completed the acquisition of Weyerhaeuser's pulp business, which we have combined with IP's legacy pulp business to form our new Global Cellulose Fibers business. We also completed the conversion of a machine at the Riegelwood, North Carolina mill to produce fluff pulp, which coupled with the newly acquired pulp business, gives the Company the capacity to grow both fluff and high-value specialty pulp products. In addition, we also acquired a top-quartile mill asset in Madrid, which we will convert in the second half of 2017 to produce recycled containerboard to support our EMEA Industrial Packaging business. Finally, we were able to return cash to our shareholders in the form of a 5% increase in the annual dividend, making it the fifth consecutive year of a dividend increase.

Our 2016 results reflect margin pressure across most of our businesses throughout the year along with escalating input costs, primarily natural gas and OCC, in the later portion of the year. Full-year 2016 earnings were impacted by price erosion and weaker mix across many of our businesses, in particular, our North American Industrial Packaging business which experienced lower export pricing and the impact of early 2016 pricing index changes to boxes. Volume was positive compared to 2015, primarily driven by increased North American box demand. Manufacturing operations, despite solid performance across our mill systems, were negatively impacted by the Riegelwood conversion and ramp up, Hurricane Matthew, and inventory valuation charges associated with the October containerboard price increase. We did see signs of strengthening in some of our key markets in the second half of the year, which enabled us to announce and implement price increases across various businesses that will benefit us in 2017. Our Ilim joint venture had another solid year in 2016, experiencing strong demand which led to record full-year production.

Looking ahead to the 2017 first quarter, we expect sales volumes for North American Industrial Packaging to be slightly higher despite seasonally lower daily shipments due to four more shipping days. Sales volumes for Global Cellulose Fibers will be higher due to the full-quarter impact of the newly acquired pulp business. In addition, sales volumes for EMEA Industrial Packaging, North American Printing Papers and North American Consumer Packaging are also expected to be seasonally higher. Pricing is expected to increase for both North American Industrial Packaging and Brazilian Industrial Packaging, reflecting the continuing implementation of box price increases announced in 2016. Pricing for both North American Printing Papers and North American Consumer Packaging is expected to be lower due to market pressures. Planned maintenance outages are expected to increase due to a heavy outage quarter, including a significant outage currently underway at the Global Cellulose Fibers Port Wentworth mill. Input costs are expected to increase primarily for our North American operations, largely driven by natural gas, wood and OCC. Additionally, we expect the results of Ilim to be sequentially lower, primarily due to seasonally lower volumes and seasonally higher input costs.

Looking to full year 2017, we are encouraged by an improving economic climate and are eager to begin the integration of our newly acquired pulp business, driving the anticipated synergies to the bottom line. We expect higher earnings in our North American Industrial Packaging business through benefits from the previously announced price increase, growing demand from our customers and improvement initiatives. We also expect to improve margins with continued strong operations and extensive cost reduction efforts across many of our other businesses. Additionally, we are on track for our planned conversion of the Madrid mill in the second half of the year, which will enable a better offering for our customers and earnings improvement for our EMEA Industrial Packaging business. Finally, with the strong cash flow that we expect from all of these initiatives, we will continue to allocate capital to create value with a near-term focus on debt reduction and returning value to our shareholders.

Adjusted Operating Earnings and Adjusted Operating Earnings Per Share are non-GAAP measures. Diluted earnings (loss) and Diluted earnings (loss) per share attributable to common shareholders are the most direct comparable GAAP measures. The Company calculates Adjusted 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 (includes all U.S. pension costs, excluding service costs and prior service costs), and

Table of Contents

discontinued operations. Adjusted Operating Earnings Per Share is calculated by dividing Adjusted Operating Earnings by diluted average shares of common stock outstanding. 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.

Diluted earnings (loss) attributable to common shareholders were $0.53 in the 2016 fourth quarter, compared with $0.75 in the 2016 third quarter and $0.43 in the 2015 fourth quarter. Adjusted Operating Earnings attributable to common shareholders of $303 million ($0.73 per share) in the 2016 fourth quarter were lower than both the $380 million ($0.91 per share) in the 2016 third quarter and the $361 million ($0.87 per share) in the 2015 fourth quarter.

The following are reconciliations of Diluted earnings (loss) attributable to common shareholders to Adjusted operating earnings attributable to common shareholders.

	2016	2015	2014
Diluted Earnings (Loss) Attributable to Shareholders	$904	$938	$555
Add back - Discontinued operations (gain) loss	5	—	13
Diluted Earnings (Loss) from Continuing Operations	909	938	568
Add back - Non-operating pension (income) expense	610	258	212
Add back - Net special items expense (income)	182	559	1,052
Income tax effect - Non-operating pension and special items expense	(309)	(221)	(536)
Adjusted Operating Earnings (Loss) Attributable to Shareholders	$1,392	$1,534	$1,296

	2016	2015	2014
Diluted Earnings (Loss) Per Share Attributable to Shareholders	$2.18	$2.23	$1.29
Add back - Discontinued operations (gain) loss per share	0.01	—	0.02
Diluted Earnings (Loss) Per Share from Continuing Operations	2.19	2.23	1.31
Add back - Non-operating pension (income) expense	1.47	0.61	0.49
Add back - Net special items expense (income)	0.44	1.33	2.44
Income tax effect - Non-operating pension and special items expense	(0.75)	(0.52)	(1.24)
Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders	$3.35	$3.65	$3.00

	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Three Months Ended December 31, 2015
Diluted Earnings (Loss) Attributable to Shareholders	$ 218	$ 312	$ 178
Add back - Discontinued operations (gain) loss	—	—	—
Diluted Earnings (Loss) from Continuing Operations	218	312	178
Add back - Non-operating pension (income) expense	37	42	60
Add back - Net special items expense (income)	45	66	158
Income tax effect - Non-operating pension and special items expense	3	(40)	(35)
Adjusted Operating Earnings (Loss) Attributable to Shareholders	$ 303	$ 380	$ 361

	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Three Months Ended December 31, 2015
Diluted Earnings (Loss) Per Share Attributable to Shareholders	$ 0.53	$ 0.75	$ 0.43

Add back - Discontinued operations (gain) loss per share	—	—	—
Diluted Earnings (Loss) Per Share from Continuing Operations	0.53	0.75	0.43
Add back - Non-operating pension (income) expense per share	0.09	0.10	0.14
Add back - Net special items expense (income) per share	0.11	0.16	0.38
Income tax effect per share - Non-operating pension and special items expense	—	(0.10)	(0.08)
Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders	$ 0.73	$ 0.91	$ 0.87

Free Cash Flow is a non-GAAP measure and the most directly comparable GAAP measure is cash provided by operations. Management believes that Free Cash Flow is useful to investors as a liquidity measure because it measures the amount of cash generated that is available, after reinvesting in the business, to maintain a strong balance sheet, pay dividends, repurchase stock, repay debt and make investments for future growth. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. By adjusting for certain items that are not indicative of the Company's ongoing performance, free cash flow also enables investors to perform meaningful comparisons between

19

Table of Contents

past and present periods. Free Cash Flow of $1.9 billion generated in 2016 was higher than the $1.8 billion generated in 2015, but lower than the $2.1 billion generated in 2014 (see reconciliation on page 30).

Free Cash Flow of $467 million generated in the 2016 fourth quarter was lower than the $575 million generated in the 2016 third quarter and the $501 million generated in the 2015 fourth quarter (see reconciliation on page 30).

Results of Operations

Business 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. Business Segment Operating Profits are defined as earnings (loss) from continuing operations before income taxes and equity earnings, but including the impact of equity earnings and noncontrolling interests, excluding corporate items and corporate special items. Business 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, Global Cellulose Fibers, Printing Papers and Consumer Packaging.

The following table presents a reconciliation of net earnings (loss) from continuing operations attributable to International Paper Company to its total Business Segment Operating Profit:

In millions	2016	2015	2014
Earnings (Loss) From Continuing Operations Attributable to International Paper Company	$909	$938	$568
Add back (deduct)			
Income tax provision (benefit)	247	466	123
Equity (earnings) loss, net of taxes	(198)	(117)	200
Noncontrolling interests, net of taxes	(2)	(21)	(19)
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	956	1,266	872
Interest expense, net	520	555	601
Noncontrolling interests/equity earnings included in operations	1	8	2
Corporate items	69	36	51
Corporate special items (income) expense	46	238	320
Non-operating pension expense	610	258	212
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	$2,202	$2,361	$2,058
Business Segment Operating Profit			
Industrial Packaging	$1,651	$1,853	$1,896
Global Cellulose Fibers	(180)	68	61
Printing Papers	540	465	(77)
Consumer Packaging	191	(25)	178
Total Business Segment Operating Profit	$2,202	$2,361	$2,058

Business Segment Operating Profits in 2016 included a net loss from special items of $136 million compared with $321 million in 2015 and $732 million in 2014. Operationally, compared with 2015, the benefits from higher sales volumes ($62 million), lower maintenance outage costs ($14 million), lower input costs ($82 million) and the incremental operating earnings from the newly acquired pulp business ($17 million) were offset by lower average sales price realizations and mix ($443 million), higher operating costs ($62 million) and higher other costs ($14 million).

Table of Contents

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

- Industrial Packaging's profits of $1.7 billion were $202 million lower than in 2015 as the benefits of higher sales volumes, lower maintenance outage costs and lower input costs were more than offset by lower average sales price realizations and mix, higher operating costs and higher other costs. In addition, operating profits in 2016 included a charge of $70 million for impairment and other costs associated with the sale of our corrugated packaging business in Asia and a charge of $7 million related to the closure of a mill in Turkey. In 2015, operating profits included a goodwill and trade name impairment charge of $137 million related to our Brazil Packaging business.
- Global Cellulose Fibers' operating loss of $180 million was $248 million unfavorable versus 2015 as the benefits of higher sales volumes, lower input costs, lower other costs and the earnings from the newly acquired business were more than offset by lower average sales price realizations and mix, higher operating costs and higher maintenance outage costs. The operating loss in 2016 included $31 million of costs associated with the acquisition of the pulp business and a charge of $19 million to amortize the newly acquired pulp business inventory fair value adjustment.
- Printing Papers' profits of $540 million represented a $75 million increase in operating profits from 2015. The benefits from higher sales volumes, higher average sales price realizations and mix, lower operating costs, lower maintenance outage costs and lower input costs were partially offset by higher other costs.
- Consumer Packaging's operating profit of $191 million represented a $216 million increase in operating profits from 2015. The benefits from lower operating costs, lower maintenance outage costs,

and lower input costs were partially offset by lower sales volumes, lower average sales price realizations and mix and higher other costs. In addition, operating profits in 2016 included a charge of $9 million related to the conversion of our Riegelwood mill to 100% pulp production. In 2015, operating losses included an asset impairment charge of $174 million related to the sale of our 55% equity share of the IP-Sun JV in Asia, a net cost of $8 million related to costs for our Riegelwood mill conversion, net of proceeds from the sale of the Carolina Coated Bristols brand, and $2 million of sheet plant closure costs.

Liquidity and Capital Resources

For the year ended December 31, 2016, International Paper generated $2.5 billion of cash flow from operations compared with $2.6 billion in 2015 and $3.1 billion in 2014. Cash flow from operations included $750 million, $750 million and $353 million of cash pension contributions in 2016, 2015 and 2014, respectively. Capital spending for 2016 totaled $1.3 billion, or 110% of depreciation and amortization expense. Net increases in debt totaled $1.9 billion, the proceeds from which were primarily used to fund the acquisition of the Weyerhaeuser pulp business. Our liquidity position remains strong, supported by approximately $2.1 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 strong cash generation again in 2017 and will continue our balanced use of cash through the payment of dividends, reducing total debt and making investments for future growth.

Capital spending for 2017 is targeted at $1.5 billion, or about 107% of depreciation and amortization.

Legal

See Note 11 Commitments and Contingent Liabilities on pages 61 through 63 of Item 8. Financial Statements and Supplementary Data for a discussion of legal matters.

RESULTS OF OPERATIONS

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

Table of Contents

Product prices are affected by general economic trends, inventory levels, currency exchange rate 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, 2016, and the major factors affecting these results compared to 2015 and 2014.

For the year ended December 31, 2016, International Paper reported net sales of $21.1 billion, compared with $22.4 billion in 2015 and $23.6 billion in 2014. International net sales (including U.S. exports) totaled $7.2 billion or 34% of total sales in 2016. This compares with international net sales of $7.8 billion in 2015 and $9.3 billion in 2014.

Full year 2016 net earnings attributable to International Paper Company totaled $904 million ($2.18 per share), compared with net earnings of $938 million ($2.23 per share) in 2015 and $555 million ($1.29 per share) in 2014. Amounts in 2016 and 2014 include the results of discontinued operations.

Earnings from continuing operations attributable to International Paper Company after taxes in 2016, 2015 and 2014 were as follows:

In millions	2016	2015	2014
Earnings from continuing operations attributable to International Paper Company	$909 (a)	$938 (b)	$568 (c)

(a) Includes $108 million of net special items charges and $375 million of non-operating pension expense which included a pre-tax charge of $439 million ($270 million after taxes) for a settlement accounting charge associated with payments under a term-vested lump sum buyout.

(b) Includes $439 million of net special items charges and $157 million of non-operating pension expense.

(c) Includes $599 million of net special items gains and $129 million of non-operating pension expense in 2014.

Compared with 2015, the benefits from higher sales volumes, lower maintenance outage costs, lower input costs, incremental earnings from the acquisition of Weyerhaeuser's pulp business, lower interest expense and lower tax expense were offset by lower average sales price realizations and mix, higher operating costs and higher corporate and other costs. In addition, 2016 results included higher equity earnings, net of taxes,

relating to the Company's investment in Ilim Holding, SA.

See Business Segment Results on pages 25 through 30 for a discussion of the impact of these factors by segment.

Discontinued Operations

2016:

In 2016, there was $5 million of discontinued operations expense associated with a legal settlement related to the xpedx business.

2015:

There were no discontinued operations in 2015.

2014:

In 2014, $24 million of net income adjustments were recorded relating to discontinued businesses, including $16 million of costs associated with the spin-off of the xpedx business and $9 million of costs associated with the divestiture of the Temple-Inland Building Products business. Also included are the operating earnings of the xpedx business prior to the spin-off on July 1, 2014.

Income Taxes

A net income tax provision of $247 million was recorded for 2016 including tax benefits of $63 million related to legal entity restructurings, a tax expense of $31 million associated with a tax rate change in Luxembourg, a tax expense of $23 million associated with the $750 million of 2016 cash pension contributions, and a tax benefit of $14 million related to the closure of a federal tax audit. Excluding these items, a $51 million tax benefit for other special items and a $235 million tax benefit related to non-operating pension expense, the tax provision was $556 million, or 32% of pre-tax earnings before equity earnings.

A net income tax provision of $466 million was recorded for 2015 including a tax benefit of $62 million related to internal restructurings, a tax expense of $23 million for the tax impact of the 2015 cash pension contribution of $750 million and a $2 million tax expense for other

Table of Contents

items. Excluding these items, an $83 million net tax benefit for other special items and a $101 million tax benefit related to non-operating pension expense, the tax provision was $687 million, or 33% of pre-tax earnings before equity earnings.

A net income tax provision of $123 million was recorded for 2014 including a tax benefit of $90 million related to internal restructurings and a net $9 million tax expense for other items. Excluding these items, a $372 million net tax benefit for other special items and a $83 million tax benefit related to non-operating pension expense, the tax provision was $659 million, or 31% of pre-tax earnings before equity earnings.

Equity Earnings, Net of Taxes

Equity earnings, net of taxes in 2016, 2015 and 2014 consisted principally of the Company's share of earnings from its 50% investment in Ilim Holding S.A. in Russia (see page 29 and 30).

Interest Expense and Noncontrolling Interest

Net corporate interest expense totaled $520 million in 2016, $555 million in 2015 and $601 million in 2014. The decrease in 2016 compared with 2015 is due to lower average interest rates. The decrease in 2015 compared with 2014 also reflects lower average interest rates.

Net earnings attributable to noncontrolling interests totaled a loss of $2 million in 2016 compared with a loss of $21 million in 2015 and a loss of $19 million in 2014. The decrease in 2016 reflects the sale of our equity share of the IP-Sun JV in 2015. The decrease in 2015 compared with 2014 also reflects the sale of our interest in the IP-Sun JV and lower earnings for the joint venture in China prior to its divestiture.

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) 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, among other outcomes, (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 assets have 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.

During 2016, 2015 and 2014, pre-tax restructuring and other charges totaling $54 million, $252 million and $846 million were recorded in the business segments. Details of these charges are as follows:

Restructuring and Other In millions	2016		2015		2014	
Business Segments						
Riegelwood mill conversion costs net of proceeds from the sale of Carolina Coated Bristols brand	$9	(a)	$8	(a)	$—	
Turkey mill closure	7	(b)	—		—	
Courtland mill shutdown	—		—		554	(c)
Other items	—		2	(a)	15	(d)
	16		10		569	
Corporate						
Early debt extinguishment costs (see Note 13)	$29		207		276	
India Packaging business evaluation write-off	17		—		—	
Gain on sale of investment in Arizona Chemical	(8)		—		—	
Timber monetization restructuring	—		16		—	
Legal liability reserve adjustment	—		15		—	

Other Items	—	4	1
	38	242	277
Total	$54	$252	$846

(a) Recorded in the Consumer Packaging business segment.
(b) Recorded in the Industrial Packaging business segment.
(c) Recorded in the Printing Papers business segment.
(d) Recorded in the Industrial Packaging business segment ($7 million) and Consumer Packaging business segment ($8 million).

Table of Contents

Other Corporate Special Items

In addition, other corporate special items totaling $8 million, $4 million and $43 million were recorded in 2016, 2015 and 2014, respectively. Details of these charges were as follows:

Other Corporate Items

In millions	2016	2015	2014
Write-off of certain regulatory pre-engineering costs	$ 8	$—	$—
Sale of investment by ASG and impairment of that investment	—	—	47
Other	—	(4)	(4)
Total	$ 8	$(4)	$43

Impairments of Goodwill

No goodwill impairment charges were recorded in 2016.

In the fourth quarter of 2015, in conjunction with the annual testing of its reporting units for possible goodwill impairments, the Company calculated the estimated fair value of its Brazil Packaging business and determined that all of the goodwill in the business, totaling $137 million, should be written off. The decline in the fair value of the Brazil Packaging business and resulting impairment charge was due to the negative impacts on the cash flows of the business caused by the continued decline of the overall Brazilian economy.

In the fourth quarter of 2014, in conjunction with the annual testing of its reporting units for possible goodwill impairments, the Company calculated the estimated fair value of its Asia Industrial Packaging 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 $100 million, should be written off. The decline in the fair value of the Asia Industrial Packaging business and resulting impairment charge was due to a change in the strategic outlook for the business.

Net Losses on Sales and Impairments of Businesses

Net losses on sales and impairments of businesses included in special items totaled a pre-tax loss of $70 million in 2016, a pre-tax loss of $174 million in 2015 and a pre-tax loss of $38 million in 2014. See Note 7 Divestitures / Spinoff on pages 56 and 57 of Item 8. Financial Statements and Supplementary Data) for further discussion.

Business Segment Operating Profits

Business segment operating profits of $2.2 billion in 2016 decreased from $2.4 billion in 2015. The benefits from higher sales volumes ($62 million), higher maintenance outage costs ($14 million), lower input costs ($82 million) and the incremental operating

earnings from the newly acquired pulp business ($17 million) were more than offset by lower average sales price realizations and mix ($443 million), higher operating costs ($62 million) and higher other costs ($14 million). Special items were a $136 million net loss in 2016 compared with a net loss of $321 million in 2015.

Market-related downtime in 2016 increased to approximately 448,000 tons from approximately 440,000 tons in 2015.

DESCRIPTION OF BUSINESS SEGMENTS

International Paper's business 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 U.S. production capacity is over 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 166 U.S. container plants. Additionally, we recycle approximately one million tons of OCC and mixed and white paper through our 18 recycling plants. In EMEA, our operations include two recycled fiber containerboard mills in Morocco and Turkey and 26 container plants in France, Italy, Spain, Morocco and Turkey. During 2016 we acquired a newsprint mill in Spain which we intend to convert to a recycled containerboard mill during 2017. In Brazil our operations include three containerboard mills and four box plants. Our container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives.

Global Cellulose Fibers

Our cellulose fibers product portfolio includes fluff, market and specialty pulps. Our fluff pulp is used to make absorbent hygiene products like baby diapers, feminine care, adult incontinence and other non-woven products, and our market pulp is used for tissue and paper products. We continue to invest in exploring new innovative uses for our products, such as our specialty pulps, which are used for non-absorbent end uses including textiles, filtration, construction material, paints and coatings, reinforced plastics and more. Our products are made in the United States, Canada, France, Poland, and Russia and are sold around the world. International Paper facilities have annual dried pulp capacity of about 4 million metric tonnes.

Table of Contents

Printing Papers

International Paper is one of the world's largest producers of printing and writing papers. The primary product in this segment is 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 4 million tons annually. Brazilian operations function through International Paper do Brasil, Ltda, which owns or manages approximately 329,000 acres of forestlands in Brazil.

Consumer Packaging

International Paper is one of the world's largest producers of solid bleached sulfate board with annual U.S. production capacity of about 1.2 million tons . Our coated paperboard business produces high quality coated paperboard for a variety of packaging and foodservice end uses. Our Everest®, Fortress®, and Starcote® brands are used in packaging applications for everyday products such as food, cosmetics, pharmaceuticals and tobacco products. Our U.S. capacity is supplemented by about 395,000 tons of capacity at our mills producing coated board in Poland and Russia.

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

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 3.4 million tons. Ilim has exclusive harvesting rights on timberland and forest areas exceeding 14.9 million acres (6.0 million hectares).

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

BUSINESS SEGMENT RESULTS

The following tables present net sales and operating profit (loss) which is the Company's measure of segment profitability. The tables include a detail of special items in each year, where applicable, in order to show operating profit before special items.

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

In millions	2016	2015	2014
Net Sales	$14,191	$14,484	$14,944
Operating Profit (Loss)	$1,651	$1,853	$1,896
Turkey mill closure	7	—	—
Asia Packaging restructuring and impairment	70	—	7
Brazil Packaging goodwill and trade name impairment	—	137	—

Temple-Inland acquisition	—	—	16
Multi-employer pension withdrawal liability	—	—	35
Box plant closures	—	—	(5)
EMEA Packaging restructuring	—	—	5
Turkey acquisition	—	—	1
Brazil Packaging integration costs	—	—	(1)
Asia Packaging goodwill impairment	—	—	100
Operating Profit Before Special Items	$1,728	$1,990	$2,054

Industrial Packaging net sales for 2016 decreased 2% to $14.2 billion compared with $14.5 billion in 2015, and 5% compared with $14.9 billion in 2014. Operating profits in 2016 were 11% lower than in 2015 and 13% lower than in 2014. Comparing 2016 with 2015, benefits from higher sales volumes ($61 million), lower maintenance outage costs ($15 million) and lower input costs ($42 million) were offset by lower average sales price realizations and mix ($278 million), higher operating costs ($101 million) and higher other costs ($1 million). In addition, special items were an expense of $77 million in 2016 compared with $137 million in 2015.

Table of Contents

North American Industrial Packaging

In millions	2016	2015	2014
Net Sales	$12,227	$12,541	$12,663
Operating Profit (Loss)	$1,757	$2,009	$1,986
Temple-Inland acquisition	—	—	16
Multi-employer pension withdrawal liability	—	—	35
Box plant closures	—	—	(5)
Operating Profit Before Special Items	$1,757	$2,009	$2,032

North American Industrial Packaging's sales volumes increased in 2016 compared with 2015 reflecting higher box shipments and higher shipments of containerboard to export markets. In 2016, the business took about 914,000 tons of total downtime of which about 445,000 were economic downtime and 469,000 were maintenance downtime. The business took about 814,000 tons of total downtime in 2015 of which 363,000 were economic downtime and 451,000 were maintenance downtime. Average sales price realizations were significantly lower for containerboard due to pricing pressures in export markets. Average sales prices for boxes were lower primarily due to contract de-escalators that were triggered in the first quarter by a decrease in a key containerboard price index. Input costs for wood, energy and freight fuel surcharges were lower, but for recycled fiber were higher. Planned maintenance downtime costs were $16 million lower in 2016 than in 2015.

Looking ahead to the first quarter of 2017, compared with the fourth quarter of 2016, sales volumes for boxes are expected to be slightly higher despite seasonally lower daily shipments due to four more shipping days. Shipments of containerboard to export markets are expected to decrease. Average sales price realizations should increase, reflecting the continuing implementation of the box price increase announced in the fourth quarter of 2016. Input costs are expected to be higher for recycled fiber, energy and wood. Planned maintenance downtime spending is expected to be about $57 million higher. Operating costs are expected to improve. In addition, the Company is evaluating the financial impact of the digester incident that occurred on January 22, 2017 at the Pensacola mill. It is currently estimated that the total impact will be in excess of $50 million, but that property damage and business interruption insurance will cover a significant portion of the costs. The timing of these costs and potential insurance recoveries is unknown.

EMEA Industrial Packaging

In millions	2016	2015	2014
Net Sales	$1,227	$1,114	$1,307
Operating Profit (Loss)	$15	$13	$25
Turkey Mill Closure	7	—	—
EMEA Packaging restructuring	—	—	5
Turkey acquisition	—	—	1
Operating Profit Before Special Items	$22	$13	$31

EMEA Industrial Packaging's sales volumes in 2016 were higher than in 2015 reflecting improved market demand in the Eurozone and recovery from the prior year labor strikes in Turkey. Average sales margins improved due to sales price increases and material cost decreases. Input costs for energy were lower, but operations were negatively impacted by foreign exchange rates, primarily in Turkey. Operating earnings in 2015 included a gain of $4 million related to the change in ownership of our OCC collection operations in Turkey.

Entering the first quarter of 2017, compared with the fourth quarter of 2016 sales volumes are expected to be slightly lower. Average sales margins are expected to be slightly lower. Input costs for energy should be flat, but operating costs are expected to be lower.

On June 30, 2016 the Company completed the acquisition of Holmen Paper's newsprint mill in Madrid, Spain. Under the terms of the agreement, International Paper purchased the Madrid newsprint mill as well as associated recycling operations and a 50% ownership interest in a cogeneration facility. The Company intends to convert the mill to produce recycled containerboard in 2017 with an expected capacity of 419,000 tons. Once completed, the converted mill will support the Company's corrugated packaging business in EMEA.

Brazilian Industrial Packaging

In millions	2016	2015	2014
Net Sales	$232	$228	$349
Operating Profit (Loss)	$(43)	$(163)	$(3)
Brazil Packaging goodwill and trade name impairment	—	137	—
Brazil Packaging integration costs	—	—	(1)
Operating Profit Before Special Items	$(43)	$(26)	$(4)

Brazilian Industrial Packaging's 2016 sales volumes decreased compared with 2015 for boxes and sheets due to overall weak economic conditions, but increased for containerboard. Average sales price realizations were higher. Input costs increased, primarily for recycled fiber. Operating costs were higher largely due to the effects of inflation. Planned maintenance downtime costs were $1 million higher in 2016 compared with 2015.

Table of Contents

Looking ahead to the first quarter of 2017, compared with the fourth quarter of 2016 sales volumes are expected to be lower for containerboard and sheets, but higher for boxes. Average sales margins should improve reflecting a sales price increase for boxes. Input costs are expected to be slightly lower, but offset by higher operating costs. Planned maintenance downtime costs are expected to be $1 million higher.

Asian Industrial Packaging

In millions	2016	2015	2014
Net Sales	$505	$601	$625
Operating Profit (Loss)	$(78)	$(6)	$(112)
Asia Packaging restructuring and impairment	70	—	7
Asia Packaging goodwill impairment	—	—	100
Operating Profit Before Special Items	$(8)	$(6)	$(5)

Asian Industrial Packaging's sales volumes in the first half of 2016 for boxes were higher than the comparable period in 2015, but average sales margins were lower due to competitive pressures and weak economic conditions.

On June 30, 2016, the Company completed the sale of its corrugated packaging business in China and Southeast Asia to Xiamen Bridge Hexing Equity Investment Partnership Enterprise. See Note 7 Divestitures / Spinoff on pages 56 and 57 of Item 8. Financial Statements and Supplementary Data for further discussion of the sale of this business. Net sales and operating profits beginning with the third quarter of 2016 reflect the results of the distribution operations of the business.

Global Cellulose Fibers

Demand for Cellulose Fibers products is closely correlated with changes in demand for absorbent hygiene products and is further affected by changes in currency rates that can benefit or hurt producers in different geographic regions. Principal cost drivers include manufacturing efficiency, raw material and energy costs and freight costs.

Global Cellulose Fibers

In millions	2016	2015	2014
Net Sales	$1,092	$975	$1,046
Operating Profit (Loss)	$(180)	$68	$61
Acquisition costs	31	—	—
Inventory fair value step-up amortization	19	—	—
Operating Profit Before Special Items	$(130)	$68	$61

Global Cellulose Fibers results for 2016 include net sales of $111 million and an operating loss of $(21) million (including $38 million of special items) associated with

the newly acquired pulp business from the date of acquisition on December 1, 2016. See Note 6 Acquisitions and Joint Ventures on pages 54 through 56 of Item 8. Financial Statements and Supplementary Data for additional information about the acquisition. Net sales for 2016 increased 12% to $1.1 billion compared with $975 million in 2015 and 4% compared with $1.0 billion in 2014. Operating profits in 2016 were significantly lower than in both 2015 and 2014. Comparing 2016 with 2015, benefits from higher sales volumes ($10 million), lower input costs ($6 million), and lower other costs ($1 million) were offset by lower average sales price realizations and mix ($36 million), higher operating costs ($59 million) and higher planned maintenance downtime costs ($38 million). In addition, special items expense in 2016 was $50 million.

Sales volumes for the legacy business were higher for both fluff and market pulp. Average sales margins decreased, reflecting lower sales price realizations for both fluff pulp and softwood market pulp and an unfavorable mix resulting from the Riegelwood conversion and ramp-up. In Europe and Russia, average sales margins decreased due to competitive pressures. Input costs were slightly lower. Planned maintenance downtime costs were $38 million higher in 2016 primarily related to the Riegelwood mill. Operating costs were higher due to costs associated with the Riegelwood mill conversion.

Entering the first quarter of 2017, sales volumes will be higher due to the full-quarter impact of the acquisition. Average sales price realizations are expected to be stable and mix will continue to be challenged due to the ramp-up of the Riegelwood mill. Input costs are expected to increase primarily for wood. Planned maintenance downtime costs should be $47 million higher than in the fourth quarter of 2016 due to a large outage and capital investment project to upgrade the recovery boiler, turbine and power system at our Port Wentworth mill.

Printing Papers

Demand for Printing Papers products is closely correlated with changes in commercial printing and advertising activity, direct mail volumes and, for uncoated cut-size products, with changes in white-collar employment levels that affect the usage of copy and laser printer paper. Principal cost drivers include manufacturing efficiency, raw material and energy costs and freight costs.

Table of Contents

Printing Papers

In millions	2016	2015	2014
Net Sales	$4,058	$4,056	$4,674
Operating Profit (Loss)	$540	$465	$(77)
Courtland mill closure	—	—	554
Brazil tax amnesty	—	—	32
India legal contingency	—	—	(20)
Operating Profit Before Special Items	$540	$465	$489

Printing Papers net sales for 2016 of $4.1 billion were even with $4.1 billion in 2015, but decreased 13% compared with $4.7 billion in 2014. Operating profits in 2016 were 16% higher than in 2015 and significantly higher than in 2014. Comparing 2016 with 2015, benefits from higher sales volumes ($11 million), higher average sales price realizations and mix ($25 million), lower operating costs ($20 million), lower planned maintenance downtime costs ($23 million) and lower input costs ($4 million) were partly offset by higher other costs ($8 million).

North American Printing Papers

In millions	2016	2015	2014
Net Sales	$1,890	$1,942	$2,055
Operating Profit (Loss)	$236	$179	$(398)
Courtland mill closure	—	—	554
Operating Profit Before Special Items	$236	$179	$156

North American Printing Papers' sales volumes for 2016 were unchanged from 2015. Average sales price realizations decreased for both cutsize paper and rolls. Average sales margins were also impacted by an unfavorable mix. Input costs were lower, mainly for wood. Planned maintenance downtime costs were $24 million lower in 2016. Manufacturing operating costs also improved.

Entering the first quarter of 2017, sales volumes are expected to be seasonally higher. Average sales margins should decrease reflecting lower average sales price realizations partially offset by a more favorable geographic mix. Input costs are expected to be higher, primarily for energy. Planned maintenance downtime costs are expected to be about $23 million higher with outages scheduled in the 2017 first quarter.

Brazilian Papers

In millions	2016	2015	2014
Net Sales	$897	$878	$1,061
Operating Profit (Loss)	$173	$186	$177
Brazil tax amnesty	—	—	32
Operating Profit Before Special Items	$173	$186	$209

Brazilian Papers' sales volumes for in 2016 were lower compared with 2015 under weak economic conditions. Average sales price realizations improved for domestic

uncoated freesheet paper due to the realization of price increases implemented in the first half of 2016. Sales prices to export markets decreased. Raw material costs increased for energy, wood, chemicals and virgin fiber. Operating costs were higher than in 2015, largely due to inflation. Planned maintenance downtime costs were $1 million lower.

Looking ahead to 2017, compared with the fourth quarter of 2016 sales volumes for uncoated freesheet paper in the first quarter are expected to be seasonally weaker in both domestic and export markets. Average sales price realizations should increase due to the implementation of a domestic sales price increase for both cutsize and offset paper. Input costs are expected to be slightly higher for chemicals and energy.

European Papers

In millions	2016	2015	2014
Net Sales	$1,109	$1,064	$1,321
Operating Profit (Loss)	$142	$111	$136

European Papers' sales volumes for uncoated freesheet paper in 2016 were higher in both Russia and Europe compared with 2015. Average sales price realizations improved for uncoated freesheet paper following price increases implemented in 2015 in Europe and in the first quarter of 2016 in Russia. Input costs were lower for wood, energy and chemicals in Europe, but were higher in Russia. Planned maintenance downtime costs were $4 million lower in 2016 than in 2015.

Entering 2017, sales volumes for uncoated freesheet paper in the first quarter are expected to be seasonally weaker in Russia but higher in Europe. Average sales price realizations are expected to be stable with price increases implemented in certain markets. Input costs should be slightly lower. Planned maintenance downtime costs should be $15 million lower than in the fourth quarter of 2016.

Indian Papers

In millions	2016	2015	2014
Net Sales	$167	$172	$178
Operating Profit (Loss)	$(11)	$(11)	$8
India legal contingency	—	—	(20)
Operating Profit Before Special Items	$(11)	$(11)	$(12)

Indian Papers' average sales price realizations in 2016 were slightly higher than in 2015. Sales volumes were flat. Input costs were lower for wood and chemicals. Operating costs were higher in 2016, while planned maintenance downtime costs were even with 2015. Looking ahead to the first quarter of 2017, sales volumes are expected to be slightly lower, but seasonally strong. Average sales price realizations are expected to be stable.

Table of Contents

Consumer Packaging

Demand and pricing for Consumer Packaging products correlate closely with consumer spending and general economic activity. In addition to prices and volumes, major factors affecting the profitability of Consumer Packaging are raw material and energy costs, freight costs, manufacturing efficiency and product mix.

Consumer Packaging

In millions	2016	2015	2014
Net Sales	$1,955	$2,940	$3,403
Operating Profit (Loss)	$191	$(25)	$178
Riegelwood conversion costs net of proceeds from the sale of the Carolina coated bristols brand	9	8	—
Asia Coated Paperboard goodwill and PP&E impairment	—	174	—
NA Coated Paperboard sheet plant closures	—	2	8
Operating Profit Before Special Items	$200	$159	$186

Consumer Packaging net sales in 2016 decreased 34% to $2.0 billion from $2.9 billion in 2015, and decreased 43% from $3.4 billion in 2014. Operating profits increased significantly from 2015 and increased 7% from 2014. Comparing 2016 with 2015, benefits from lower operating costs ($78 million), lower planned maintenance downtime costs ($13 million) and lower input costs ($30 million) were partially offset by lower sales volumes ($20 million), lower average sales price realizations and mix ($56 million), and higher other costs ($4 million). In addition, special items expense was $9 million in 2016 and $184 million in 2015.

North American Consumer Packaging

In millions	2016	2015	2014
Net Sales	$1,628	$1,939	$1,993
Operating Profit (Loss)	$98	$81	$92
Riegelwood conversion costs net of proceeds from the sale of the Carolina coated bristols brand	9	8	—
NA Coated Paperboard sheet plant closures	—	2	8
Operating Profit Before Special Items	$107	$91	$100

North American Consumer Packaging coated paperboard sales volumes in 2016 were lower than in 2015 primarily due to our exit from the coated bristols market. Average sales price realizations decreased year over year due to competitive pressures. Input costs decreased for wood, chemicals and energy. Planned maintenance downtime costs were $11 million lower in 2016. Operating costs decreased, reflecting the impact of cost savings initiatives and lower depreciation expense.

Foodservice sales volumes decreased slightly in 2016 compared with 2015. Average sales margins decreased due to lower sales price realizations partially offset by lower resin costs and a more favorable mix. Operating costs were higher, while distribution costs were lower.

Looking ahead to the first quarter of 2017, Coated Paperboard sales volumes are expected to be seasonally higher than in the fourth quarter of 2016. Average sales price realizations are expected to be lower due to market pressures. Input costs are expected to be higher for energy and chemicals, partially offset by lower wood costs. Planned maintenance downtime costs should be $11 million lower with no maintenance outages scheduled in the first quarter. Foodservice sales volumes are expected to be seasonally lower. Sales margins are expected to continue under pressure, partially offset by lower operating costs.

European Consumer Packaging

In millions	2016	2015	2014
Net Sales	$327	$319	$365
Operating Profit (Loss)	$93	$87	$91

European Consumer Packaging's sales volumes in 2016 compared with 2015 increased in both Europe and Russia. Average sales price realizations were higher in Russia. In Europe average sales margins decreased reflecting lower average sales prices. Input cost, primarily for wood and energy were lower in Europe, but were higher in Russia. Planned maintenance downtime costs were $2 million lower in 2016.

Looking forward to the first quarter of 2017, compared with the fourth quarter of 2016, sales volumes are expected to increase. Average sales price realizations are expected to be flat in both Europe and Russia. Input costs are expected to be higher.

Asian Consumer Packaging

In millions	2016	2015	2014
Net Sales	$ —	$682	$1,045
Operating Profit (Loss)	$ —	$(193)	$(5)
Asia Coated Paperboard goodwill and PP&E impairment	—	174	—
Operating Profit Before Special Items	$ —	$(19)	$(5)

The Company sold its 55% equity share in IP Asia Coated Paperboard (IP-Sun JV) in October 2015. See Note 7 Divestitures / Spinoff on pages 56 and 57 of Item 8. Financial Statements and Supplementary Data for further discussion of the sale of the IP Sun JV. Net sales and operating profits presented below include results through September 30, 2015.

Equity Earnings, Net of Taxes – Ilim Holding S.A.

International Paper accounts for its investment in Ilim Holding S.A. (Ilim), a separate reportable industry segment, using the equity method of accounting.

Table of Contents

The Company recorded equity earnings, net of taxes, related to Ilim of $199 million in 2016 compared with a loss of $131 million in 2015 and a loss of $194 million in 2014. Operating results recorded in 2016 included an after-tax non-cash foreign exchange gain of $25 million compared with an after-tax foreign exchange loss of $75 million in 2015 and an after-tax foreign exchange loss of $269 million in 2014 primarily on the remeasurement of Ilim's U.S. dollar-denominated net debt.

Sales volumes for the joint venture increased year over year for shipments to China of softwood pulp and linerboard, but decreased for hardwood pulp. Sales volumes in the domestic Russian market increased for softwood pulp, hardwood pulp and paper, but decreased for linerboard. Average sales price realizations were lower in 2016 for sales of softwood pulp and hardwood pulp to export markets and linerboard to the Russian domestic market, but were partially offset by higher average sales price realizations for sales of paper to export and domestic Russian markets. Input costs increased year-over-year for wood, chemicals and energy. Maintenance outage costs were also higher in 2016. The Company received cash dividends from the joint venture of $60 million in 2016, $35 million in 2015 and $56 million in 2014.

Entering the first quarter of 2017, sales volumes are expected to be seasonally lower than in the fourth quarter of 2016 due to the January holidays in China and the seasonal slowdown in Russia. Average sales price realizations are expected to increase for exported hardwood pulp, softwood pulp and for sales of paper in the domestic Russian market. Average sales price realizations for linerboard in the Russian domestic market are expected to be lower. Distribution costs and input costs for energy are projected to be higher.

LIQUIDITY AND CAPITAL RESOURCES

Overview

A major factor in International Paper’s liquidity and capital resource planning is its generation of operating cash flow, which is highly sensitive to changes in the pricing and demand for our major products. While changes in key cash operating costs, such as energy, raw material and transportation costs, do have an effect on operating cash generation, we believe that our focus on pricing and cost controls has improved our cash flow generation over an operating cycle. Cash uses during 2016 were primarily focused on working capital requirements, capital spending, debt reductions, pension contributions, the acquisitions of the Weyerhaeuser pulp business and the mill asset in Madrid, and returning cash to shareholders.

Cash Provided by Operating Activities

Cash provided by operations totaled $2.5 billion in 2016 compared with $2.6 billion for 2015 and $3.1 billion for 2014. Cash provided by working capital components, accounts receivable and inventory less accounts payable and accrued liabilities, interest payable and other totaled $71 million in 2016, compared with a cash use of $222 million in 2015 and a cash use of $158 million in 2014.

The Company generated Free Cash Flow of approximately $1.9 billion, $1.8 billion and $2.1 billion in 2016, 2015 and 2014, respectively. The following are reconciliations of free cash flow to cash provided by operations:

In millions	2016	2015	2014
Cash provided by operations	$2,478	$2,580	$3,077
Adjustments:			
Cash invested in capital projects	(1,348)	(1,487)	(1,366)
Cash contribution to pension plan	750	750	353
Free Cash Flow	$1,880	$1,843	$2,064

In millions	Three Months Ended December 31, 2016	Three Months Ended September 30, 2016	Three Months Ended December 31, 2015
Cash provided by operations	$ 912	$ 341	$ 990

Adjustments:			
Cash invested in capital projects	(445)	(266)	(489)
Cash contribution to pension plan	—	500	—
Free Cash Flow	$ 467	$ 575	$ 501

Investment Activities

Investment activities in 2016 were up from 2015 reflecting the purchase of Weyerhaeuser's pulp business for $2.2 billion in cash, the purchase of the Holmen business for $57 million in cash, net of cash acquired, and proceeds from the sale of the Asia Packaging business of $108 million, net of cash divested. In 2015, investment activity includes higher capital spending and the use of $198 million of cash in conjunction with the timber monetization restructuring (see Note 12 Variable Interest Entities and Preferred Securities of Subsidiaries on pages 64 through 66 of Item 8. Financial Statements and Supplementary Data). In addition, 2014 investment activity includes the receipt of approximately $400 million in connection with the spin-off of the xpedx distribution business. The Company maintains an average capital spending target around depreciation or amortization levels or modestly above due to strategic plans over the course of an economic cycle. Capital spending was $1.3 billion in

Table of Contents

2016, or 110% of depreciation and amortization, compared with $1.5 billion in 2015, or 115% of depreciation and amortization, and $1.4 billion, or 97% of depreciation and amortization in 2014. Across our businesses, capital spending as a percentage of depreciation and amortization ranged from 37.3% to 161.1% in 2016.
The following table shows capital spending for operations by business segment for the years ended December 31, 2016, 2015 and 2014.

In millions	2016	2015	2014
Industrial Packaging	$816	$858	$754
Global Cellulose Fibers	174	129	75
Printing Papers	215	232	243
Consumer Packaging	124	216	233
Subtotal	1,329	1,435	1,305
Corporate and other	19	52	61
Capital Spending	$1,348	$1,487	$1,366

Capital expenditures in 2017 are currently expected to be about $1.5 billion, or 107% of depreciation and amortization.
Acquisitions and Joint Ventures

See Note 6 Acquisitions and Joint Ventures on pages 54 through 56 of Item 8. Financial Statements and Supplementary Data for a discussion of the Company's acquisitions.

Financing Activities

Amounts related to early debt extinguishment during the years ended December 31, 2016, 2015 and 2014 were as follows:

In millions	2016	2015	2014
Debt reductions (a)	$266	$2,151	$1,625
Pre-tax early debt extinguishment costs (b)	29	207	276

(a) Reductions related to notes with interest rates ranging from 2.00% to 9.38% with original maturities from 2015 to 2030 for the years ended December 31, 2016, 2015 and 2014. Includes the $630 million payment for a portion of the Special Purpose Entity Liability for the year ended December 31, 2015 (see Note 12 Variable Interest Entities on pages 64 through 67 of Item 8. Financial Statements and Supplementary Data).
(b) Amounts are included in Restructuring and other charges in the accompanying consolidated statements of operations.

2016: Financing activities during 2016 included debt issuances of $3.8 billion and retirements of $1.9 billion for a net increase of $1.9 billion.

International Paper utilizes interest rate swaps to change the mix of fixed and variable rate debt and manage interest expense. At December 31, 2016, International Paper had no interest rate swap contracts

outstanding (see Note 14 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data). During 2016, the amortization of deferred gains on previously terminated swaps had no impact on the weighted average cost of long-term recourse debt. The inclusion of the offsetting interest income from short-term investments reduced the effective rate from 5.3% to 4.8%.

In 2016, International Paper issued $1.1 billion of 3.00% senior unsecured notes with a maturity date in 2027, and $1.2 billion of 4.40% senior unsecured notes with a maturity date in 2047, the proceeds from which were primarily used to fund the acquisition of Weyerhaeuser's pulp business. In addition, the Company repaid approximately $266 million of notes with an interest rate of 7.95% and an original maturity of 2018. Pre-tax early debt retirement costs of $29 million related to the debt repayments, including the $31 million of cash premiums, are included in restructuring and other charges in the accompanying consolidated statement of operations for the twelve months ended December 31, 2016.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of $750 million. Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed notes or floating rate notes. As of December 31, 2016, the Company had $165 million outstanding under this program.

Other financing activities during 2016 included the net repurchase of approximately 0.9 million shares of treasury stock, including restricted stock withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled $132.3 million, including $100.1 million related to shares repurchased under the Company's share repurchase program.
In October 2016, International Paper announced that the quarterly dividend would be increased from $0.44 per share to $0.46 per share, effective for the 2016 fourth quarter.

2015: Financing activities during 2015 included debt issuances of $6.9 billion and retirements of $6.9 billion for a net decrease of $74 million.

During 2015, the Company restructured the timber monetization which resulted in the use of $630 million in cash to pay down a portion of the third party bank loans and refinance the loans on nonrecourse terms. (see Note 12 Variable Interest Entities on pages 64 through 66 of Item 8. Financial Statements and Supplementary Data).

Table of Contents

International Paper utilizes interest rate swaps to change the mix of fixed and variable rate debt and manage interest expense. At December 31, 2015, International Paper had interest rate swaps with a total notional amount of $17 million and maturities in 2018 (see Note 14 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data). During 2015, existing swaps and the amortization of deferred gains on previously terminated swaps decreased the weighted average cost of debt from 5.9% to an effective rate of 5.8%. The inclusion of the offsetting interest income from short-term investments reduced this effective rate to 5.1%.

In 2015, International Paper issued $700 million of 3.80% senior unsecured notes with a maturity date in 2026, $600 million of 5.00% senior unsecured notes with a maturity date in 2035, and $700 million of 5.15% senior unsecured notes with a maturity date in 2046. The proceeds from this borrowing were used to repay approximately $1.0 billion of notes with interest rates ranging from 4.75% to 9.38% and original maturities from 2018 to 2022, along with $211 million of cash premiums associated with the debt repayments. Additionally, the proceeds from this borrowing were used to make a $750 million voluntary cash contribution to the Company's pension plan. Pre-tax early debt retirement costs of $207 million related to the debt repayments, including the $211 million of cash premiums, are included in restructuring and other charges in the accompanying consolidated statement of operations for the twelve months ended December 31, 2015.

Other financing activities during 2015 included the net repurchase of approximately 8.0 million shares of treasury stock, including restricted stock withholding, and the issuance of 62,000 shares of common stock for various plans, including stock option exercises that generated approximately $2.4 million of cash. Repurchases of common stock and payments of restricted stock withholding taxes totaled $604.6 million, including $522.6 million related to shares repurchased under the Company's share repurchase program.

In October 2015, International Paper announced that the quarterly dividend would be increased from $0.40 per share to $0.44 per share, effective for the 2015 fourth quarter.

2014: Financing activities during 2014 included debt issuances of $2.0 billion and retirements of $2.1 billion, for a net decrease of $113 million.

International Paper utilizes interest rate swaps to change the mix of fixed and variable rate debt and manage interest expense. At December 31, 2014, International Paper had interest rate swaps with a total notional amount of $230 million and maturities in 2018 (see Note 14 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data). During 2014, existing swaps and the amortization of deferred gains on previously terminated swaps decreased the weighted average cost of debt from 6.8% to an effective rate of 6.7%. The inclusion of the offsetting interest income from short-term investments reduced this effective rate to 6.3%.

During the second quarter of 2014, International Paper issued $800 million of 3.65% senior unsecured notes with a maturity date in 2024 and $800 million of 4.80% senior unsecured notes with a maturity date in 2044. The proceeds from this borrowing were used to repay approximately $960 million of notes with interest rates ranging from 7.95% to 9.38% and original maturities from 2018 to 2019. Pre-tax early debt retirement costs of $262 million related to these debt repayments, including $258 million of cash premiums, are included in Restructuring and other charges in the accompanying consolidated statement of operations for the twelve months ended December 31, 2014.

Other financing activities during 2014 included the net repurchase of approximately 17.9 million shares of treasury stock, including restricted stock withholding, and the issuance of 1.6 million shares of common stock for various plans, including stock options exercises that generated approximately $66 million of cash. Repurchases of common stock and payments of restricted stock withholding taxes totaled $1.06 billion, including $983 million related to shares repurchased under the Company's share repurchase program.

In September 2014, International Paper announced that the quarterly dividend would be increased from $0.35 per share to $0.40 per share, effective for the 2014 fourth quarter.

Variable Interest Entities

Information concerning variable interest entities is set forth in Note 12 Variable Interest Entities on pages 64 through 66 of Item 8. Financial Statements and Supplementary Data for discussion.

Liquidity and Capital Resources Outlook for 2017

Capital Expenditures and Long-Term Debt

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during 2017 through current cash balances and cash from operations. Additionally, the Company has existing credit facilities totaling $2.1 billion available at December 31, 2016.

The Company’s financial covenants require the maintenance of a minimum net worth of $9 billion and

Table of Contents

a total debt-to-capital ratio of less than 60%. Net worth is defined as the sum of common stock, paid-in capital and retained earnings, less treasury stock plus any cumulative goodwill impairment charges. The calculation also excludes accumulated other comprehensive income/loss and Nonrecourse Financial Liabilities of Special Purpose Entities. The total debt-to-capital ratio is defined as total debt divided by the sum of total debt plus net worth. The Company was in compliance with all its debt covenants at December 31, 2016 and was well below the thresholds stipulated under the covenants as defined in the credit agreements.

The Company will continue to rely upon debt and capital markets for the majority of any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary goals of the Company's capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense. The majority of International Paper's debt is accessed through global public capital markets where we have a wide base of investors.

Maintaining an investment grade credit rating is an important element of International Paper's financing strategy. At December 31, 2016, the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody's, respectively.

Contractual obligations for future payments under existing debt and lease commitments and purchase obligations at December 31, 2016, were as follows:

In millions	2017	2018	2019	2020	2021	Thereafter
Maturities of long-term debt (a)	$239	$690	$433	$179	$612	$ 9,161
Lease obligations	119	91	69	51	38	125
Purchase obligations (b)	3,165	635	525	495	460	2,332
Total (c)	$3,523	$1,416	$1,027	$725	$1,110	$ 11,618

(a) Total debt includes scheduled principal payments only.

(b) Includes $2 billion relating to fiber supply agreements entered into at the time of the 2006 Transformation Plan forestland sales and in conjunction with the 2008 acquisition of Weyerhaeuser Company's Containerboard, Packaging and Recycling business. Also includes $1.1 billion relating to fiber supply agreements assumed in conjunction with the 2016 acquisition of Weyerhaeuser's pulp business.

(c) Not included in the above table due to the uncertainty as to the amount and timing of the payment are unrecognized tax benefits of approximately $77 million.

We consider the undistributed earnings of our foreign subsidiaries as of December 31, 2016, to be indefinitely reinvested and, accordingly, no U.S. income taxes have been provided thereon. As of December 31, 2016, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $620 million. We do not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising

in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Pension Obligations and Funding

At December 31, 2016, the projected benefit obligation for the Company's U.S. defined benefit plans determined under U.S. GAAP was approximately $3.4 billion higher than the fair value of plan assets. Approximately $3.0 billion of this amount relates to plans that are subject to minimum funding requirements. Under current IRS funding rules, the calculation of minimum funding requirements differs from the calculation of the present value of plan benefits(the projected benefit obligation) for accounting purposes. In December 2008, the Worker, Retiree and Employer Recovery Act of 2008 (WERA) was passed by the U.S. Congress which provided for pension funding relief and technical corrections. Funding contributions depend on the funding method selected by the Company, and the timing of its implementation, as well as on actual demographic data and the targeted funding level. The Company continually reassesses the amount and timing of any discretionary contributions and elected to make contributions totaling $750 million for both years ended December 31, 2016 and 2015. At this time, we do not expect to have any required contributions to our plans in 2017, although the Company may elect to make future voluntary contributions. The timing and amount of future contributions, which could be material, will depend on a number of factors, including the actual earnings and changes in values of plan assets and changes in interest rates. International Paper announced a voluntary, limited-time opportunity for former employees who are participants in the Retirement Plan of International

Paper Company (the Pension Plan) to request early payment of their entire Pension Plan benefit in the form of a single lump sum payment. The amount of total payments under this program was approximately $1.2 billion, and were made from Plan trust assets on June 30, 2016. Based on the level of payments made, settlement accounting rules applied and resulted in a plan remeasurement as of the June 30, 2016 payment date. As a result of settlement accounting, the Company recognized a pro-rata portion of the unamortized net actuarial loss, after remeasurement, resulting in a $439 million non-cash charge to the Company's earnings in the second quarter of 2016. Additional payments of $8 million and $9 million were made during the third and fourth quarters, respectively, due to mandatory cash payouts and a small lump sum payout, and the Pension Plan was subsequently remeasured at September 30, 2016 and December 31, 2016. As a result of settlement accounting, the Company recognized non-cash settlement charges of $3 million in both the third and fourth quarters of 2016.

Table of Contents

Ilim Holding S.A. Shareholder’s Agreement

In October 2007, in connection with the formation of the Ilim Holding S.A. joint venture, International Paper entered into a shareholder’s agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time, either the Company or its partners may commence procedures specified under the deadlock agreement. If these or any other deadlock procedures under the shareholder's agreement are commenced, although it is not obligated to do so, the Company may in certain situations choose to purchase its partners' 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, the Company estimates that the current purchase price for its partners' 50% interests would be approximately $1.5 billion, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. The purchase by the Company of its partners’ 50% interest in Ilim would result in the consolidation of Ilim's financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provisions of the shareholder’s agreement.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires International Paper to establish accounting policies and to make estimates that affect both the amounts and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Accounting policies whose application may have a significant effect on the reported results of operations and financial position of International Paper, and that can require judgments by management that affect their application, include the accounting for contingencies, impairment or disposal of long-lived assets and goodwill, pensions and postretirement benefit obligations, stock options and income taxes. The Company has discussed the selection of critical accounting policies and the effect of significant estimates with the Audit and Finance Committee of the Company’s Board of Directors.

Contingent Liabilities

Accruals for contingent liabilities, including legal and environmental matters, are recorded when it is probable that a liability has been incurred or an asset impaired and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and range of loss based on historical experience and recommendations of legal counsel. Liabilities for environmental matters require evaluations of relevant environmental regulations and estimates of future remediation alternatives and costs.

Impairment of Long-Lived Assets and Goodwill

An impairment of a long-lived asset exists when the asset’s carrying amount exceeds its fair value, and is recorded when the carrying amount is not recoverable through cash flows from future operations. A goodwill impairment exists when the carrying amount of goodwill exceeds its fair value. Assessments of possible impairments of long-lived assets and goodwill are made when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable through future operations. Additionally, testing for possible impairment of goodwill and intangible asset balances is required annually. The amount and timing of any impairment charges based on these assessments require the estimation of future cash flows and the fair market value of the related assets based on management’s best estimates of certain key factors, including future selling prices and volumes, operating, raw material, energy and freight costs, and various other projected operating economic factors. As these key factors change in future periods, the Company will update its impairment analyses to reflect its latest estimates and projections.

Under the provisions of Accounting Standards Codification (ASC) 350, “Intangibles – Goodwill and Other,” the testing of goodwill for possible impairment is a two-step process. In the first step, the fair value of the Company’s reporting units is compared with their carrying value, including goodwill. If fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value of a reporting unit is below the carrying value, then step two is performed to measure the amount of the goodwill impairment loss for the reporting unit. This analysis requires the determination of the fair value of all of the individual assets and liabilities of the reporting unit, including any currently unrecognized intangible assets, as if the reporting unit had been purchased on the analysis date. Once these fair values have been determined, the implied fair value of the unit's goodwill is calculated as the excess, if any, of the fair value of the reporting unit determined in step one over the fair value of the net assets determined in step two. The carrying value of goodwill is then reduced to this implied value, or to zero if the fair value of the assets exceeds the fair value of the reporting unit, through a goodwill impairment charge.

The impairment analysis requires a number of judgments by management. In calculating the estimated fair value of its reporting units in step one,

Table of Contents

the Company uses the projected future cash flows to be generated by each unit, discounted using the estimated discount rate for each reporting unit. These calculations require many estimates, including discount rates, future growth rates, and cost and pricing trends for each reporting unit. Subsequent changes in economic and operating conditions can affect these assumptions and could result in additional interim testing and goodwill impairment charges in future periods. Upon completion, the resulting estimated fair values are then analyzed for reasonableness by comparing them to earnings multiples for historic industry business transactions, and by comparing the sum of the reporting unit fair values and other corporate assets and liabilities divided by diluted common shares outstanding to the Company's market price per share on the analysis date.

No goodwill impairment charges were recorded in 2016.

In the fourth quarter of 2015, in conjunction with the annual testing of its reporting units for possible goodwill impairments, the Company calculated the estimated fair value of its Brazil Packaging business using the discounted future cash flows and determined that all of the goodwill in the business, totaling $137 million, should be written off. The decline in the fair value of the Brazil Packaging business and resulting impairment charge was due to the negative impacts on the cash flows of the business caused by the continued decline of the overall Brazilian economy.

In the fourth quarter of 2014, in conjunction with the annual testing of its reporting units for possible goodwill impairments, the Company calculated the estimated fair value of its Asia Industrial Packaging business using the discounted future cash flows and determined that all of the goodwill in this business, totaling $100 million, should be written off. The decline in the fair value of the Asia Industrial Packaging business and resulting impairment charge was due to a change in the strategic outlook for the business.

Pension and Postretirement Benefit Obligations

The charges recorded for pension and other postretirement benefit obligations are determined annually in conjunction with International Paper's consulting actuary, and are dependent upon various assumptions including the expected long-term rate of return on plan assets, discount rates, projected future compensation increases, health care cost trend rates and mortality rates.

The calculations of pension and postretirement benefit obligations and expenses require decisions about a number of key assumptions that can significantly affect liability and expense amounts, including the expected long-term rate of return on plan assets, the discount

rate used to calculate plan liabilities, the projected rate of future compensation increases and health care cost trend rates.

Benefit obligations and fair values of plan assets as of December 31, 2016, for International Paper's pension and postretirement plans were as follows:

In millions	Benefit Obligation	Fair Value of Plan Assets
U.S. qualified pension	$ 13,307	$ 10,312
U.S. nonqualified pension	376	—
U.S. postretirement	280	—
Non-U.S. pension	219	153
Non-U.S. postretirement	23	—

The table below shows assumptions used by International Paper to calculate U.S. pension obligations for the years shown:

	2016	2015	2014
Discount rate	4.10%	4.40%	4.10%
Rate of compensation increase	3.75%	3.75%	3.75%

Additionally, health care cost trend rates used in the calculation of U.S. postretirement obligations for the years shown were:

	2016	2015
Health care cost trend rate assumed for next year	6.50 %	7.00 %
Rate that the cost trend rate gradually declines to	5.00 %	5.00 %
Year that the rate reaches the rate it is assumed to remain	2022	2022

International Paper determines these actuarial assumptions, after consultation with our actuaries, on December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. The expected long-term rate of return on plan assets is based on projected rates of return for current and planned asset classes in the plan's investment portfolio. The discount rate assumption was determined based on a hypothetical settlement portfolio selected from a universe of high quality corporate bonds.

The expected long-term rate of return on U.S. pension plan assets used to determine net periodic cost for the year ended December 31, 2016 was 7.75%.
Increasing (decreasing) the expected long-term rate of return on U.S. plan assets by an additional 0.25% would decrease (increase) 2017 pension expense by approximately $26 million, while a (decrease) increase of 0.25% in the discount rate would (increase) decrease pension expense by approximately $33 million. The effect on net postretirement benefit cost from a 1%

Table of Contents

increase or decrease in the annual health care cost trend rate would be approximately $1 million.

Actual rates of return earned on U.S. pension plan assets for each of the last 10 years were:

Year	Return	Year	Return
2016	7.1 %	2011	2.5 %
2015	1.3 %	2010	15.1 %
2014	6.4 %	2009	23.8 %
2013	14.1 %	2008	(23.6)%
2012	14.1 %	2007	9.6 %

The 2012, 2013 and 2014 returns above represent weighted averages of International Paper and Temple-Inland asset returns. International Paper and Temple-Inland assets were combined in October 2014. The annualized time-weighted rate of return earned on U.S. pension plan assets was 8.5% and 6.3% for the past five and ten years, respectively. The following graph shows the growth of a $1,000 investment in International Paper's U.S. Pension Plan Master Trust. The graph portrays the time-weighted rate of return from 2006 – 2016.

ASC 715, "Compensation – Retirement Benefits," provides for delayed recognition of actuarial gains and losses, including amounts arising from changes in the estimated projected plan benefit obligation due to changes in the assumed discount rate, differences between the actual and expected return on plan assets, and other assumption changes. These net gains and losses are recognized in pension expense prospectively over a period that approximates the average remaining service period of active employees expected to receive benefits under the plans to the extent that they are not offset by gains and losses in subsequent years. The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension cost for the U.S. pension plans over the next fiscal year are $341 million and $28 million, respectively.

Net periodic pension and postretirement plan expenses, calculated for all of International Paper's plans, were as follows:

In millions	2016	2015	2014	2013	2012
Pension expense					
U.S. plans (non-cash)	$809	$461	$387	$545	$342
Non-U.S. plans	4	6	—	5	3
Postretirement expense					
U.S. plans	13	8	7	(1)	(4)
Non-U.S. plans	1	5	7	7	1
Net expense	$827	$480	$401	$556	$342

The increase in 2016 U.S. pension expense principally reflects a decrease in the discount rate and a large settlement charge in 2016 related to the optional lump sum payout partially offset by a higher return on assets and lower amortization of actuarial losses.

Assuming that discount rates, expected long-term returns on plan assets and rates of future compensation increases remain the same as in 2016, projected future net periodic pension and postretirement plan expenses would be as follows:

In millions	2018 (1)	2017 (1)
Pension expense		
U.S. plans (non-cash)	$252	$ 310
Non-U.S. plans	3	4
Postretirement expense		
U.S. plans	15	18
Non-U.S. plans	1	1
Net expense	$271	$ 333

(1) Based on assumptions at December 31, 2016.

The Company estimates that it will record net pension expense of approximately $310 million for its U.S. defined benefit plans in 2017, with the decrease from expense of $809 million in 2016 mainly related to no expected settlement charges in 2017 and an increase in the assumed discount rate to 4.10% in 2017 from 4.05% in 2016, partially offset by a lower return on asset assumption of 7.50% in 2017, down from 7.75% in 2016.

The market value of plan assets for International Paper's U.S. qualified pension plan at December 31, 2016 totaled approximately $10.3 billion, consisting of approximately 51% equity securities, 27% debt securities, 10% real estate and 12% other assets. Plan assets include an immaterial amount of International Paper common stock.

The Company's funding policy for its qualified pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flows generated by the Company, and other factors. The Company continually reassesses the amount and timing of any discretionary contributions and could elect to make voluntary contributions in the future. There are no required contributions to the U.S. qualified plan in 2017. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled $21 million for the year ended December 31, 2016.

Income Taxes

International Paper records its global tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. Where the Company believes that a tax position is supportable for income tax purposes, the item is included in its income tax returns. Where treatment of a position is uncertain, liabilities are recorded based upon the Company's evaluation of the "more likely than not" outcome considering technical merits of the position based on specific tax regulations and facts of each matter. Changes to recorded liabilities are only made when an identifiable event occurs that changes the likely outcome, such as settlement with the relevant tax authority, the expiration of statutes of limitation for the subject tax year, change in tax laws, or a recent court case that addresses the matter.
Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The realization of these assets is dependent on generating future taxable income, as well as successful implementation of various tax planning strategies.

While International Paper believes that these judgments and estimates are appropriate and reasonable under the circumstances, actual resolution of these matters may differ from recorded estimated amounts.

The Company's effective income tax rates, before equity earnings and discontinued operations, were 26%, 37% and 14% for 2016, 2015 and 2014, respectively. These effective tax rates include the tax effects of certain special items that can significantly affect the effective income tax rate in a given year, but may not recur in subsequent years. Management believes that the effective tax rate computed after excluding these special items may provide a better estimate of the rate that might be expected in future years if no additional special items were to occur in those years. Excluding these special items, the effective income tax rate for 2016 was 32% of pre-tax earnings compared with 33% in 2015 and 31% in 2014. We estimate that the 2017 effective income tax rate will be approximately 33% based on expected earnings and business conditions.

Business Combinations

The Company's acquisitions of businesses are accounted for in accordance with ASC 805, "Business Combinations", as amended. We allocate the total purchase price of the assets acquired and liabilities assumed based on their estimated fair value as of the business combination date. In developing estimates of fair values for long-lived assets, including identifiable intangible assets, the Company utilizes a variety of inputs including forecasted cash flows, anticipated growth rates, discount rates, estimated replacement costs and depreciation and obsolescence factors. Determining the fair value for specifically identified intangible assets such as customer lists and developed technology involves judgment. We may refine our estimates and make adjustments to the assets acquired and liabilities assumed over a measurement period, not to exceed one year. Upon the conclusion of the measurement period or the final determination of the values of assets acquired and liabilities assumed, whichever comes first, any subsequent adjustments are charged to the consolidated statements of earnings. Subsequent actual results of the underlying business activity supporting the specifically identified intangible assets could change, requiring us to record impairment charges or adjust their economic lives in future periods.

RECENT ACCOUNTING DEVELOPMENTS

There were no new accounting pronouncements issued or effective during the fiscal year which have had or are expected to have a material impact on the Company's consolidated financial statements. See Note 2 Recent Accounting Developments on pages 49 through 52 of Item 8. Financial Statements and Supplementary Data for a discussion of new accounting pronouncements.

LEGAL PROCEEDINGS

Information concerning the Company's environmental and legal proceedings is set forth in Note 11 Commitments and Contingencies on pages 61 through 63 of Item 8. Financial Statements and Supplementary Data.

EFFECT OF INFLATION

While inflationary increases in certain input costs, such as energy, wood fiber and chemical costs, have an impact on the Company's operating results, changes in general inflation have had minimal impact on our operating results in each of the last three years. Sales prices and volumes are more strongly influenced by economic supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

Table of Contents

FOREIGN CURRENCY EFFECTS

International Paper has operations in a number of countries. Its operations in those countries also export to, and compete with, imports from other regions. As such, currency movements can have a number of direct and indirect impacts on the Company's financial statements. Direct impacts include the translation of international operations' local currency financial statements into U.S. dollars and the remeasurement impact associated with non-functional currency financial assets and liabilities. Indirect impacts include the change in competitiveness of imports into, and exports out of, the United States (and the impact on local currency pricing of products that are traded internationally). In general, a weaker U.S. dollar and stronger local currency is beneficial to International Paper. The currencies that have the most impact are the Euro, the Brazilian real, the Polish zloty and the Russian ruble.

MARKET RISK

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including various derivative contracts, are used to hedge exposures to interest rate, commodity and foreign currency risks. We do not use financial instruments for trading purposes. Information related to International Paper's debt obligations is included in Note 13 Debt and Lines of Credit on pages 66 and 67 of Item 8. Financial Statements and Supplementary Data. A discussion of derivatives and hedging activities is included in Note 14 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data.

The fair value of our debt and financial instruments varies due to changes in market interest and foreign currency rates and commodity prices since the inception of the related instruments. We assess this market risk utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest and currency rates and commodity prices.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to short- and long-term debt obligations and investments in marketable securities. We invest in investment-grade securities of financial institutions and money market mutual funds with a minimum rating of AAA and limit exposure to any one issuer or fund. Our investments in marketable securities at December 31, 2016 and 2015 are stated at cost, which approximates market due to their short-term nature. Our interest rate

risk exposure related to these investments was not material.

We issue fixed and floating rate debt in a proportion that management deems appropriate based on current and projected market conditions. Derivative instruments, such as, interest rate swaps, may be used to execute this strategy. At December 31, 2016 and 2015, the net fair value liability of financial instruments with exposure to interest rate risk was approximately $11.3 billion and $9.3 billion, respectively. The potential loss in fair value resulting from a 10% adverse shift in quoted interest rates would have been approximately $623 million and $565 million at December 31, 2016 and 2015, respectively.

Commodity Price Risk

The objective of our commodity exposure management is to minimize volatility in earnings due to large fluctuations in the price of commodities. Commodity swap or forward purchase contracts may be used to manage risks associated with market fluctuations in energy prices. The net fair value of such outstanding energy hedge contracts at December 31, 2016 and 2015 was approximately a $2 million and a $7 million liability, respectively. The potential loss in fair value resulting from a 10% adverse change in the underlying commodity prices would have been approximately $1 million at December 31, 2016 and 2015, respectively.

Foreign Currency Risk

International Paper transacts business in many currencies and is also subject to currency exchange rate risk through investments and businesses owned and operated in foreign countries. Our objective in managing the associated foreign currency risks is to minimize the effect of adverse exchange rate fluctuations on our after-tax cash flows. We address these risks on a limited basis by entering into cross-currency and interest rate swaps, or foreign exchange contracts. At December 31, 2016 and 2015, the net fair value of financial instruments with exposure to foreign currency risk was approximately a $1 million liability and a $4 million asset, respectively. The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would have been approximately $23 million and $30 million at December 31, 2016 and 2015, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the preceding discussion and Note 14 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON:

Financial Statements

The management of International Paper Company is responsible for the preparation of the consolidated financial statements in this annual report and for establishing and maintaining adequate internal controls over financial reporting. The consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America considered appropriate in the circumstances to present fairly the Company's consolidated financial position, results of operations and cash flows on a consistent basis. Management has also prepared the other information in this annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

As can be expected in a complex and dynamic business environment, some financial statement amounts are based on estimates and judgments. Even though estimates and judgments are used, measures have been taken to provide reasonable assurance of the integrity and reliability of the financial information contained in this annual report. We have formed a Disclosure Committee to oversee this process.

The accompanying consolidated financial statements have been audited by the independent registered public accounting firm, Deloitte & Touche LLP. During its audits, Deloitte & Touche LLP was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders and the board of directors and all committees of the board. Management believes that all representations made to the independent auditors during their audits were valid and appropriate.

Internal Control Over Financial Reporting

The management of International Paper Company is also responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is the process designed by, or under the supervision of, our principal executive officer and principal financial officer, and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. All internal control systems have inherent limitations, including the possibility of circumvention and overriding of controls, and therefore can provide only reasonable assurance of achieving the designed control objectives. The Company's internal control

system is supported by written policies and procedures, contains self-monitoring mechanisms, and is audited by the internal audit function. Appropriate actions are taken by management to correct deficiencies as they are identified.

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2016, the Company's internal control over financial reporting was effective.

The Company completed the acquisition of Holmen Paper's newsprint mill in Madrid, Spain as well as associated recycling operations and 50% ownership in a cogeneration facility in June 2016. Due to the timing of the acquisition we have excluded the Holmen operations from our evaluation of the effectiveness of internal control over financial reporting. For the period ended December 31, 2016, sales and assets for the former Holmen operations represented approximately 0.4% of net sales and 0.3% of total assets.

The Company completed the acquisition of Weyerhaeuser’s pulp business in December 2016. Due to the timing of the acquisition we have excluded the former Weyerhaeuser pulp business from our evaluation of the effectiveness of internal control over financial reporting. For the period ended December 31, 2016, sales and assets for the former Weyerhaeuser pulp business represented approximately 0.5% of net sales and 6.5% of total assets.

The Company’s independent registered public accounting firm, Deloitte & Touche LLP, has issued its report on the effectiveness of the Company’s internal control over financial reporting. The report appears on pages 41 and 42.

Internal Control Environment And Board Of Directors Oversight

Our internal control environment includes an enterprise-wide attitude of integrity and control consciousness that establishes a positive “tone at the top.” This is exemplified by our ethics program that includes long-standing principles and policies on ethical business conduct that require employees to maintain the highest ethical and legal standards in the conduct of International Paper business, which have been distributed to all employees; a toll-free telephone helpline whereby any employee may anonymously report suspected violations of law or International Paper’s policy; and an office of ethics and business

Table of Contents

practice. The internal control system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout International Paper, and an extensive program of internal audits with management follow-up.

The Board of Directors, assisted by the Audit and Finance Committee (Committee), monitors the integrity of the Company’s financial statements and financial reporting procedures, the performance of the Company’s internal audit function and independent auditors, and other matters set forth in its charter. The Committee, which consists of independent directors, meets regularly with representatives of management, and with the independent auditors and the Internal Auditor, with and without management representatives in attendance, to review their activities. The Committee’s Charter takes into account the New York Stock Exchange rules relating to Audit Committees and the SEC rules and regulations promulgated as a result of the Sarbanes-Oxley Act of 2002. The Committee has reviewed and discussed the consolidated financial statements for the year ended December 31, 2016, including critical accounting policies and significant management judgments, with management and the independent auditors. The Committee’s report recommending the inclusion of such financial statements in this Annual Report on Form 10-K will be set forth in our Proxy Statement.

MARK S. SUTTON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CAROL L. ROBERTS
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of International Paper Company and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway

Commission, and our report dated February 22, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Memphis, Tennessee
February 22, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of International Paper Company:

We have audited the internal control over financial reporting of International Paper Company and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Report of Management on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting of Holmen Paper’s newsprint mill in Madrid, Spain as well as the the associated recycling operations and a 50% a ownership in a cogeneration facility (collectively Holmen) and Weyerhaeuser’s pulp business, which were acquired on June 30, 2016 and December 1, 2016 respectively. Holmen constitutes 0.4% of net sales and 0.3% of total assets of the consolidated financial statement amounts as of and for the year ended December 31, 2016. The former Weyerhaeuser pulp business constitutes 0.5% of net sales and 6.5% of total assets of the consolidated financial statement amounts as of and for the year ended December 31, 2016. Accordingly, our audit did not include the internal control over financial reporting at Holmen or Weyerhaeuser pulp business. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material

Table of Contents

respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements

and financial statement schedule as of and for the year ended December 31, 2016 of the Company and our report dated February 22, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Memphis, Tennessee
February 22, 2017

Table of Contents

CONSOLIDATED STATEMENT OF OPERATIONS

In millions, except per share amounts, for the years ended December 31	2016	2015	2014
NET SALES	$21,079	$22,365	$23,617
COSTS AND EXPENSES			
Cost of products sold	15,152	15,468	16,254
Selling and administrative expenses	1,575	1,645	1,793
Depreciation, amortization and cost of timber harvested	1,227	1,294	1,406
Distribution expenses	1,361	1,406	1,521
Taxes other than payroll and income taxes	164	168	180
Restructuring and other charges	54	252	846
Impairment of goodwill and other intangibles	—	137	100
Net (gains) losses on sales and impairments of businesses	70	174	38
Interest expense, net	520	555	607
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS (LOSSES)	956	1,266	872
Income tax provision (benefit)	247	466	123
Equity earnings (loss), net of taxes	198	117	(200)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	907	917	549
Discontinued operations, net of taxes	(5)	—	(13)
NET EARNINGS (LOSS)	902	917	536
Less: Net earnings (loss) attributable to noncontrolling interests	(2)	(21)	(19)
NET EARNINGS (LOSS) ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY	$904	$938	$555
BASIC EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$2.21	$2.25	$1.33
Discontinued operations, net of taxes	(0.01)	—	(0.03)
Net earnings (loss)	$2.20	$2.25	$1.30
DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$2.19	$2.23	$1.31
Discontinued operations, net of taxes	(0.01)	—	(0.02)
Net earnings (loss)	$2.18	$2.23	$1.29
AMOUNTS ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$909	$938	$568
Discontinued operations, net of taxes	(5)	—	(13)
Net earnings (loss)	$904	$938	$555

The accompanying notes are an integral part of these financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

In millions for the years ended December 31	2016	2015	2014
NET EARNINGS (LOSS)	$902	$917	$536
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Amortization of pension and postretirement prior service costs and net loss:			
U.S. plans (less tax of $343, $186 and $154)	545	296	242
Pension and postretirement liability adjustments:			
U.S. plans (less tax of $283, $206 and $798)	(451)	(329)	(1,253)
Non-U.S. plans (less tax of $4, $0 and $5)	3	(2)	(18)
Change in cumulative foreign currency translation adjustment	260	(1,042)	(876)
Net gains/losses on cash flow hedging derivatives:			
Net gains (losses) arising during the period (less tax of $3, $3 and $3)	(6)	(3)	10
Reclassification adjustment for (gains) losses included in net earnings (less tax of $3, $8 and $1)	(7)	12	(4)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	344	(1,068)	(1,899)
Comprehensive Income (Loss)	1,246	(151)	(1,363)
Net (Earnings) Loss Attributable to Noncontrolling Interests	2	21	19
Other Comprehensive (Income) Loss Attributable to Noncontrolling Interests	2	6	12
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY	$1,250	$(124)	$(1,332)

The accompanying notes are an integral part of these financial statements.

Table of Contents

CONSOLIDATED BALANCE SHEET

In millions, except per share amounts, at December 31	2016	2015
ASSETS		
Current Assets		
Cash and temporary investments	$1,033	$1,050
Accounts and notes receivable, less allowances of $70 in 2016 and $70 in 2015	3,001	2,675
Inventories	2,438	2,228
Deferred income tax assets	299	312
Other current assets	198	212
Total Current Assets	6,969	6,477
Plants, Properties and Equipment, net	13,990	11,980
Forestlands	456	366
Investments	360	228
Financial Assets of Special Purpose Entities (Note 12)	7,033	7,014
Goodwill	3,364	3,335
Deferred Charges and Other Assets	1,173	1,131
TOTAL ASSETS	$33,345	$30,531
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	$239	$426
Accounts payable	2,309	2,078
Accrued payroll and benefits	430	434
Other accrued liabilities	1,094	986
Total Current Liabilities	4,072	3,924
Long-Term Debt	11,075	8,844
Nonrecourse Financial Liabilities of Special Purpose Entities (Note 12)	6,284	6,277
Deferred Income Taxes	3,376	3,231
Pension Benefit Obligation	3,400	3,548
Postretirement and Postemployment Benefit Obligation	330	364
Other Liabilities	449	434
Commitments and Contingent Liabilities (Note 11)		
Equity		
Common stock $1 par value, 2016 - 448.9 shares & 2015 – 448.9 shares	449	449
Paid-in capital	6,189	6,243
Retained earnings	4,818	4,649
Accumulated other comprehensive loss	(5,362)	(5,708)
	6,094	5,633
Less: Common stock held in treasury, at cost, 2016 – 37.671 shares and 2015 – 36.776 shares	1,753	1,749
Total Shareholders' Equity	4,341	3,884
Noncontrolling interests	18	25
Total Equity	4,359	3,909
TOTAL LIABILITIES AND EQUITY	$33,345	$30,531

The accompanying notes are an integral part of these financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions for the years ended December 31	2016	2015	2014
OPERATING ACTIVITIES			
Net earnings (loss)	$902	$917	$536
Depreciation, amortization, and cost of timber harvested	1,227	1,294	1,414
Deferred income tax provision (benefit), net	136	281	(135)
Restructuring and other charges	54	252	881
Pension plan contribution	(750)	(750)	(353)
Periodic pension expense, net	809	461	387
Net (gains) losses on sales and impairments of businesses	70	174	38
Equity (earnings) losses, net of taxes	(198)	(117)	200
Impairment of goodwill and other intangible assets	—	137	100
Other, net	157	153	167
Changes in current assets and liabilities			
Accounts and notes receivable	(94)	7	(97)
Inventories	11	(131)	(103)
Accounts payable and accrued liabilities	98	(89)	(18)
Interest payable	41	(17)	(18)
Other	15	8	78
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	2,478	2,580	3,077
INVESTMENT ACTIVITIES			
Invested in capital projects	(1,348)	(1,487)	(1,366)
Acquisitions, net of cash acquired	(2,228)	—	—
Proceeds from divestitures	108	23	—
Proceeds from spinoff	—	—	411
Investment in Special Purpose Entities	—	(198)	—
Proceeds from sale of fixed assets	19	37	61
Other	(49)	(114)	34
CASH PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES	(3,498)	(1,739)	(860)
FINANCING ACTIVITIES			
Repurchase of common stock and payments of restricted stock tax withholding	(132)	(605)	(1,062)
Issuance of common stock	—	2	66
Issuance of debt	3,830	6,873	1,982
Reduction of debt	(1,938)	(6,947)	(2,095)
Change in book overdrafts	—	(14)	30
Dividends paid	(733)	(685)	(620)
Acquisition of redeemable noncontrolling interest	—	—	(114)
Debt tender premiums paid	(31)	(211)	(269)
Other	(14)	(14)	(4)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	982	(1,601)	(2,086)
Effect of Exchange Rate Changes on Cash	21	(71)	(52)
Change in Cash and Temporary Investments	(17)	(831)	79
Cash and Temporary Investments			
Beginning of the period	1,050	1,881	1,802
End of the period	$1,033	$1,050	$1,881

The accompanying notes are an integral part of these financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions	Common Stock Issued	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE, JANUARY 1, 2014	$ 447	$6,463	$4,446	$ (2,759)	$492	$ 8,105	$ 179	$8,284
Issuance of stock for various plans, net	2	69	—	—	(212)	283	—	283
Repurchase of stock	—	—	—	—	1,062	(1,062)	—	(1,062)
xpedx spinoff	—	(287)	—	—	—	(287)	—	(287)
Dividends	—	—	(633)	—	—	(633)	—	(633)
Acquisition of redeemable noncontrolling interests	—	—	46	—	—	46	—	46
Remeasurement of redeemable noncontrolling interest	—	—	(5)	—	—	(5)	—	(5)
Comprehensive income (loss)	—	—	555	(1,887)	—	(1,332)	(31)	(1,363)
BALANCE, DECEMBER 31, 2014	449	6,245	4,409	(4,646)	1,342	5,115	148	5,263
Issuance of stock for various plans, net	—	35	—	—	(198)	233	—	233
Repurchase of stock	—	—	—	—	605	(605)	—	(605)
Dividends	—	—	(698)	—	—	(698)	—	(698)
Transactions of equity method investees	—	(37)	—	—	—	(37)	—	(37)
Divestiture of noncontrolling interests	—	—	—	—	—	—	(96)	(96)
Comprehensive income (loss)	—	—	938	(1,062)	—	(124)	(27)	(151)
BALANCE, DECEMBER 31, 2015	449	6,243	4,649	(5,708)	1,749	3,884	25	3,909
Issuance of stock for various plans, net	—	(6)	—	—	(128)	122	—	122
Repurchase of stock	—	—	—	—	132	(132)	—	(132)
Dividends	—	—	(743)	—	—	(743)	—	(743)
Transactions of equity method investees	—	(48)	—	—	—	(48)	—	(48)
Divestiture of noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Other	—	—	8	—	—	8	—	8
Comprehensive income (loss)	—	—	904	346	—	1,250	(4)	1,246
BALANCE, DECEMBER 31, 2016	$ 449	$6,189	$4,818	$ (5,362)	$1,753	$ 4,341	$ 18	$4,359

The accompanying notes are an integral part of these financial statements.

47

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

International Paper (the Company) is a global paper and packaging company with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia, Africa and the Middle East. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to available industry capacity and general economic conditions.

FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States that require the use of management’s estimates. Actual results could differ from management’s estimates. Prior-period amounts have been adjusted to conform with current year presentation.

During the fourth quarter of 2016, the Company finalized its purchase of Weyerhaeuser's pulp business (see Note 6). Subsequent to the acquisition, the Company began reporting Global Cellulose Fibers as a separate business segment in the fourth quarter of 2016 due to the increased materiality of the results of this business. This segment includes the Company's legacy pulp business and the newly acquired pulp business. As such, amounts related to the legacy pulp business have been reclassified out of the Printing Papers' business segment and included in the new Global Cellulose Fibers business segment for all prior periods to conform with current year presentation.

CONSOLIDATION

The consolidated financial statements include the accounts of International Paper and its wholly-owned, controlled majority-owned and financially controlled subsidiaries. All significant intercompany balances and transactions are eliminated.

Investments in affiliated companies where the Company has significant influence over their operations are accounted for by the equity method. International Paper’s share of affiliates’ results of operations totaled earnings (loss) of $198 million, $117 million and $(200) million in 2016, 2015 and 2014, respectively.

REVENUE RECOGNITION

Revenue is recognized when the customer takes title and assumes the risks and rewards of ownership.

Revenue is recorded at the time of shipment for terms designated f.o.b. (free on board) shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when the product is delivered to the customer’s delivery site, when title and risk of loss are transferred. Timber and forestland sales revenue is generally recognized when title and risk of loss pass to the buyer.

SHIPPING AND HANDLING COSTS

Shipping and handling costs, such as freight to our customers’ destinations, are included in distribution expenses in the consolidated statement of operations. When shipping and handling costs are included in the sales price charged for our products, they are recognized in net sales.

ANNUAL MAINTENANCE COSTS

Costs for repair and maintenance activities are expensed in the month that the related activity is performed under the direct expense method of accounting.

TEMPORARY INVESTMENTS

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost, which approximates market value.

INVENTORIES

Inventories are valued at the lower of cost or market value and include all costs directly associated with manufacturing products: materials, labor and manufacturing overhead. In the United States, costs of raw materials and finished pulp and paper products, are generally determined using the last-in, first-out method. Other inventories are valued using the first-in, first-out or average cost methods.

PLANTS, PROPERTIES AND EQUIPMENT

Plants, properties and equipment are stated at cost, less accumulated depreciation. Expenditures for betterments are capitalized, whereas normal repairs and maintenance are expensed as incurred. The units-of-production method of depreciation is used for pulp and paper mills, and the straight-line method is used for other plants and equipment. Annual straight-line depreciation rates generally are, for buildings — 2.50% to 5.00%, and for machinery and equipment — 5% to 33%.

FORESTLANDS

At December 31, 2016, International Paper and its subsidiaries owned or managed approximately 329,000 acres of forestlands in Brazil, and through licenses and forest management agreements, had harvesting rights on government-owned forestlands in Russia. Costs attributable to timber are expensed as trees are cut. The rate charged is determined annually based on the relationship of incurred costs to estimated current merchantable volume.

GOODWILL

Goodwill relating to a single business reporting unit is included as an asset of the applicable segment. For goodwill impairment testing, this goodwill is allocated to reporting units. Annual testing for possible goodwill impairment is performed as of the beginning of the fourth quarter of each year, with additional interim testing performed when management believes that it is more likely than not events or circumstances have occurred that would result in the impairment of a reporting unit's goodwill.

In performing this testing, the Company estimates the fair value of its reporting units using the projected future cash flows to be generated by each unit, discounted for each reporting unit. These estimated fair values are then analyzed for reasonableness by comparing them to historic market transactions for businesses in the industry, and by comparing the sum of the reporting unit fair values and other corporate assets and liabilities divided by diluted common shares outstanding to the Company's traded stock price on the testing date. For reporting units whose recorded value of net assets plus goodwill is in excess of their estimated fair values, the fair values of the individual assets and liabilities of the respective reporting units are then determined to calculate the amount of any goodwill impairment charge required. See Note 9 for further discussion.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances that indicate that the carrying value of the assets may not be recoverable, measured by comparing their net book value to the undiscounted projected future cash flows generated by their use. Impaired assets are recorded at their estimated fair value.

INCOME TAXES

International Paper uses the asset and liability method of accounting for income taxes whereby deferred income taxes are recorded for the future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are remeasured to

reflect new tax rates in the periods rate changes are enacted.

International Paper records its worldwide tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. Where the Company believes that a tax position is supportable for income tax purposes, the item is included in its income tax returns. Where treatment of a position is uncertain, liabilities are recorded based upon the Company's evaluation of the "more likely than not" outcome considering the technical merits of the position based on specific tax regulations and the facts of each matter. Changes to recorded liabilities are made only when an identifiable event occurs that changes the likely outcome, such as settlement with the relevant tax authority, the expiration of statutes of limitation for the subject tax year, a change in tax laws, or a recent court case that addresses the matter.

While the judgments and estimates made by the Company are based on management's evaluation of the technical merits of a matter, assisted as necessary by consultation with outside consultants, historical experience and other assumptions that management believes are appropriate and reasonable under current circumstances, actual resolution of these matters may differ from recorded estimated amounts, resulting in charges or credits that could materially affect future financial statements.

ENVIRONMENTAL REMEDIATION COSTS

Costs associated with environmental remediation obligations are accrued when such costs are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

TRANSLATION OF FINANCIAL STATEMENTS

Balance sheets of international operations are translated into U.S. dollars at year-end exchange rates, while statements of operations are translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in Accumulated other comprehensive loss.

NOTE 2 RECENT ACCOUNTING DEVELOPMENTS

Other than as described below, no new accounting pronouncement issued or effective during the fiscal year has had or is expected to have a material impact on the consolidated financial statements.

Table of Contents

VARIABLE INTEREST ENTITIES

In October 2016, the FASB issued ASU 2016-17, "Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control." Under consolidation guidance in ASU 2015-02 issued by the FASB in 2015, a single decision maker was required to consider an indirect interest held by a related party under common control in its entirety. Under the new guidance, the single decision maker will consider that indirect interest on a proportionate basis. This guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. This guidance should be applied retrospectively to all relevant prior periods beginning with the fiscal years in which ASU 2015-02 was initially applied. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and will adopt this ASU in the first quarter of 2017.

INCOME TAXES

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This ASU requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs rather than defer the income tax effects which is current practice. This new guidance is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): "Balance Classification of Deferred Taxes." This ASU requires entities to offset all deferred tax assets and liabilities (and valuation allowances) for each tax-paying jurisdiction within each tax-paying component. The net deferred tax must be presented as a single noncurrent amount. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and will adopt this ASU in the first quarter of 2017.

CASH FLOW CLASSIFICATION
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): "Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)." This ASU adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. This ASU is effective for annual reporting

periods beginning after December 15, 2017, and interim periods with those years and must be applied retrospectively to all periods presented but may be applied prospectively from the earliest date practicable if retrospective application would be impracticable. The Company early adopted this guidance during 2016 with no material impact on the consolidated financial statements.
STOCK COMPENSATION
In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): "Improvements to Employee Share-Based Payment Accounting." Under this new guidance, all excess tax benefits and tax deficiencies will be recognized in the income statement as they occur and will therefore impact the Company's effective tax rate. This guidance replaces current guidance which requires tax benefits that exceed compensation costs (windfalls) to be recognized in equity. The new guidance will also change the cash flow presentation of excess tax benefits, classifying them as operating inflows rather than financing activities as they are currently classified. In addition, the new guidance will allow companies to provide net settlement of stock-based compensation to cover tax withholding as long as the net settlement doesn't exceed the maximum individual statutory tax rate in the employee's tax jurisdiction. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by

means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods with those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

INVESTMENTS - EQUITY METHOD AND JOINT VENTURES
In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): "Simplifying the Transition to the Equity Method of Accounting." The amendments in the ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in

the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years and should be applied prospectively upon the effective date. Early adoption is permitted. The Company early adopted this guidance during 2016 with no material impact on the consolidated financial statements.

DERIVATIVES AND HEDGING

Also in March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." The amendments in this ASU apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815. This ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years, and allows for the amendments to be applied on either a prospective basis or a modified retrospective basis. The Company early adopted this guidance during 2016 with no material impact on the consolidated financial statements.

LEASES

In February 2016, the FASB issued ASU 2016-02, Leases Topic (842): "Leases." This ASU will require most leases to be recognized on the balance sheet which will increase reported assets and liabilities. Lessor accounting will remain substantially similar to current U.S. GAAP. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, and mandates a modified retrospective transition method for all entities. The Company expects to adopt this guidance using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We expect to recognize a liability

and corresponding asset associated with in-scope operating and finance leases but we are still in the process of determining those amounts and the processes required to account for leasing activity on an ongoing basis.

BUSINESS COMBINATIONS

In September 2015, the FASB issued ASU 2015-16, "Business Combinations - Simplifying the Accounting for Measurement Period Adjustments." This ASU provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized at the acquisition date. The Company adopted this guidance during 2016 with no material impact on the consolidated financial statements.

INVENTORY

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): "Simplifying the Measurement of Inventory." This ASU provides that entities should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. The Company early adopted this guidance during 2016 with no material impact on the consolidated financial statements.

FAIR VALUE MEASUREMENT

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This guidance eliminates the existing requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value (NAV) using the practical expedient in ASC 820. Instead entities are required to disclose the fair values of such investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table and the amounts reported on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those years and should be applied retrospectively. The

Table of Contents

Company adopted the provisions of this guidance in 2016 with no material impact on the consolidated financial statements.

DEBT ISSUANCE COSTS

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs)," which simplifies the balance sheet presentation of the costs for issuing debt. This ASU was effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. The application of the requirements of this guidance did not have a material effect on the consolidated financial statements.

REVENUE RECOGNITION

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This guidance replaces most existing revenue recognition guidance and provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This ASU was effective for annual reporting periods beginning after December 15, 2016, and interim periods within those years and permits the use of either the retrospective or cumulative effect transition method; however, in August 2015, the FASB issued ASU 2015-14 which defers the effective date by one year making the guidance effective for annual reporting periods beginning after December 15, 2017. The FASB has continued to clarify this guidance in various updates during 2015 and 2016, all of which, have the same effective date as the original guidance.

We are currently evaluating the impact of ASU 2014-09 and all related ASU's on our consolidated financial statements. We plan to adopt the new revenue guidance effective January 1, 2018 using the full retrospective transition method. The Company does not expect the impact on its consolidated financial statements to be material and we anticipate the primary

impact to be the additional required disclosures around revenue recognition in the notes to the consolidated financial statements.

NOTE 3 EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per share is computed assuming that all potentially dilutive securities, including “in-the-money” stock options, were converted into common shares.

A reconciliation of the amounts included in the computation of basic earnings (loss) per share from continuing operations, and diluted earnings (loss) per share from continuing operations is as follows:

In millions, except per share amounts	2016	2015	2014
Earnings (loss) from continuing operations	$909	$938	$568
Effect of dilutive securities	—	—	—
Earnings (loss) from continuing operations – assuming dilution	$909	$938	$568
Average common shares outstanding	411.1	417.4	427.7
Effect of dilutive securities:			
Restricted performance share plan	4.5	3.2	4.2
Stock options (a)	—	—	0.1
Average common shares outstanding – assuming dilution	415.6	420.6	432.0
Basic earnings (loss) per share from continuing operations	$2.21	$2.25	$1.33
Diluted earnings (loss) per share from continuing operations	$2.19	$2.23	$1.31

(a) Options to purchase shares were not included in the computation of diluted common shares outstanding if their exercise price exceeded the average market price of the Company's common stock for each respective reporting date.

NOTE 4 OTHER COMPREHENSIVE INCOME

The following table presents changes in AOCI for the year ended December 31, 2016:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance as of December 31, 2015	$ (3,169)	$ (2,549)	$ 10	$ (5,708)
Other comprehensive income (loss) before reclassifications	(448)	263	(6)	(191)
Amounts reclassified from accumulated other comprehensive income	545	(3)	(7)	535
Net Current Period Other Comprehensive Income	97	260	(13)	344
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	2	—	2
Balance as of December 31, 2016	$ (3,072)	$ (2,287)	$ (3)	$ (5,362)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

Table of Contents

The following table presents changes in AOCI for the year ended December 31, 2015:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance as of December 31, 2014	$ (3,134)	$ (1,513)	$ 1	$(4,646)
Other comprehensive income (loss) before reclassifications	(331)	(1,002)	(3)	(1,336)
Amounts reclassified from accumulated other comprehensive income	296	(40)	12	268
Net Current Period Other Comprehensive Income	(35)	(1,042)	9	(1,068)
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	6	—	6
Balance as of December 31, 2015	$ (3,169)	$ (2,549)	$ 10	$(5,708)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

The following table presents changes in AOCI for the year ended December 31, 2014:

In millions	Defined Benefit Pension and Postretirement Items (a)	Change in Cumulative Foreign Currency Translation Adjustments (a)	Net Gains and Losses on Cash Flow Hedging Derivatives (a)	Total (a)
Balance as of December 31, 2013	$ (2,105)	$ (649)	$ (5)	$(2,759)
Other comprehensive income (loss) before reclassifications	(1,271)	(863)	10	(2,124)
Amounts reclassified from accumulated other comprehensive income	242	(13)	(4)	225
Net Current Period Other Comprehensive Income	(1,029)	(876)	6	(1,899)
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	—	12	—	12
Balance as of December 31, 2014	$ (3,134)	$ (1,513)	$ 1	$(4,646)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.

The following table presents details of the reclassifications out of AOCI for the three years ended:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (a) 2016	2015	2014		Location of Amount Reclassified from AOCI
In millions					
Defined benefit pension and postretirement items:					
Prior-service costs	$(37)	$(33)	$(17)	(b)	Cost of products sold
Actuarial gains/(losses)	(851)	(449)	(379)	(b)	Cost of products sold
Total pre-tax amount	(888)	(482)	(396)		

Tax (expense)/benefit	343	186	154		
Net of tax	(545)	(296)	(242)		
Change in cumulative foreign currency translation adjustments:					
Business acquisition/divestiture	3	40	13		Net (gains) losses on sales and impairments of businesses or Retained earnings
Tax (expense)/benefit	—	—	—		
Net of tax	3	40	13		
Net gains and losses on cash flow hedging derivatives:					
Foreign exchange contracts	10	(20)	3	(c)	Cost of products sold
Total pre-tax amount	10	(20)	3		
Tax (expense)/benefit	(3)	8	1		
Net of tax	7	(12)	4		
Total reclassifications for the period	$(535)	$(268)	$(225)		

(a) Amounts in parentheses indicate debits to earnings/loss.
(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 16 for additional details).
(c) This accumulated other comprehensive income component is included in our derivatives and hedging activities (see Note 14 for additional details).

Table of Contents

NOTE 5 RESTRUCTURING CHARGES AND OTHER ITEMS

2016: During 2016, total restructuring and other charges of $54 million before taxes were recorded. These charges included:

In millions	2016
Early debt extinguishment costs (see Note 13)	$29
India packaging evaluation write-off	17
Gain on sale of investment in Arizona Chemical	(8)
Riegelwood mill conversion costs (a)	9
Turkey mill closure (b)	7
Total	$54

(a) Includes $3 million of accelerated depreciation, $3 million of inventory write-off charges and $3 million of other charges.
(b) Includes $4 million of accelerated depreciation and $3 million of severance charges which is related to 85 employees.

2015: During 2015, total restructuring and other charges of $252 million before taxes were recorded. These charges included:

In millions	2015
Early debt extinguishment costs (see Note 13)	$207
Timber monetization restructuring	16
Legal liability reserve adjustment	15
Riegelwood mill conversion costs net of proceeds from the sale of Carolina Coated Bristols brand (a)	8
Other	6
Total	$252

(a) Includes $5 million of severance charges, which is related to 69 employees, $24 million of accelerated depreciation, sale proceeds of $22 million and $1 million of other charges.

2014: During 2014, total restructuring and other charges of $846 million before taxes were recorded. These charges included:

In millions	2014
Early debt extinguishment costs (see Note 13)	$276
Courtland mill shutdown (a)	554
Other (b)	16
Total	$846

(a) Includes $464 million of accelerated depreciation, $24 million of inventory impairment charges, $26 million of severance charges related to 49 employees and $40 million of other charges which are recorded in the Printing Papers segment.
(b) Includes $15 million of severance charges related to 908 employees.

NOTE 6 ACQUISITIONS AND JOINT VENTURES

WEYERHAEUSER PULP BUSINESS

2016: On December 1, 2016, the Company finalized the purchase of Weyerhaeuser's pulp business for approximately $2.2 billion in cash, subject to post-closing adjustments. Under the terms of the agreement, International Paper acquired four fluff pulp mills, one northern bleached softwood kraft mill and two converting facilities of modified fiber, located in the United States, Canada and Poland.

The Company is accounting for the acquisition under ASC 805, "Business Combinations" and the newly acquired pulp business's results of operations have been included in International Paper's consolidated financial statements beginning with the date of acquisition.

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets and liabilities acquired as of December 1, 2016.

In millions	
Cash and temporary investments	$12
Accounts and notes receivable	195
Inventory	254
Other current assets	11
Plants, properties and equipment	1,711
Goodwill	19
Other intangible assets	212
Deferred charges and other assets	6
Total assets acquired	2,420
Accounts payable and accrued liabilities	111
Long-term debt	104
Other long-term liabilities	22
Total liabilities assumed	237
Net assets acquired	$2,183

Due to the timing of the completion of the acquisition, the purchase price and related allocation are preliminary and could be revised as a result of adjustments made to the purchase price, additional information obtained regarding assets acquired and liabilities assumed, and revisions of provisional estimates of fair values, including, but not limited to, the completion of independent appraisals and valuations related to inventory, property, plant and equipment and intangible assets. These changes to the purchase price allocation could be significant. The purchase price allocation will be finalized within the measurement period of up to one year from the acquisition date.

Table of Contents

In connection with the purchase price allocation, inventories were written up by $33 million to their estimated fair value. During December 2016, $19 million before taxes ($12 million after taxes) were expensed to Cost of products sold as the related inventory was sold.

Since the date of acquisition, Net sales of $111 million and Earnings (loss) from continuing operations before income taxes and equity earnings of $(21) million from the acquired business have been included in the Company's consolidated statement of operations. Additionally, Selling and administrative expenses for 2016 include $28 million in charges before taxes ($18 million after taxes) for integration costs associated with the acquisition.

The identifiable intangible assets acquired in connection with the acquisition of the Weyerhaeuser pulp business included the following:

In millions	Estimated Fair Value	Average Remaining Useful Life (at acquisition date)
Asset Class:		
Customer relationships and lists	$ 95	24 years
Trade names, patents, trademarks and developed technology	113	8 years
Other	4	10 years
Total	$ 212	

On an unaudited pro forma basis, assuming the acquisition of the newly acquired pulp business had closed January 1, 2015, the consolidated results would have reflected Net sales of $22.4 billion and $23.9 billion and Earnings (loss) from continuing operations before income taxes and equity earnings of $1.1 billion and $1.4 billion for the years ended December 31, 2016 and 2015, respectively.

The 2016 pro forma information includes adjustments for additional amortization expense on identifiable intangible assets of $18 million and eliminating the write-off of the estimated fair value of inventory of $19 million and non-recurring integration costs associated with the acquisition of $30 million.

The 2015 pro forma information includes adjustments for additional amortization expense on identifiable intangible assets of $18 million, non-recurring integration costs associated with the acquisition of $30 million, and incremental expense of $33 million associated with the write-off of the estimated fair value of inventory.

The unaudited pro forma consolidated financial information was prepared for comparative purposes only and includes certain adjustments, as noted above. The adjustments are estimates based on currently

available information and actual amounts may have differed materially from these estimates. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of the acquisition. The pro forma information does not purport to represent International Paper's actual results of operations as if the transaction described above would have occurred as of January 1, 2015, nor is it necessarily an indicator of future results.

HOLMEN PAPER NEWSPRINT MILL

2016: On June 30, 2016, the Company completed the previously announced acquisition of Holmen Paper's newsprint mill in Madrid, Spain. Under the terms of the agreement, International Paper purchased the Madrid newsprint mill, as well as, associated recycling operations and a 50% ownership interest in a cogeneration facility. The Company intends to convert the mill during the second half of 2017 to produce recycled containerboard with an expected capacity of 419,000 tons. Once completed, the converted mill will support the Company's corrugated packaging business in

EMEA.
The Company's aggregated purchase price for the mill, recycling operations and 50% ownership of the cogeneration facility was €53 million (approximately $59 million using June 30, 2016 exchange rate). The measurement period adjustments recognized in the third and fourth quarters of 2016 were to reallocate the purchase price from property, plant and equipment to the specific asset and liability balance sheet line items. Approximately $60 million of the purchase price was allocated to property, plant and equipment, $14 million to current assets (primarily cash and accounts receivable), $7 million to equity method investments, $3 million to long-term assets, $9 million to short-term liabilities and $16 million to long-term liabilities related to a supply contract entered into with the seller. The initial valuation amounts are not considered complete as of December 31, 2016 as tax implications of the valuation amounts are still being considered, however, their impacts are not expected to be material to the Company. The amount of revenue and earnings recognized since the acquisition date are $90 million and a net loss of $2 million, respectively, for the year ended December 31, 2016. Pro forma information related to the acquisition of the Holmen businesses has not been included as it is impractical to obtain the information due to the lack of availability of financial data and does not have a material effect on the Company's consolidated results of operations.

ORSA

2014: On April 8, 2014, the Company acquired the remaining 25% of shares of Orsa International Paper Embalangens S.A. (Orsa IP) from its joint venture partner, Jari Celulose, Papel e Embalagens S.A. (Jari),

Table of Contents

a Grupo Jari company, for approximately $127 million, of which $105 million was paid in cash with the remaining $22 million held back pending satisfaction of certain indemnification obligations by Jari. An additional $11 million, which was not included in the purchase price, was placed in an escrow account pending resolution of certain open matters. During 2014, these open matters were successfully resolved, which resulted in $9 million paid out of escrow to Jari and correspondingly added to the final purchase consideration. The remaining $2 million was released back to the Company. As a result of this transaction, the Company reversed the $168 million of Redeemable noncontrolling interest included on the March 31, 2014 consolidated balance sheet. The net difference between the Redeemable noncontrolling interest balance plus $14 million of currency translation adjustment reclassified out of Other comprehensive income less the 25% purchase price was reflected as an increase to Retained earnings on the consolidated balance sheet.

In the fourth quarter of 2016, International Paper released the amount held back for indemnification obligations, net of certain claims. Cash of $10 million was paid to Jari, which included $3 million of accrued interest. The remaining unpaid balance of $12 million was reversed in the third quarter of 2016 with $8 million recorded to Retained earnings as a final purchase price adjustment, and $3 million to interest expense.

NOTE 7 DIVESTITURES / SPINOFF

DISCONTINUED OPERATIONS

2014: On July 1, 2014, International Paper completed the spinoff of its distribution business, xpedx, which subsequently merged with Unisource Worldwide, Inc., with the combined companies now operating as Veritiv Corporation (Veritiv). The xpedx business had historically represented the Company's Distribution reportable segment.

The spinoff was accomplished by the contribution of the xpedx business to Veritiv and the distribution of 8,160,000 shares of Veritiv common stock on a pro-rata basis to International Paper shareholders. International Paper received a payment of approximately $411 million, financed with new debt in Veritiv's capital structure.

All historical operating results for xpedx are included in Discontinued operations, net of tax, in the accompanying consolidated statement of operations. The following summarizes the major classes of line items comprising Earnings (Loss) Before Income Taxes and Equity Earnings reconciled to Discontinued Operations, net of tax, related to the xpedx spinoff for

all periods presented in the consolidated statement of operations:

In millions	2014
Net Sales	$2,604
Costs and Expenses	
Cost of products sold	2,309
Selling and administrative expenses	191
Depreciation, amortization and cost of timber harvested	9
Distribution expenses	69
Restructuring and other charges	25
Impairment of goodwill and other intangibles	—
Other, net	3
Earnings (Loss) Before Income Taxes and Equity Earnings	(2)
Income tax provision (benefit)	(1)
Discontinued Operations, Net of Taxes (a)	$(1)

(a) These amounts, along with those disclosed below related to the Temple-Inland Building Products divestitures, are included in Discontinued operations, net of tax, in the consolidated statement of operations.

Total cash provided by operations related to xpedx of $29 million for 2014 is included in Cash Provided By (Used For) Operations in the consolidated statement of cash flows. Total cash provided by (used for) investing activities related to xpedx of $3 million for 2014 is included in Cash Provided By (Used For) Investing Activities in the consolidated statement of cash flows.

OTHER DIVESTITURES AND IMPAIRMENTS

2016: On March 14, 2016, the Company announced that it had entered into a definitive agreement to sell its corrugated packaging business in China and Southeast Asia to Xiamen Bridge Hexing Equity Investment Partnership Enterprise. The sale of this business was completed on June 30, 2016. Under the terms of the transaction and after post-closing adjustments, International Paper received a total of approximately RMB 957 million (approximately $144 million at the June 30, 2016 exchange rate), which included the buyer's assumption of a liability for outstanding loans of approximately $55 million. Based on the final sales price, a determination was made that the current book value of the asset group was not recoverable. As a result, a combined pre-tax charge of $46 million was recorded during 2016 in the Company's Industrial Packaging segment to write down the long-lived assets of this business to their estimated fair value. In addition, the Company recorded a pre-tax charge of $24 million for severance that was contingent upon the sale of this business. The 2016 net loss totaling $70 million related to the impairment and severance of IP Asia Packaging is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.

Table of Contents

The final purchase price payment of RMB 20 million (approximately $3 million at the December 31, 2016 exchange rate) was received in the fourth quarter of 2016. The remaining payments to be received relate to the assumed loans which total $14 million and are payable up to three years from the closing of the sale.
The amount of pre-tax losses related to the IP Asia Packaging business included in the Company's consolidated statement of operations were $83 million, $8 million and $70 million for years ended December 31, 2016, 2015 and 2014, respectively.

2015: On October 13, 2015, the Company finalized the sale of its 55% interest in IP Asia Coated Paperboard (IP-Sun JV) business, within the Company's Consumer Packaging segment, to its Chinese coated board joint venture partner, Shandong Sun Holding Group Co., Ltd. for RMB 149 million (approximately USD $23 million). During the third quarter of 2015, a determination was made that the current book value of the asset group was not recoverable. As a result, the net pre-tax impairment charge of $174 million ($113 million after taxes) was recorded to write down the long-lived assets of this business to their estimated fair value. The impairment charge is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations. The amount of pre-tax losses related to noncontrolling interest of the IP-Sun JV included in the Company's consolidated statement of operations for the years ended December 31, 2015 and 2014 were $19 million and $12 million, respectively. The amount of pre-tax losses related to the IP-Sun JV included in the Company's consolidated statement of operations for the years ended December 31, 2015 and 2014 were $226 million and $51 million, respectively.

2014: During 2014, the Company recorded a net pre-tax charge of $47 million ($36 million after taxes) for the loss on the sale of a business by our equity method investee, ASG (formerly referred to as AGI-Shorewood), and the subsequent partial impairment of this ASG investment.

The 2014 net loss totaling $38 million, including the ASG impairment discussed above, related to other divestitures and impairments is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.

NOTE 8 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

TEMPORARY INVESTMENTS

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost. Temporary investments totaled $757 million and $738 million at December 31, 2016 and 2015, respectively.

ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net of allowances, by classification were:

In millions at December 31	2016	2015
Accounts and notes receivable:		
Trade	$2,759	$2,480
Other	242	195
Total	$3,001	$2,675

INVENTORIES

In millions at December 31	2016	2015
Raw materials	$296	$339
Finished pulp, paper and packaging products	1,381	1,248
Operating supplies	661	563

Other	100	78
Inventories	$2,438	$2,228

The last-in, first-out inventory method is used to value most of International Paper's U.S. inventories. Approximately 79% of total raw materials and finished products inventories were valued using this method. If
the first-in, first-out method had been used, it would have increased total inventory balances by approximately $376 million and $345 million at December 31, 2016 and 2015, respectively.

PLANTS, PROPERTIES AND EQUIPMENT

In millions at December 31	2016	2015
Pulp, paper and packaging facilities	$34,259	$31,466
Other properties and equipment	1,311	1,242
Gross cost	35,570	32,708
Less: Accumulated depreciation	21,580	20,728
Plants, properties and equipment, net	$13,990	$11,980

Table of Contents

Depreciation expense was $1.2 billion, $1.2 billion and $1.3 billion for the years ended December 31, 2016, 2015 and 2014, respectively.

INTEREST

Interest payments of $682 million, $680 million and $718 million were made during the years ended December 31, 2016, 2015 and 2014, respectively.

Amounts related to interest were as follows:

In millions	2016	2015	2014
Interest expense (a)	$695	$644	$677
Interest income (a)	175	89	70
Capitalized interest costs	28	25	23

(a) Interest expense and interest income exclude approximately $25 million and $38 million in 2015 and 2014, respectively, related to investments in and borrowings from variable interest entities for which the Company has a legal right of offset (see Note 12).

NOTE 9 GOODWILL AND OTHER INTANGIBLES

GOODWILL

The following tables present changes in the goodwill balances as allocated to each business segment for the years ended December 31, 2016 and 2015:

In millions	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Consumer Packaging	Total
Balance as of January 1, 2016					
Goodwill	$3,325	$—	$2,124	$1,664	$7,113
Accumulated impairment losses (a)	(237)	—	(1,877)	(1,664)	(3,778)
	3,088	—	247	—	3,335
Reclassifications and other (b)	(4)	—	33	—	29
Additions/reductions	(5) (c)	19 (d)	(14) (e)	—	—
Impairment loss	—	—	—	—	—
Balance as of December 31, 2016					
Goodwill	3,316	19	2,143	1,664	7,142
Accumulated impairment losses (a)	(237)	—	(1,877)	(1,664)	(3,778)
Total	$3,079	$19	$266	$—	$3,3