INTERNATIONAL PAPER CO /NEW/
Form 10-K
February 22, 2017
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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.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the "Company" or "International Paper," which may also be referred to as "we" or "us") is a global 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

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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.

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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

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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,

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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

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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

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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

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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 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, 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

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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.

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PERFORMANCE GRAPH

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

The following graph compares a $100 investment in Company stock on December 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.

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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

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FINANCIAL GLOSSARY

Current ratio—
current assets divided by current liabilities.

Total debt to capital ratio—
long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt and total shareholders' equity.

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

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)

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2014:

(g) Includes the following charges (gains):

In millions	2014 Before Tax	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	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)

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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

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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

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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	