

INTERNATIONAL PAPER CO /NEW/
Form 10-K
February 25, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2009

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
(State or other jurisdiction of incorporation or organization)

13-0872805
(I.R.S. Employer Identification No.)

6400 Poplar Avenue

Memphis, Tennessee

(Address of principal executive offices)

38197

(Zip Code)

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

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

Title of each class
Common Stock, \$1 per share par value
Securities Registered Pursuant to Section 12(g) of the Act: None

Name of each exchange on which registered
New York Stock Exchange

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

Yes No

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

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Yes No

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Company's outstanding common stock held by non-affiliates of the registrant, computed by reference to the closing price as reported on the New York Stock Exchange, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2009) was approximately \$6,494,044,065.

The number of shares outstanding of the Company's common stock, as of February 19, 2010 was 436,149,732.

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 2010 annual meeting of shareholders are incorporated by reference into Parts III and IV of this Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the Company or International Paper, which may also be referred to as we or us) is a global paper and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. 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, 2009, the Company operated 21 pulp, paper and packaging mills, 146 converting and packaging plants, 19 recycling plants and three bag facilities. Production facilities at December 31, 2009 in Europe, Asia, Latin America and South America included nine pulp, paper and packaging mills, 52 converting and packaging plants, and two recycling plants. We distribute printing, packaging, graphic arts, maintenance and industrial products principally through over 226 distribution branches in the United States and 38 distribution branches located in Canada, Mexico and Asia. At December 31, 2009, we owned or managed approximately 200,000 acres of forestlands in the United States, approximately 250,000 acres 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 six segments: Industrial Packaging; Printing Papers; Consumer Packaging; Distribution; Forest Products; and Specialty Businesses and Other. A description of these industry segments can be found on pages 24 through 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. is also a separate reportable industry segment.

From 2005 through 2009, International Paper's capital expenditures approximated \$5.0 billion, excluding

mergers and acquisitions. These expenditures reflect our continuing efforts to improve product quality and environmental performance, as well as to lower costs, maintain reliability of operations and improve forestlands. Capital spending for continuing operations in 2009 was approximately \$534 million and is expected to be approximately \$800 million in 2010. You can find more information about capital expenditures on page 32 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on pages 32 and 33 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 21 through 23 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 Website 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 on pages 47 and 48 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 on page 48 of Item 8. Financial Statements and Supplementary Data.

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COMPETITION AND COSTS

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

Many factors influence the Company's competitive position, including price, cost, product quality and services. You can find more information about the impact of price and cost on operating profits on pages 16 through 31 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. You can find information about the Company's manufacturing capacities on page A-4 of Appendix II.

MARKETING AND DISTRIBUTION

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

DESCRIPTION OF PRINCIPAL PRODUCTS

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

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Sales volumes of major products for 2009, 2008 and 2007 were as follows:

Sales Volumes by Product (1) (2)**(Unaudited)**

<i>In thousands of short tons</i>	2009	2008	2007
Industrial Packaging			
Corrugated Packaging (3)	7,313	5,298	3,578
Containerboard (3)	2,258	2,305	1,776
Recycling (3)	2,280	966	
Saturated Kraft	126	170	167
Bleached Kraft	72	82	73
European Industrial Packaging	1,046	1,123	1,173
Asian Industrial Packaging	614	568	477
Industrial Packaging	13,709	10,512	7,244
Printing Papers			
U.S. Uncoated Papers	2,882	3,397	3,788
European and Russian Uncoated Papers	1,336	1,461	1,448
Brazilian Uncoated Papers	1,007	853	794
Asian Uncoated Papers	81	27	24
Uncoated Papers	5,306	5,738	6,054
Market Pulp (4)	1,524	1,604	1,402
Consumer Packaging			
U.S. Coated Paperboard	1,242	1,591	1,602
European Coated Paperboard	354	311	320
Asian Coated Paperboard	859	550	496
Other Consumer Packaging	169	178	164
Consumer Packaging	2,624	2,630	2,582

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

(2) Sales volumes for divested businesses are included through the date of sale, except for discontinued operations.

(3) Includes CBPR volumes from date of acquisition in August 2008.

(4) Includes internal sales to mills.

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RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several product laboratories. Additionally, the Company has a 1/3 interest in ArborGen, LLC, a joint venture with certain other forest products and biotechnology 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 studies on innovation and improvement of pulping, bleaching, chemical recovery, papermaking and coating processes; packaging design and materials development; 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 \$13 million in 2009, \$22 million in 2008 and \$24 million in 2007. The decrease in cost in 2009 reflects cost cutting measures.

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

ENVIRONMENTAL PROTECTION

Information concerning the effects of the Company's compliance with federal, state and local provisions enacted or adopted relating to environmental protection matters is set forth on pages 44 and 45 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

EMPLOYEES

As of December 31, 2009, we had approximately 56,100 employees, 37,500 of whom were located in the United States. Of the U.S. employees, approximately 24,100 are hourly, with unions representing approximately 14,300 employees. Approximately 10,200 of the union employees are represented by the United Steel Workers (USW).

International Paper and the USW entered into the 2007 Mill Agreement in July 2007, which established the framework for bargaining future local labor contracts at 14 of our U.S. pulp, paper and packaging mills. In April 2008, we entered into the 2008 Converting Agreement, which similarly establishes the framework for bargaining future local labor contracts at 32 of our converting facilities. These two agreements cover several specific items, including but not limited to wages, active medical benefits, successorship, employment security and health and safety. If local facility agreements are not successfully negotiated at the time of expiration, then, under the 2007 Mill Agreement and 2008 Converting Agreement, the local facility agreements will automatically renew with the same terms in effect at the time of expiration. Individual facilities continue to have local agreements for other items not covered by these agreements.

During 2009, labor agreements for four mills covered by the 2007 Mill Agreement expired. Of those four, local agreements at Pensacola, Florida and Augusta, Georgia were negotiated, and local agreements at Savannah, Georgia and Ticonderoga, New York were renewed with the same terms.

In November 2009, International Paper and the USW reached an agreement to integrate into the 2007 Mill Agreement the four mills we acquired from Weyerhaeuser Company in August 2008. The four mills are located in Pine Hill, Alabama, Red River, Louisiana, Valliant, Oklahoma and Port Hueneme, California. The local labor agreement for the mill at Pine Hill, Alabama renewed under the terms of the 2007 Mill Agreement.

Additionally during 2009, International Paper announced the shutdown, and bargained the effects of the closing of the Franklin, Virginia, Pineville, Louisiana and Albany, Oregon mills.

During 2010, labor agreements that are scheduled to expire at the mills in Riegelwood, North Carolina, Courtland, Alabama, Port Hueneme, California and Red River, Louisiana will automatically renew under the terms of the 2007 Mill Agreement if new agreements are not reached.

With regard to converting facilities, during 2009, labor agreements were renewed at Chicago, Illinois

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and Kalamazoo, Michigan pursuant to the 2008 Converting Agreement. Also in 2009, labor agreements were negotiated at seven converting facilities covered by the 2008 Converting Agreement. Labor agreements were also reached at 12 converting, distribution and consumer packaging locations (two of which were acquired from Weyerhaeuser Company in August 2008) that were not covered by the 2008 Converting Agreement.

Additionally during 2009, International Paper announced the shutdown, and bargained the effects of the closing, of the following nine facilities: Vernon, California, Cedarburg, Wisconsin, Kansas City, Kansas, St. Paul, Minnesota, Chesapeake, Virginia, Hartford City, Indiana, Howell, Michigan, Auburndale, Florida and Portland, Oregon.

During 2010, 32 labor agreements are scheduled to be negotiated in 36 converting, distribution and consumer packaging facilities. Two of these agreements will automatically renew under the terms of the 2008 Converting Agreement if new agreements are not reached. Thirty of these agreements are not covered by the 2008 Converting Agreement.

EXECUTIVE OFFICERS OF THE REGISTRANT

John V. Faraci, 60, chairman and chief executive officer since 2003. Mr. Faraci joined International Paper in 1974.

John N. Balboni, 61, senior vice president and chief information officer since 2005. Mr. Balboni previously served as vice president and chief information officer from 2003 to 2005. Mr. Balboni joined International Paper in 1978.

C. Cato Ealy, 53, 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.

Tommy S. Joseph, 50, senior vice president manufacturing, technology, EHS&S and global sourcing since January 2010. Mr. Joseph previously served as senior vice president manufacturing, technology, EHS&S from February to December 2009, and vice president technology from 2005 to February 2009. He served as vice president specialty papers business from 2003 to 2005. Mr. Joseph joined International Paper in 1983.

Thomas G. Kadien, 53, senior vice president consumer packaging and IP Asia since January 2010. Mr. Kadien previously served as senior vice president and president *xpedx* from 2005 to 2009, and senior vice president-Europe from 2003 to 2005. Mr. Kadien joined International Paper in 1978.

Paul J. Karre, 57, senior vice president human resources and communications since May 2009. Mr. Karre previously served as vice president human resources from 2000 to 2009. Mr. Karre joined International Paper in 1974.

Mary A. Laschinger, 49, senior vice president since 2007 and president *xpedx* since January 2010. Ms. Laschinger previously served as president IP Europe, Middle East, Africa and Russia from 2005 to 2009, vice president wood products from 2004 to 2005, and vice president pulp from 2001 to 2004. Ms. Laschinger joined International Paper in 1992.

Tim S. Nicholls, 48, senior vice president and chief financial officer since December 2007. Mr. Nicholls previously served as vice president and executive project leader of IP Europe during 2007. Mr. Nicholls served as vice president and chief financial officer IP Europe from 2005 to 2007, and as president of the Company's former Canadian pulp and wood products business from 2002 to 2005. Mr. Nicholls joined International Paper in 1991.

Maximo Pacheco, 57, senior vice president since 2005 and president IP Europe, Middle East, Africa and Russia since January 2010. Mr. Pacheco previously served as president IP do Brasil from 2004 to 2009. Mr. Pacheco 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. Pacheco joined International Paper in 1994.

Carol L. Roberts, 50, senior vice president industrial packaging since 2008. Ms. Roberts previously served as senior vice president IP packaging solutions from 2005 to 2008. Ms. Roberts served as vice president container the Americas from 2000 to 2005. Ms. Roberts joined International Paper in 1981.

Maura A. Smith, 54, senior vice president, general counsel, corporate secretary and global government relations since 2003. Ms. Smith joined International Paper in 2003.

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Mark S. Sutton, 48, senior vice president printing and communications papers of the Americas since January 2010. Mr. Sutton previously served as senior

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vice president supply chain from 2008 to 2009, and vice president supply chain from 2007 until 2008. Mr. Sutton served as vice president strategic planning from 2005 to 2007, and vice president and general manager European Corrugated Packaging Operations from 2002 to 2005. Mr. Sutton joined International Paper in 1984.

Robert J. Grillet, 54, vice president finance and controller since 2003. Mr. Grillet joined International Paper in 1976.

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 is presented in Note 11 Commitments and Contingent Liabilities on page 75 of Item 8. Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, and in particular, statements found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature, may constitute forward-looking statements. These statements are often identified by the words, will, may, should, continue, anticipate, believe, expect, plan, appear, project, estimate, similar nature. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Below, we have listed specific risks and uncertainties that you should carefully read and consider. 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. 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. Pricing or product strategies pursued by competitors could negatively impact our financial results.

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RISKS RELATING TO MARKET AND ECONOMIC FACTORS

CONTINUED 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 OPERATION. 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, a return to 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.

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 our 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, and increase our cost of borrowing and require us to post collateral for derivatives in a net liability position. Similarly, we are subject to the risk that one of the banks that has issued irrevocable letters of credit supporting the installment notes issued in connection with sales of our forestlands is downgraded below a required rating. If this were to happen, it may subject the Company to additional costs of securing a replacement letter-of-credit bank or could result in an acceleration of deferred taxes if a replacement bank cannot be obtained.

THE IMPAIRMENT OF FINANCIAL INSTITUTIONS MAY ADVERSELY AFFECT US. We have exposure to counterparties with which we execute transactions, including U.S. and foreign commercial banks, insurance companies, investment banks, investment funds and other financial institutions, some of which may be exposed to ratings downgrade, bankruptcy, liquidity, default or similar risks, especially in connection with recent financial market turmoil. A ratings downgrade, bankruptcy, receivership, default or similar event involving a counterparty may adversely affect our access to capital, liquidity position, future business and results of operations.

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

THE AMOUNT OF OUR DEBT OBLIGATIONS COULD ADVERSELY AFFECT OUR BUSINESS. As of December 31, 2009, we had \$9.0 billion of long-term debt, including notes payable and current maturities, and the amount of our debt obligations could adversely affect our business. If we are unable to generate sufficient cash from operations to repay our debt, or are unable to refinance our debt because credit market conditions become volatile, this may have an adverse impact on our cost of borrowing, liquidity, financial condition and results of operations.

OUR PENSION PLANS ARE CURRENTLY UNDERFUNDED, AND OVER TIME WE WILL 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, 2009 was \$2.8 billion. Although we expect to have no obligation to fund our plans in 2010, we continually reassess the amount and timing of any discretionary contributions and could elect to make such a contribution in 2010. Regardless of whether we make a discretionary contribution in 2010, over the next several years we will make contributions to the plans that are likely to be material. The amount of such contributions will depend upon

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a number of factors, principally the actual earnings and changes in values of plan assets, changes in interest rates and the impact of possible funding relief legislation currently under consideration in the U.S. Congress.

CHANGES IN INTERNATIONAL CONDITIONS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS. Our operating results and business prospects could be substantially affected by risks related to the countries outside the United States in which we have manufacturing facilities or sell our products. Specifically, Brazil, Russia, Poland and China, where we have substantial manufacturing facilities, are countries that are exposed to economic and political instability in their respective regions of the world. Downturns in economic activity, adverse tax consequences, fluctuations in the value of local currency versus the U.S. dollar, nationalization or any change in social, political or labor conditions in any of these countries or regions could negatively affect our financial results.

RISKS RELATING TO LEGAL PROCEEDINGS AND COMPLIANCE COSTS

UNANTICIPATED EXPENDITURES RELATED TO THE COST OF COMPLIANCE WITH ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REQUIREMENTS COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS. Our operations are subject to U.S. and non-U.S. laws and regulations relating to the environment, health and safety. There can be no assurance that compliance with existing and new laws and requirements, including with global climate change laws and regulations, will not require significant expenditures, or that existing reserves for specific matters will be adequate to cover future costs.

RESULTS OF LEGAL PROCEEDINGS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR CONSOLIDATED FINANCIAL STATEMENTS. The costs and other effects of pending litigation against us cannot be determined with certainty. Although we believe that the outcome of any pending or threatened lawsuits or claims, or all of them combined, will not have a material adverse effect on our 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 one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial results. 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:

unscheduled maintenance outages;

prolonged power failures;

an equipment failure;

a chemical spill or release;

explosion of a boiler;

the effect of a drought or reduced rainfall on its water supply;

labor difficulties;

disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;

fires, floods, earthquakes, hurricanes or other catastrophes;

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; and

other operational problems.

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Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned capital 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 financial results.

SEVERAL OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT. Several operations, particularly in emerging markets, are carried on by joint ventures such as the Ilim joint venture in Russia. In joint ventures we share ownership and management of a company with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do. In general, joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to pay more attention to our relationship with our co-owners as well as with the joint venture, and if a co-owner changes, our relationship may be adversely affected. In addition, the benefits from a successful joint venture are shared among the co-owners, so that we do not receive all the benefits from our successful joint ventures. For additional information with respect to our Ilim joint venture, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources Ilim Holding S.A. Shareholders Agreement on page 37.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FORESTLANDS

As of December 31, 2009, the Company owned or managed approximately 200,000 acres of forestlands in the United States, approximately 250,000 acres in Brazil, and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. All owned lands are independently third-party certified for sustainable forestry (under operating standards of the Sustainable Forestry Initiative (SFI) in the United States and ISO 14001 and CERFLOR in Brazil). Our

remaining forestlands are being marketed to optimize the economic value to our shareholders. Most of these forestlands consist of properties that are likely to be sold to investors and other buyers for various uses or held for real estate development.

MILLS AND PLANTS

A listing of our production facilities, 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 capital investments for 2009 on page 32, and dispositions and restructuring activities as of December 31, 2009, on pages 21 through 23 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and on pages 63 through 66 and pages 69 through 71 of Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company's legal proceedings is set forth on pages 44 and 45 of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and on pages 75 and 76 of Item 8. Financial Statements and Supplementary Data.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2009.

Table of Contents**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 2009 and 2008 are set forth on page 94 of Item 8. Financial Statements and Supplementary

Data. As of the filing of this Annual Report on Form 10-K, the Company's common shares are traded on the New York stock exchange. International Paper options are traded on the Chicago Board of Options Exchange. As of February 19, 2010, there were approximately 18,323 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	Average Price	Maximum Number
	of Shares	Paid per	(or Approximate Dollar Value) of
	Purchased (a)	Share	Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2009 - February 28, 2009	1,283,937	\$ 8.00	N/A
April 1, 2009 - April 30, 2009	1,162	7.43	N/A
June 1, 2009 - June 30, 2009	2,794	15.13	N/A
	1,287,893		

(a) Shares acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. No activity occurred in months not presented above.

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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, 2004 with a \$100 investment in each of our ROI Peer Group and the S&P 500 also made on December 31, 2004. The graph portrays total return, 2004-2009, assuming reinvestment of dividends.

(1)The companies included in the ROI Peer Group are Domtar Inc., MeadWestvaco Corp., M-Real Corp., Mondi Group, Packaging Corporation of America, Smurfit Kappa Group, Smurfit-Stone Container Corp., Stora Enso Group, Temple-Inland Inc., and UPM-Kymmene Corp.

(2)Mondi Group and Smurfit Kappa Group became publicly traded companies in June 2007 and March 2007, respectively. Their results are included in the ROI Peer Group from these dates forward.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****FIVE-YEAR FINANCIAL SUMMARY (a)**

Dollar amounts in millions, except per share amounts and stock prices

	2009	2008	2007	2006	2005
RESULTS OF OPERATIONS					
Net sales	\$ 23,366	\$ 24,829	\$ 21,890	\$ 21,995	\$ 21,700
Costs and expenses, excluding interest	21,498	25,490	19,939	18,286	20,819
Earnings (loss) from continuing operations before income taxes and equity earnings	1,199 ^(b)	(1,153) ^(d)	1,654 ^(g)	3,188 ^(j)	286 ^(l)
Equity earnings (losses), net of taxes	(49)	49			
Discontinued operations		(13) ^(e)	(47) ^(h)	(232) ^(k)	410 ^(m)
Net earnings (loss)	681 ^(b-c)	(1,279) ^(d-f)	1,192 ^(g-i)	1,067 ^(j-k)	1,109 ^(l-n)
Noncontrolling interests, net of taxes	18	3	24	17	3
Net earnings (loss) attributable to International Paper Company	663 ^(b-c)	(1,282) ^(d-f)	1,168 ^(g-i)	1,050 ^(j-k)	1,100 ^(l-n)
FINANCIAL POSITION					
Working capital	\$ 3,539	\$ 2,605	\$ 2,893	\$ 3,996	\$ 6,804
Plants, properties and equipment, net	12,688	14,202	10,141	8,993	9,073
Forestlands	757	594	770	259	2,127
Total assets	25,548	26,913	24,159	24,034	28,771
Notes payable and current maturities of long-term debt	304	828	267	692	1,178
Long-term debt	8,729	11,246	6,353	6,531	11,019
Total shareholders' equity	6,023	4,169	8,672	7,963	8,351
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS					
Earnings (loss) from continuing operations	\$ 1.56	\$ (3.02)	\$ 2.83	\$ 2.69	\$ 1.41
Discontinued operations		(0.03)	(0.11)	(0.48)	0.85
Net earnings (loss)	1.56	(3.05)	2.72	2.21	2.26
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS					
Earnings (loss) from continuing operations	\$ 1.55	\$ (3.02)	\$ 2.81	\$ 2.65	\$ 1.40
Discontinued operations		(0.03)	(0.11)	(0.47)	0.81
Net earnings (loss)	1.55	(3.05)	2.70	2.18	2.21
Cash dividends	0.325	1.00	1.00	1.00	1.00
Total shareholders' equity	13.91	9.75	20.40	17.56	17.03
COMMON STOCK PRICES					
High	\$ 27.79	\$ 33.77	\$ 41.57	\$ 37.98	\$ 42.59
Low	3.93	10.20	31.05	30.69	26.97
Year-end	26.78	11.80	32.38	34.10	33.61
FINANCIAL RATIOS					
Current ratio	1.9	1.5	1.7	1.9	2.4
Total debt to capital ratio	0.59	0.73	0.43	0.47	0.59
Return on shareholders' equity	13.6 ^(b-c)	(14.9) ^(d-f)	14.8 ^(g-i)	14.6 ^(j-k)	13.2 ^(l-n)
Return on investment from continuing operations attributable to International Paper Company	5.0 ^(b-c)	(4.0) ^(d-f)	7.2 ^(g-i)	8.1 ^(j-k)	5.2 ^(l-n)
CAPITAL EXPENDITURES	\$ 534	\$ 1,002	\$ 1,292	\$ 1,073	\$ 1,095
NUMBER OF EMPLOYEES	56,100	61,700	51,500	60,600	68,700

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**ITEM 6. SELECTED FINANCIAL DATA
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 plus total shareholders' equity.

Return on shareholders' equity

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

Return on investment

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

FOOTNOTES TO FIVE-YEAR FINANCIAL SUMMARY

(a) All periods presented have been recast to reflect the Carter Holt Harvey Limited, Weldwood of Canada Limited, Kraft Papers, Brazilian Coated Papers, Beverage Packaging, and Wood Products businesses as discontinued operations.

2009:

(b) Includes restructuring and other charges of \$1.4 billion before taxes (\$853 million after taxes), including pre-tax charges of \$469 million (\$286 million after taxes), \$290 million (\$177 million after taxes), and \$102 million (\$62 million after taxes) for shutdown costs for the Albany, Franklin and Pineville mills, respectively, a pre-tax charge of \$82 million (\$50 million after taxes) for costs related to the shutdown of a paper machine at the Valliant mill, a pre-tax charge of \$148 million (\$92 million after taxes) for severance and benefit costs associated with the Company's 2008 overhead cost reduction initiative, a pre-tax charge of \$185 million (\$113 million after taxes) for early debt extinguishment costs, a pre-tax charge of \$23 million (\$28 million after taxes) for closure costs associated with the Inverurie, Scotland mill, a charge of \$31 million (before and after taxes) for severance and other costs associated with the planned closure of the Etienne mill in France, and a pre-tax charge of \$23 million (\$14 million after taxes) for other items. Also included are a pre-tax gain of \$2.1 billion (\$1.4 billion after taxes) related to alternative fuel mixture credits, a pre-tax charge of \$87 million (\$54 million after taxes) for integration costs associated with the CBPR acquisition, a charge of \$56 million (before and after taxes) to write down the assets at the Etienne mill to estimated fair value and other costs, and pre-tax charge of \$3 million (\$0 million after taxes) for other items.

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

2008:

(d) Includes restructuring and other charges of \$370 million before taxes (\$227 million after taxes), including a pre-tax charge of \$123 million (\$75 million after taxes) for shutdown costs for the Louisiana mill, a pre-tax charge of \$30 million (\$18 million after taxes) for the shutdown of a paper machine at the Franklin mill, a charge of \$53 million before taxes (\$32 million after taxes) for severance and related

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costs associated with the Company's 2008 overhead cost reduction initiative, a charge of \$75 million before taxes (\$47 million after taxes) for adjustments to legal reserves, a pre-tax charge of \$30 million (\$19 million after taxes) for costs associated with the reorganization of the Company's Shorewood operations, a pre-tax charge of \$53 million (\$33 million after taxes) to write off deferred supply chain initiative development costs for U.S. container operations that will not be implemented due to the CBPR acquisition, a charge of \$8 million before taxes (\$5 million after taxes) for closure costs associated with the Ace Packaging business, and a pre-tax gain of \$2 million (\$2 million after taxes) for adjustments to previously recorded reserves and other charges associated with the Company's 2006 Transformation Plan. Also included are a charge of \$1.8 billion (before and after taxes) for the impairment of goodwill in the Company's U.S. Printing Papers and U.S. and European Coated Paperboard businesses, a pre-tax charge of \$107 million (\$84 million after taxes) to write

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down the assets of the Inverurie, Scotland mill to estimated fair value, a pre-tax gain of \$6 million (\$4 million after taxes) for adjustments to estimated transaction costs accrued in connection with the 2006 Transformation Plan forestland sales, a \$39 million charge before taxes (\$24 million after taxes) relating to the write-up of inventory to fair value in connection with the CBPR acquisition, and a \$45 million charge before taxes (\$28 million after taxes) for integration costs associated with the CBPR acquisition.

(e) Includes a pre-tax charge of \$25 million (\$16 million after taxes) for the settlement of a post-closing adjustment on the sale of the Beverage Packaging business, pre-tax gains of \$9 million (\$5 million after taxes) for adjustments to reserves associated with the sale of discontinued businesses, and the operating results of certain wood products facilities.

(f) Includes a \$40 million tax benefit related to the restructuring of the Company's international operations.

2007:

(g) Includes restructuring and other charges of \$95 million before taxes (\$59 million after taxes), including a \$30 million charge before taxes (\$19 million after taxes) for organizational restructuring and other charges principally associated with the Company's 2006 Transformation Plan, a charge of \$60 million before taxes (\$38 million after taxes) of accelerated depreciation charges, a \$10 million charge before taxes (\$6 million after taxes) for environmental costs associated with a mill closure, and a pre-tax gain of \$5 million (\$4 million after taxes) for other items. Also included are a \$9 million pre-tax gain (\$5 million after taxes) to reduce estimated transaction costs accrued in connection with the 2006 sale of U.S. forestlands included in the Company's 2006 Transformation Plan; and a \$327 million gain before taxes (\$267 million after taxes) for net gains on sales and impairments of businesses including a pre-tax gain of \$113 million (\$102 million after taxes) on the sale of the Arizona Chemical business, a gain of \$205 million before taxes (\$159 million after taxes) related to the asset exchange for the Luiz Antonio mill in Brazil, and a pre-tax gain of \$9 million (\$6 million after taxes) for other items.

(h) Includes a pre-tax gain of \$20 million (\$8 million after taxes) relating to the sale of the Wood Products business, a pre-tax loss of \$30 million (\$48 million after taxes) for adjustments to the loss on the sale of the Beverage Packaging business, a pre-tax gain of \$6 million (\$4 million after taxes) for adjustments to the loss on the sale of the Kraft Papers business, and a net \$6 million pre-tax credit (\$4 million after taxes) for payments received relating to the Company's Weldwood of Canada Limited business, and the year-to-date operating results of the Beverage Packaging and Wood Products businesses.

(i) Includes a \$41 million tax benefit relating to the effective settlement of certain income tax audit issues.

2006:

(j) Includes restructuring and other charges of \$300 million before taxes (\$184 million after taxes), including a \$157 million charge before taxes (\$95 million after taxes) for organizational restructuring and other charges principally associated with the Company's 2006 Transformation Plan, a charge of \$165 million before taxes (\$102 million after taxes) for losses on early debt extinguishment, a \$97 million charge before taxes (\$60 million after taxes) for legal reserves, a \$115 million gain before taxes (\$70 million after taxes) for payments received relating to the Company's participation in the U.S. Coalition for Fair Lumber Imports, and a credit of \$4 million before taxes (\$3 million after taxes) for other items. Also included are a \$4.8 billion gain before taxes (\$2.9 billion after taxes) from sales of U.S. forestlands included in the Company's 2006 Transformation Plan; a charge of \$759 million before and after taxes for the impairment of goodwill in the Coated Paperboard and Shorewood businesses; a \$1.5 billion pre-tax charge (\$1.4 billion after taxes) for net losses on sales and impairments of businesses including \$1.4 billion before taxes (\$1.3 billion after taxes) for the U.S. Coated and Supercalendered Papers business, \$52 million before taxes (\$37 million after taxes) for certain assets in Brazil, and \$128 million before taxes (\$84 million after taxes) for the Company's Saillat mill in France to reduce the carrying value of net assets to their estimated fair value; the recognition of a previously deferred \$110 million gain before taxes (\$68 million after taxes)

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related to a 2004 sale of forestlands in Maine; and a pre-tax charge of \$21 million (zero after taxes) for other smaller items.

- (k) Includes a gain of \$100 million before taxes (\$79 million after taxes) from the sale of the Brazilian Coated Papers business, and pre-tax charges of \$116 million (\$72 million after taxes) for the Kraft Papers business, \$269 million (\$234 million after taxes) for the Wood Products business and \$121 million (\$90 million after taxes) for the Beverage Packaging business to reduce the carrying value of these businesses to their estimated fair value, and the 2006 operating results of the Kraft Paper, Brazilian Coated Papers, Wood Products and Beverage Packaging businesses.

2005:

- (l) Includes restructuring and other charges of \$340 million before taxes (\$213 million after taxes), including a \$256 million charge before taxes (\$162 million after taxes) for organizational restructuring and other charges principally associated with the Company's 2006 Transformation Plan, a \$57 million charge before taxes (\$35 million after taxes) for early extinguishment of debt, and a \$27 million charge before taxes (\$16 million after taxes) for legal reserves. Also included are a \$258 million pre-tax credit (\$151 million after taxes) for net insurance recoveries related to the hardboard siding and roofing litigation, a \$4 million credit before taxes (\$3 million after taxes) for the net reversal of restructuring reserves no longer required, a pre-tax charge of \$111 million (\$73 million after taxes) for net losses on sales and impairments of businesses sold or held for sale, and interest income of \$54 million before taxes (\$33 million after taxes), including \$43 million before taxes (\$26 million after taxes) related to a settlement with the U.S. Internal Revenue Service concerning the 1997 through 2000 U.S. federal income tax audit, and \$11 million before taxes (\$7 million after taxes) related to the collection of a note receivable from the 2001 sale of a business.
- (m) Includes a gain of \$29 million before taxes (\$361 million after taxes) from the 2005 sale of Carter Holt Harvey Limited, as well as, the 2005 operating results of the Carter Holt Harvey Limited, Kraft Papers, Brazilian Coated Papers, Wood Products and Beverage Packaging businesses.
- (n) Includes a \$454 million reduction in the income tax provision, including a reduction of \$627 million from a settlement reached with the U.S. Internal Revenue Service concerning the 1997 through 2000 U.S. federal income tax audit, a charge of \$142 million for deferred taxes related to earnings repatriations under the American Jobs Creation Act of 2004, and \$31 million of other tax charges.

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

International Paper Company reported net sales of \$23.4 billion in 2009, compared with \$24.8 billion in 2008 and \$21.9 billion in 2007. Net earnings totaled \$663 million in 2009, including \$1.4 billion of alternative fuel mixture credits and \$853 million of charges to restructure ongoing businesses, compared with a loss of \$1.3 billion in 2008, which included a \$1.8 billion goodwill impairment charge. Net earnings in 2007 totaled \$1.2 billion.

The Company performed well in 2009 considering the magnitude of the challenges it faced, both domestically and around the world. Despite weak global economic conditions, the Company generated record cash flow from operations, enabling us to reduce long-term debt by \$3.1 billion while increasing cash balances by approximately \$800 million. Also during 2009, the Company incurred 3.6 million tons of downtime, including 1.1 million tons associated with the shutdown of production capacity in our North American mill system to continue to match our production to our customers' needs. These actions should result in higher operating rates, lower fixed costs and lower payroll costs in 2010 and beyond. Furthermore, the realization of integration synergies in our U.S. Industrial Packaging business and overhead reduction initiatives across the Company position International Paper to benefit from a lower cost profile in future years.

As 2010 begins, we expect that first-quarter operations will continue to be challenging. In addition to being a seasonally slow quarter for many of our businesses, poor harvesting weather conditions in the U.S. South and increasing competition for limited supplies of recycled fiber are expected to lead to further increases in fiber costs for our U.S. mills. Planned maintenance outage expenses will also be higher than in the 2009 fourth quarter. However, we have announced product price increases for our major global manufacturing businesses, and while these actions may not have a significant effect on first-quarter results, we believe that the benefits beginning in the second quarter will be significant. Additionally, we expect to benefit from the capacity management, cost reduction and integration synergy actions taken during 2009. As a result, the Company remains positive about projected operating results in 2010, with improved earnings versus 2009 expected

in all major businesses. We will continue to focus on aggressive cost management and strong cash flow generation as 2010 progresses.

Results of Operations

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

International Paper operates in six segments: Industrial Packaging, Printing Papers, Consumer Packaging, Distribution, Forest Products, and Specialty Businesses and Other.

The following table shows the components of net earnings (loss) attributable to International Paper Company for each of the last three years:

<i>In millions</i>	2009	2008	2007
Industry segment operating profits	\$ 2,360	\$ 1,393	\$ 1,897
Corporate items, net	(181)	(103)	(206)
Corporate special items*	(334)	(1,949)	241
Interest expense, net	(669)	(492)	(297)
Noncontrolling interests	5	(5)	(5)
Income tax provision	(469)	(162)	(415)
Equity (loss) earnings	(49)	49	
Discontinued operations		(13)	(47)
Net earnings (loss) attributable to International Paper Company	\$ 663	\$ (1,282)	\$ 1,168

* Corporate special items include restructuring and other charges, goodwill impairment charges, gains on Transformation Plan forestland sales and net losses (gains) on sales and impairments of businesses.

Industry segment operating profits of \$2.4 billion were \$967 million higher in 2009 than in 2008. Operating profits benefited from lower energy and raw material costs (\$447 million), lower distribution costs (\$142 million), favorable manufacturing operating costs (\$481 million),

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incremental earnings from the CBPR business acquired in the third quarter of 2008 (\$202 million), and other items (\$35 million), offset by lower average sales price realizations (\$444 million), lower sales volumes and increased lack-of-order downtime (\$684 million), unfavorable

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mix of products sold (\$109 million) and lower earnings from land and mineral rights sales (\$383 million). However, special items were a gain of \$898 million in 2009 compared with a loss of \$382 million in 2008.

The principal changes in 2009 operating profit by segment were as follows:

Industrial Packaging profits of \$761 million were \$371 million higher as the benefits of increased sales volumes (including sales from the CBPR acquisition), favorable operating costs and lower raw material and freight costs were partially offset by lower average sales price realizations and integration costs associated with the acquisition of the CBPR business. In addition, operating profits in 2009 included a gain of \$849 million relating to alternative fuel mixture credits and \$740 million of costs associated with the closures of the Albany, Oregon and Pineville, Louisiana mills, a paper machine at the Valliant, Oklahoma mill, and the Etienne mill in France.

Printing Papers profits of \$1.1 billion increased \$617 million. The benefits of favorable mill operating costs, lower raw material and energy costs, lower freight costs and slightly lower facility shutdown costs were more than offset by the effects of lower sales volumes and increased lack-of-order downtime, lower average sales price realizations, and a less favorable mix of products sold. However, operating profits in 2009 also included a gain of \$884 million relating to alternative fuel mixture credits.

Consumer Packaging profits of \$433 million were up \$416 million as the benefits from lower raw material and energy costs, lower freight costs, higher average sales price realizations and lower charges associated with the reorganization of the Shorewood business more than offset lower sales volumes and increased lack-of-order downtime, unfavorable operating costs, and charges associated with the shutdown of the Franklin, Virginia mill. In addition, operating profits in 2009 included a gain of \$330 million relating to alternative fuel mixture credits.

Distributions profits of \$50 million were down \$53 million due to lower sales volumes and average sales margins partially offset by improved operating costs and a favorable inventory valuation adjustment.

Forest Products profits of \$25 million decreased \$384 million reflecting lower forestland and real estate sales in 2009, and \$261 million of profits on mineral rights sales realized in 2008.

Corporate items, net, of \$181 million of expense in 2009 were higher than the \$103 million of expense in 2008 due to higher pension expenses. The decrease in 2008 versus \$206 million of expense in 2007 reflects lower pension expenses.

Corporate special items, including restructuring and other items, impairments of goodwill, and net losses (gains) on sales and impairments of businesses, were a loss of \$334 million in 2009 compared with a loss of \$1.9 billion in 2008 and a gain of \$241 million in 2007. The loss in 2008 includes \$1.8 billion of goodwill impairment charges.

Interest expense, net, was \$669 million in 2009 compared with \$492 million in 2008 and \$297 million in 2007. The increases in 2009 and 2008 reflect the issuance of approximately \$6.0 billion of debt in connection with the acquisition of the CBPR business in 2008 and higher interest rates in 2009 due to refinancing actions taken to extend debt maturities.

The 2009 income tax provision of \$469 million includes a net \$165 million provision related to 2009 special tax adjustment items. The 2008 income tax provision of \$162 million includes a net \$11 million benefit related to 2008 special tax adjustment items. The 2007 income tax provision of \$415 million includes a \$41 million benefit related to 2007 special tax adjustment items. Excluding the tax effect of all special items, taxes as a percent of pre-tax earnings were 30% in 2009 compared with 31.5% in 2008 and 30% in 2007. The higher income tax rate in 2008 reflects a higher proportion of earnings in higher tax rate jurisdictions.

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Discontinued Operations

In 2008, \$13 million of net adjustments were recorded relating to post-closing adjustments and estimates associated with prior sales of discontinued businesses.

During 2007, the Company completed the sale of its Wood Products, Beverage Packaging and Kraft Papers operations. As a result of these actions, the operating results of these businesses and the associated gains/losses on the sales are reported in discontinued operations for all applicable periods presented.

Liquidity and Capital Resources

For the year ended December 31, 2009, International Paper generated \$4.7 billion of cash flow from continuing operations, including \$1.7 billion from alternative fuel mixture credits, compared with \$2.7 billion in 2008. Capital spending from continuing operations for 2009 totaled \$534 million, or 36% of depreciation and amortization expense. Cash expenditures for acquisitions totaled \$17 million, while net reductions of debt totaled \$3.1 billion. Our liquidity position remains strong, supported by approximately \$2.5 billion of committed 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.

Our focus in 2010 will be to maximize free cash flow, and we will use that cash to invest in high-return consumption-reduction capital projects and to reduce total debt, including the Company's unfunded pension obligation.

Capital spending for 2010 is targeted at \$800 million, or about 55% of depreciation and amortization.

Critical Accounting Policies and Significant Accounting Estimates

Accounting policies that may have a significant effect on our reported results of operations and financial position, and that can require judgments by management in their application, include accounting for contingent liabilities, impairments of long-lived assets and goodwill, pension and postretirement benefit obligations and income taxes.

Legal

See Note 11 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a discussion of legal matters.

CORPORATE OVERVIEW

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

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

The following is a discussion of International Paper's results of operations for the year ended December 31, 2009, and the major factors affecting these results compared to 2008 and 2007.

RESULTS OF OPERATIONS

For the year ended December 31, 2009, International Paper reported net sales of \$23.4 billion, compared with \$24.8 billion in 2008 and \$21.9 billion in 2007. International net sales (including U.S. exports) totaled \$6.4 billion, or 27% of total sales in 2009. This compares with

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international net sales of \$6.9 billion in 2008 and \$6.3 billion in 2007.

Full year 2009 net earnings attributable to International Paper Company totaled \$663 million (\$1.55 per share), compared with a loss of \$1.3 billion (\$3.05 per share) in 2008 and income of \$1.2 billion (\$2.70 per share) in 2007. Amounts include the results of discontinued operations.

Earnings from continuing operations attributable to International Paper Company, after taxes, in 2009 were \$663 million, including \$285 million of net

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special items charges, compared with a loss of \$1.3 billion, including \$2.1 billion of net special items charges, in 2008 and income of \$1.2 billion, including \$252 million of net special item income, in 2007. Compared with 2008, lower average raw material costs, favorable operating performance, incremental earnings from the CBPR business acquired in the 2008 third quarter, lower distribution costs, lower tax expense, and the incremental gain from special items were offset by the impact of lower average sales price realizations, lower sales volumes, lower earnings from land and mineral sales, higher net interest expense and higher corporate expenses. Additionally, 2009 results included lower equity earnings, net of taxes, relating to the Company's investment in Ilim Holding S.A.

See Industry Segment Results on pages 25 through 31 for a discussion of the impact of these factors by segment.

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

<i>In millions</i>	2009	2008	2007
Net Earnings (Loss) attributable to International Paper Company	\$ 663	\$ (1,282)	\$ 1,168
Deduct Discontinued operations:			
Loss from operations		1	11
Loss on sales or impairment		12	36
Earnings (Loss) From Continuing Operations Attributable to International Paper Company	663	(1,269)	1,215
Add back (deduct):			
Income tax provision	469	162	415
Equity (earnings) losses, net of taxes	49	(49)	
Net earnings attributable to noncontrolling interests	18	3	24
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	1,199	(1,153)	1,654
Interest expense, net	669	492	297
Noncontrolling interests / equity earnings included in operations	(23)	2	(19)
Corporate items	181	103	206
Special items:			
Restructuring and other charges	333	179	95
Gain on sale of forestlands		(6)	(9)
Impairments of goodwill		1,777	
Net losses (gains) on sales and impairments of businesses	1	(1)	(327)
	\$ 2,360	\$ 1,393	\$ 1,897
Industry Segment Operating Profit			
Industrial Packaging	\$ 761	\$ 390	\$ 374
Printing Papers	1,091	474	839
Consumer Packaging	433	17	112
Distribution	50	103	108
Forest Products	25	409	458
Specialty Businesses and Other			6
Total Industry Segment Operating Profit	\$ 2,360	\$ 1,393	\$ 1,897
<i>Discontinued Operations</i>			

2008: In 2008, net after-tax charges totaling \$12 million were recorded for adjustments of net losses (gains) on sales and impairments of businesses reported as discontinued operations, including a pre-tax charge of \$25 million (\$16 million after taxes) in the first quarter for the settlement of a post-closing adjustment on the sale of the Beverage Packaging business, and pre-tax gains of \$9 million (\$5 million after taxes) in the fourth quarter for adjustments to reserves associated with the sale of discontinued businesses.

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2007: In 2007, after tax charges totaling \$36 million were recorded for adjustments of net losses (gains) on sales and impairments of businesses reported as discontinued operations.

During the fourth quarter of 2007, the Company recorded a pre-tax charge of \$9 million (\$6 million after taxes) and a pre-tax credit of \$4 million (\$3 million after taxes) for adjustments to estimated losses on the sales of its Beverage Packaging and Wood Products businesses, respectively.

During the third quarter of 2007, the Company completed the sale of the remainder of its non-U.S. Beverage Packaging business.

During the second quarter of 2007, the Company recorded pre-tax charges of \$6 million (\$4 million after taxes) and \$5 million (\$3 million after taxes) relating to adjustments to estimated losses on the sales of its Wood Products and Beverage Packaging businesses, respectively.

During the first quarter of 2007, the Company recorded pre-tax credits of \$21 million (\$9 million after taxes) and \$6 million (\$4 million after taxes) relating to the sales of its Wood Products and Kraft Papers businesses, respectively. In addition, a \$15 million pre-tax charge (\$39 million after taxes) was recorded for adjustments to the loss on the completion of the sale of most of the Beverage Packaging business. Finally, a pre-tax credit of approximately \$10 million (\$6 million after taxes) was recorded for refunds received from the Canadian government of duties paid by the Company's former Weldwood of Canada Limited business.

Additionally, a \$4 million pre-tax charge (\$3 million after taxes) was recorded for additional taxes associated with the Company's former Weldwood of Canada Limited business.

Discontinued operations also includes the operating results for these businesses for all applicable periods presented.

Income Taxes

A net income tax provision of \$469 million was recorded for 2009, including a \$156 million expense for the write-off of deferred tax assets in France, a \$15 million write-off of a deferred tax asset for a recycling tax credit in the state of Louisiana, and a \$26 million tax benefit related to the settlement of the 2004 and 2005 U.S. federal income tax audit. Excluding these items and the tax effect of other special items, the tax provision was \$190 million or 30% of pre-tax earnings before equity earnings.

A net income tax provision of \$162 million was recorded for 2008, including a \$40 million tax benefit related to the restructuring of the Company's international operations and a \$29 million charge for estimated U.S. income taxes on a gain recorded by the Company's Ilim Holding S.A. joint venture related to the sale of a Russian subsidiary. Excluding these items and the tax effect of other special items, the tax provision was \$369 million or 31.5% of pre-tax earnings before equity earnings.

In 2007, a net income tax provision of \$415 million was recorded, including a \$41 million tax benefit relating to the effective settlement of certain income tax audit issues and other special tax adjustment items. Excluding this item and the tax effect of other special items, the tax provision was \$423 million, or 30% of pre-tax earnings before equity earnings.

The higher income tax rate in 2008 reflects a higher proportion of earnings in higher tax rate jurisdictions.

Equity Earnings, Net of Taxes

Equity earnings, net of taxes in 2009 and 2008 consisted principally of the Company's share of earnings from its 50% investment in Ilim Holding S.A. in Russia (see pages 30 and 31).

Corporate Items and Interest Expense

Corporate items totaled \$181 million of expense for the twelve months ended December 31, 2009 compared with \$103 million in 2008 and \$206 million in 2007. The increase in 2009 principally reflects higher pension expenses. The decrease in 2008 from 2007 primarily reflects lower pension expenses.

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Net interest expense totaled \$669 million in 2009 and \$492 million in 2008. In 2007, net interest expense totaled \$297 million (\$299 million excluding a pre-tax credit of \$2 million for interest received from the Canadian government on refunds of prior-year softwood lumber duties). The increases from 2008 to 2009 and from 2007 to 2008 reflect a higher average debt balance due to the issuance of approximately \$6 billion of debt in 2008, mainly in connection with the acquisition of the CBPR business, and higher average interest rates in 2009 due to refinancing actions taken to extend debt maturities.

Net earnings attributable to noncontrolling interests totaled \$18 million in 2009 compared with \$3 million in 2008 and \$24 million in 2007. The increase in 2009 reflects higher earnings for the International Paper &

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Sun Cartonboard Co., Ltd. joint ventures. The decrease in 2008 from 2007 reflected lower earnings for the International Paper & Sun Cartonboard Co., Ltd. joint ventures in 2008 and the Company's acquisition of the remaining shares of a Moroccan packaging joint venture in the third quarter of 2007.

Special Items

Restructuring and Other Charges

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

During 2009, the Company closed or announced the pending closure of five mills globally, closed 24 converting or distribution locations, and reduced overhead headcount through a program initiated in 2008. These actions will allow the Company to reduce its fixed costs, reduce payroll costs due to a reduction in headcount by 6,000, and should result in higher operating rates in 2010 and beyond. We expect the annual savings from these actions to approximate \$650 million.

2009: During 2009, corporate restructuring and other charges totaling \$333 million before taxes (\$205 million after taxes) were recorded. These charges included:

a \$148 million charge before taxes (\$92 million after taxes) for severance and benefit costs associated with the Company's 2008 overhead reduction initiative,

a \$185 million charge before taxes (\$113 million after taxes) for costs related to the early extinguishment of debt (see Notes 13 and 14 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data),

In addition, restructuring and other charges totaling \$1.0 billion before taxes (\$648 million after taxes) were recorded in the Industrial Packaging, Printing

Papers, Consumer Packaging and Distribution industry segments including:

a \$469 million charge before taxes (\$286 million after taxes), including \$429 million of noncash accelerated depreciation charges, for closure costs related to the Company's containerboard mill in Albany, Oregon,

a \$290 million charge before taxes (\$177 million after taxes), including \$239 million of noncash accelerated depreciation charges, for closure costs related to the paper mill and associated operations in Franklin, Virginia (additional charges of approximately \$320 million before taxes will be incurred in 2010 prior to final closure),

a \$102 million charge before taxes (\$62 million after taxes), including \$75 million of noncash accelerated depreciation charges, for closure costs related to the Company's containerboard mill in Pineville, Louisiana,

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an \$82 million charge before taxes (\$50 million after taxes), including \$78 million of noncash accelerated depreciation charges, for costs related to the permanent shut down of a paper machine at the Company's Valliant, Oklahoma containerboard mill,

a \$31 million charge, before and after taxes, for severance and other costs related to the planned closure of the Company's Etienne mill in France,

a \$23 million charge before taxes (\$28 million after taxes) for closure costs related to the Inverurie mill in Scotland, and

a \$23 million charge before taxes (\$14 million after taxes) for other items.

2008: During 2008, corporate restructuring and other charges totaling \$179 million before taxes (\$110 million after taxes) were recorded. These charges included:

a \$53 million charge before taxes (\$32 million after taxes) for severance and related costs associated with the Company's 2008 overhead cost reduction initiative,

a \$75 million charge before taxes (\$47 million after taxes) for adjustments to legal reserves,

a \$53 million pre-tax charge (\$33 million after taxes) to write off deferred supply chain initiative development costs for U.S. container operations that will not be implemented due to the CBPR acquisition, and

a \$2 million gain (before and after taxes) for adjustments to previously recorded reserves and other charges associated with the Company's 2006 Transformation Plan.

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In addition, restructuring and other charges totaling \$191 million (\$117 million after taxes) were recorded in the Printing Papers, Industrial Packaging and Consumer Packaging industry segments including:

a \$123 million charge (\$75 million after taxes) for costs associated with the shutdown of the Bastrop, Louisiana mill,

a \$30 million charge (\$18 million after taxes) for costs associated with the shutdown of a paper machine at the Franklin, Virginia mill,

a \$30 million charge (\$19 million after taxes) related to the reorganization of the Company's Shorewood operations, and

an \$8 million charge (\$5 million after taxes) for closure costs associated with the Ace Packaging business.

2007: During 2007, total restructuring and other charges of \$95 million before taxes (\$59 million after taxes) were recorded. These charges included:

a \$30 million charge before taxes (\$19 million after taxes) for organizational restructuring programs, principally associated with the Company's 2006 Transformation Plan,

a \$27 million pre-tax charge (\$17 million after taxes) for the accelerated depreciation of long-lived assets being removed from service,

a \$33 million charge before taxes (\$21 million after taxes) for accelerated depreciation charges for the Terre Haute mill that was shut down as part of the 2006 Transformation Plan,

a \$10 million charge before taxes (\$6 million after taxes) for environmental costs associated with the Terre Haute mill,

a \$4 million charge before taxes (\$2 million after taxes) related to the restructuring of the Company's Brazilian operations, and

a pre-tax gain of \$9 million (\$6 million after taxes) for an Ohio Commercial Activity tax adjustment.

A further discussion of restructuring and other charges can be found in Note 5 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Gain on Sale of Forestlands

2008: During the second and third quarters of 2008, a pre-tax gain totaling \$6 million (\$4 million after taxes) was recorded to adjust reserves related to the 2006 Transformation Plan forestland sales.

2007: During the third quarter of 2007, a pre-tax gain of \$9 million (\$5 million after taxes) was recorded to reduce estimated transaction costs accrued in connection with the 2006 Transformation Plan forestland sales.

Impairments of Goodwill

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In the fourth quarter of 2008, in conjunction with annual testing of its reporting units for possible goodwill impairments as of the beginning of the fourth quarter, the Company recorded a \$59 million charge to write off all recorded goodwill of its European Coated Paperboard business. Subsequent to this testing date, and based on interim goodwill impairment tests performed as of December 31, 2008, additional goodwill impairment charges of \$1.3 billion and \$379 million were recorded for the Company's U.S. Printing Papers business and its U.S. Coated Paperboard business, respectively.

No goodwill impairment charges were recorded in 2009 or 2007.

Net Losses (Gains) on Sales and Impairments of Businesses

Net losses (gains) on sales and impairments of businesses included in Corporate special items totaled a pre-tax loss of \$1 million (a gain of \$2 million after taxes) in 2009, a gain of \$1 million, before and after taxes, in 2008 and a pre-tax gain of \$327 million (\$267 million after taxes) in 2007. The principal components of these gains/losses and other net gains/losses included in the industry operating segment results were:

2009: During the second quarter of 2009, based on a current strategic plan update of projected future operating results of the Company's Etienne, France mill, a determination was made that the current book value of the mill's long-lived assets exceeded their estimated fair value, calculated using the probability-weighted present value of projected future cash flows. As a result, a \$48 million noncash charge, before and after taxes, was recorded to write down the long-lived assets of the mill to their estimated fair value.

During the fourth quarter of 2009, an \$8 million noncash charge, before and after taxes, was

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recorded related to the Company's Etienne, France mill which was closed at the end of November 2009. In addition, a pre-tax charge of \$3 million (\$0 million after taxes) was recorded for other items, of which a \$2 million charge (before and after taxes) was recorded in the Industrial Packaging segment.

2008: During the first quarter of 2008, a \$1 million credit (before and after taxes) was recorded to adjust the estimated loss for a business previously sold.

In addition, a \$107 million noncash loss (\$84 million after taxes) for the impairment of the Inverurie, Scotland mill was recorded in the Printing Papers industry segment.

2007: During the fourth quarter of 2007, a \$13 million net pre-tax credit (\$9 million after taxes) was recorded to adjust estimated gains/losses of businesses previously sold, including a \$7 million pre-tax credit (\$5 million after taxes) to adjust the estimated loss on the sale of box plants in the United Kingdom and Ireland, and a \$5 million pre-tax credit (\$3 million after taxes) to adjust the estimated loss on the sale of the Maresquel mill in France.

During the third quarter of 2007, a pre-tax charge of \$1 million (\$1 million credit after taxes) was recorded to adjust previously estimated losses on businesses previously sold.

During the second quarter of 2007, a \$1 million net pre-tax credit (a \$7 million charge after taxes, including a \$5 million tax charge in Brazil) was recorded to adjust previously estimated gains/losses of businesses previously sold.

During the first quarter of 2007, a \$103 million pre-tax gain (\$96 million after taxes) was recorded upon the completion of the sale of the Company's Arizona Chemical business. As part of the transaction, International Paper acquired an equity interest of approximately 10% in the resulting new entity. Since the interest acquired represents significant continuing involvement in the operations of the business under accounting principles generally accepted in the United States, the operating results for Arizona Chemical have been included in continuing operations in the accompanying consolidated statement of operations through the date of sale.

In addition, during the first quarter of 2007, a \$6 million pre-tax credit (\$4 million after taxes) was recorded to adjust previously estimated gains/losses of businesses previously sold.

These gains are included, along with a \$205 million pre-tax gain (\$159 million after taxes) on the

exchange for the Luiz Antonio mill in Brazil (see Note 6 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data), in Net losses (gains) on sales and impairments of businesses in the accompanying consolidated statement of operations.

Industry Segment Operating Profits

Industry segment operating profits of \$2.4 billion in 2009 increased from both \$1.4 billion in 2008 and \$1.9 billion in 2007 reflecting a \$898 million net gain from special items in 2009 versus a \$382 million net loss in 2008. The benefits of lower energy and raw material costs (\$447 million), lower distribution costs (\$142 million), favorable manufacturing operating costs (\$481 million), incremental earnings from the CBPR business acquired in the third quarter of 2008 (\$202 million), and other items (\$35 million) were offset by lower average sales price realizations (\$444 million), lower sales volumes and increased lack-of-order downtime (\$684 million), unfavorable mix of products sold (\$109 million) and lower earnings from land and mineral rights sales (\$383 million).

Lack-of-order downtime in 2009 increased to approximately 3.6 million tons compared with approximately one million tons in 2008 and 50,000 tons in 2007. The 2009 total includes approximately 400,000 tons associated with the shutdown of a paper machine at our Valliant mill in 2009, and 50,000 tons associated with the permanent shutdown of our Pineville and Albany mills at the end of the fourth quarter of 2009. In addition, approximately 600,000 tons are included in the 2009 total and 105,000 tons are included in the 2008 total associated with the permanent shutdown of our Bastrop mill and the shutdown of an uncoated paper machine at our Franklin mill in the fourth quarter of 2008.

Looking ahead to the 2010 first quarter, operating conditions in January and February are expected to be difficult. The first quarter is typically a seasonally slow period, and we anticipate only modest U.S. economic recovery. Input cost inflation experienced in the 2009 fourth quarter is expected to continue, reflecting poor wood harvesting conditions in the U.S. South due to unusually cold and wet weather, and strong global competition for recycled fiber primarily due to a reduction in supply for recycled fiber caused by the global recession in 2009. Demand for North American paper and packaging should improve slightly, while slight seasonal decreases are expected in other global markets. Pulp prices are

expected to continue to improve, and we expect to realize previously announced price

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increases on paper and packaging grades as the first quarter progresses. Planned maintenance outage costs in the United States are expected to increase while remaining about flat in Europe and Brazil. Earnings from our *xpedx* distribution business will reflect seasonally lower shipments and the absence of a favorable inventory valuation adjustment in the 2009 fourth quarter. Equity earnings from our Ilim joint venture are expected to decrease, reflecting higher input costs, an extended mill outage and foreign exchange losses.

DESCRIPTION OF INDUSTRY SEGMENTS

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

Industrial Packaging

International Paper is the largest manufacturer of containerboard in the United States. Our production capacity is about 10 million tons annually. Our products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. About 70% of our production is converted domestically into corrugated boxes and other packaging by our 129 U.S. container plants. Additionally, we recycle approximately one million tons of OCC and mixed and white paper through our 21 recycling plants. In Europe, our operations include one recycled containerboard mill in Morocco and 21 container plants in France, Italy, Spain, and Morocco. In Asia, our operations include 11 container plants in China and one container plant in Thailand. Our container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives.

Printing Papers

International Paper is one of the largest manufacturers of uncoated freesheet printing papers in the world. Products in this segment principally include uncoated papers and market pulp. We also produce coated papers and uncoated bristles.

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 and Brazil. The mills have uncoated paper production capacity of approximately 5.3 million tons annually. Brazilian operations function through International Paper do Brasil, Ltda, which owns or manages approximately 250,000 acres of forestlands in Brazil.

MARKET PULP: Market pulp is used in the manufacture of printing, writing and specialty papers, towel and tissue products and filtration products. Pulp is also converted into products such as diapers and sanitary napkins. Pulp products include fluff and southern softwood pulp, as well as southern and birch hardwood paper pulps. These products are produced in the United States, France, Poland, Russia and Brazil and are sold around the world. International Paper facilities have annual dried pulp capacity of about 1.5 million tons.

Consumer Packaging

International Paper is the world's largest producer of solid bleached sulfate board with annual U.S. production capacity of about 1.7 million tons. Our coated paperboard business produces high quality coated paperboard for a variety of packaging and commercial printing end uses. Our *Everest*[®], *Fortress*[®] and *Starcote*[®] brands are used in packaging applications for everyday products such as food, cosmetics, pharmaceuticals, computer software and tobacco products. Our *Carolina*[®] brand is used in commercial printing end uses such as greeting cards, paperback book covers, lottery tickets, direct mail and point-of-purchase advertising. Our U.S. capacity is supplemented by about 330,000 tons of capacity at our mills producing coated board in Poland and Russia, and by our International Paper & Sun Cartonboard Co., Ltd. joint venture in China which has an annual capacity of 915,000 tons.

Shorewood Packaging Corporation produces premium packaging with high-impact graphics for a variety of markets, including home entertainment, tobacco, cosmetics, general consumer and pharmaceuticals, in 16 facilities worldwide.

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

Table of Contents***Distribution***

xpedx, our North American merchant distribution business, distributes products and services to a number of customer markets including: commercial printers with printing papers and graphic pre-press, printing presses and post-press equipment; building services and away-from-home markets with facility supplies; manufacturers with packaging supplies and equipment; and to a growing number of customers, we exclusively provide distribution capabilities including warehousing and delivery services. *xpedx* is the leading wholesale distribution marketer in these customer and product segments in North America, operating 122 warehouse locations and 130 retail stores in the United States, Mexico and Canada.

Forest Products

International Paper owns and manages approximately 200,000 acres of forestlands and development properties in the United States, mostly in the South. Our remaining forestlands are managed as a portfolio to optimize the economic value to our shareholders. Most of our portfolio represents properties that are likely to be sold to investors and other buyers for various purposes.

Specialty Businesses and Other

CHEMICALS: This business was sold in the first quarter of 2007.

Ilim Holding S.A.

In October 2007, International Paper and Ilim Holding S.A. (Ilim) completed a 50:50 joint venture to operate a pulp and paper business located in Russia. Ilim's facilities include three paper mills located in Bratsk, Ust-Ilimsk, and Koryazhma, Russia, with combined total pulp and paper capacity of over 2.5 million tons. Ilim has exclusive harvesting rights on timberland and forest areas exceeding 12.8 million acres (5.2 million hectares).

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

INDUSTRY SEGMENT RESULTS***Industrial Packaging***

Demand for Industrial Packaging products is closely correlated with non-durable industrial goods production, as well as with demand for processed foods,

poultry, meat and agricultural products. In addition to prices and volumes, major factors affecting the profitability of Industrial Packaging are raw material and energy costs, freight costs, manufacturing efficiency and product mix.

INDUSTRIAL PACKAGING results for 2009 and 2008 include the CBPR business acquired in the 2008 third quarter. Net sales for 2009 increased 16% to \$8.9 billion compared with \$7.7 billion in 2008, and 69% compared with \$5.2 billion in 2007. Operating profits were 95% higher in 2009 than in 2008 and more than double 2007 levels. Benefits from higher total year-over-year shipments, including the impact of the CBPR business, (\$11 million), favorable operating costs (\$294 million), and lower raw material and freight costs (\$295 million) were partially offset by the effects of lower price realizations (\$243 million), higher corporate overhead allocations (\$85 million), incremental integration costs associated with the acquisition of the CBPR business (\$3 million) and higher other costs (\$7 million). Additionally, operating profits in 2009 included a gain of \$849 million relating to alternative fuel mixture credits, U.S. plant closure costs of \$653 million, and costs associated with the shutdown of the Etienne mill in France of \$87 million.

Industrial Packaging

In millions

	2009	2008	2007
Sales	\$ 8,890	\$ 7,690	\$ 5,245
Operating Profit	761	390	374

NORTH AMERICAN INDUSTRIAL PACKAGING results include the net sales and operating profits of the CBPR business from the August 4, 2008 acquisition date. Net sales were \$7.6 billion in 2009 compared with \$6.2 billion in 2008 and \$3.9 billion in 2007. Operating profits in 2009

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were \$791 million (\$682 million excluding alternative fuel mixture credits, mill closure costs and costs associated with the CBPR integration) compared with \$322 million (\$414 million excluding charges related to the write-up of CBPR inventory to fair value, CBPR integration costs and other facility closure costs) in 2008 and \$305 million in 2007.

Excluding the effect of the CBPR acquisition, containerboard and box shipments were lower in 2009 compared with 2008 reflecting weaker customer demand. Average sales price realizations were significantly lower for both containerboard and boxes due to weaker world-wide economic conditions. However, average sales margins for boxes

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increased, reflecting a slower decline in box prices than in the raw material cost of containerboard, and CBPR integration benefits. Full-year input costs for wood, energy and chemicals were lower, although costs for fiber and energy increased significantly in the fourth quarter of 2009. Freight costs were also lower. Planned maintenance downtime costs decreased slightly from 2008 levels, and operating costs were significantly lower, particularly in the box plants, reflecting benefits from cost control initiatives. Lack-of-order downtime totaled 2.2 million tons, including approximately 450,000 tons related to the idled paper machine at the Valliant, Oklahoma mill and the late December shutdowns of the Albany, Oregon and Pineville, Louisiana mills in 2009, compared with 700,000 tons in 2008.

Looking forward to the first quarter of 2010, sales volumes are expected to be slightly higher than in the fourth quarter of 2009 and average sales price realizations are expected to improve by the end of the quarter, reflecting the impact of previously announced price increases for containerboard. However, input costs are expected to be significantly higher for energy as well as for wood and recycled fiber due to poor harvesting weather conditions in the U.S. South and strong competition for recycled fiber. Planned maintenance downtime costs will also be higher with outages scheduled at five mills. Manufacturing operating costs are expected to be lower, reflecting benefits of the mill closures in December and improved operations.

EUROPEAN INDUSTRIAL PACKAGING net sales for 2009 were \$980 million compared with \$1.2 billion in 2008, and \$1.1 billion in 2007. Operating profits in 2009 were a loss of \$30 million (a gain of \$57 million excluding costs associated with the closure of the Etienne mill in France) compared with earnings of \$64 million in 2008 and \$67 million in 2007. Sales volumes in 2009 were lower than in 2008, principally reflecting weak customer demand for industrial packaging containers throughout the region. Sales margins improved as reductions in kraft and recycled containerboard costs were greater than declines in box prices. Input costs were favorable, primarily for energy, but operating costs were unfavorable. The operating loss in 2009 includes \$87 million of costs associated with the closure of the Etienne mill in November 2009.

Entering the first quarter of 2010, sales volumes are expected to be lower, reflecting seasonally weaker demand for agricultural boxes and continued weak demand for industrial packaging boxes. Average sales price realizations for boxes are expected to

improve, but costs for containerboard are expected to increase.

ASIAN INDUSTRIAL PACKAGING net sales for 2009 were \$325 million compared with \$350 million in 2008 and \$265 million in 2007. Operating profits in 2009 were about breakeven (earnings of \$2 million excluding the impairment of an investment in a joint venture) compared with profits of \$4 million in 2008 and \$2 million in 2007.

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. Market pulp is further affected by changes in currency rates that can enhance or disadvantage producers in different geographic regions. Principal cost drivers include manufacturing efficiency, raw material and energy costs and freight costs.

PRINTING PAPERS net sales for 2009 decreased 17% from 2008 and 13% from 2007. Operating profits in 2009 were more than double profits in 2008 and 30% higher than in 2007. However, excluding alternative fuel mixture credits and plant closure costs, operating profits in 2009 were 37% lower than in 2008 and 45% lower than in 2007. Benefits from improved manufacturing operations (\$144 million), lower raw material and energy costs (\$130 million), lower freight costs (\$61 million), favorable foreign exchange impacts (\$22 million) and other items (\$11 million) were more than offset by lower sales volumes and increased lack-of-order downtime (\$215 million), lower average sales price realizations (\$341 million) and an unfavorable mix of products sold (\$82 million). Operating profits in 2009 included \$884 million of alternative fuel mixture credits, \$223 million of costs associated with the permanent shutdown of our Franklin mill and \$34 million of other restructuring costs, while 2008 operating profits included a charge of \$123 million for costs associated with the permanent shutdown of our Bastrop mill, a \$107 million impairment charge to reduce the carrying value of the fixed assets at our Inverurie, Scotland mill and \$30 million of costs associated with the shutdown of a paper machine at our Franklin mill. The printing papers segment took 1.4 million tons of downtime in 2009 including 1.1 million tons of lack-of-order downtime of which approximately 600,000 tons were related to the shutdowns of our Bastrop mill and a paper machine at our Franklin

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mill in the fourth quarter of 2008. This compares with 635,000 tons of total downtime in 2008 of which 305,000 tons were lack-of-order downtime.

Printing Papers

<i>In millions</i>	2009	2008	2007
Sales	\$ 5,680	\$ 6,810	\$ 6,530
Operating Profit	1,091	474	839

NORTH AMERICAN PRINTING PAPERS net sales in 2009 were \$2.8 billion compared with \$3.4 billion in 2008 and \$3.5 billion in 2007. Operating earnings in 2009 were \$746 million (\$307 million excluding alternative fuel mixture credits and plant closure costs) compared with \$405 million (\$435 million excluding shutdown costs for a paper machine) in 2008 and \$415 million in 2007. Sales volumes decreased significantly in 2009 compared with 2008 reflecting weak customer demand and reduced production capacity resulting from the shutdown of a paper machine at the Franklin mill in December 2008 and the conversion of the Bastrop mill to pulp production in June 2008. Average sales price realizations were lower reflecting slight declines for uncoated freesheet paper in domestic markets and significant declines in export markets. Margins were also unfavorably affected by a higher proportion of shipments to lower-margin export markets. Input costs, however, were favorable due to lower wood and chemical costs and significantly lower energy costs. Freight costs were also lower. Planned maintenance downtime costs in 2009 were comparable with 2008. Operating costs were favorable, reflecting cost control efforts and strong machine performance. Lack-of-order downtime increased to 525,000 tons in 2009, including 120,000 tons related to the shutdown of a paper machine at our Franklin mill in the 2008 fourth quarter, from 135,000 tons in 2008. Operating earnings in 2009 included \$671 million of alternative fuel mixture credits, \$223 million of costs associated with the shutdown of our Franklin mill and \$9 million of other shutdown costs, while operating earnings in 2008 included \$30 million of costs for the shutdown of a paper machine at our Franklin mill.

Looking ahead to 2010, first-quarter sales volumes are expected to increase slightly from fourth-quarter 2009 levels. Average sales price realizations should be higher, reflecting the full-quarter impact of sales price increases announced in the fourth quarter for converting and envelope grades of uncoated freesheet paper and an increase in prices to export markets. However, input costs for wood, energy and chemicals are expected to continue to increase. Planned maintenance downtime costs should be lower and operating costs should be favorable.

BRAZILIAN PAPERS net sales for 2009 of \$960 million increased from \$950 million in 2008 and \$850 million in 2007. Operating profits for 2009 were \$112 million compared with \$186 million in 2008 and \$174 million in 2007. Sales volumes increased in 2009 compared with 2008 for both paper and pulp reflecting higher export shipments. Average sales price realizations were lower due to strong competitive pressures in the Brazilian domestic market in the second half of the year, lower export prices and unfavorable foreign exchange rates. Margins were unfavorably affected by a higher proportion of lower margin export sales. Input costs for wood and chemicals were favorable, but these benefits were partially offset by higher energy costs. Planned maintenance downtime costs were lower, and operating costs were also favorable. Earnings in 2009 were adversely impacted by unfavorable foreign exchange effects.

Entering 2010, sales volumes are expected to be seasonally lower compared with the fourth quarter of 2009. Profit margins are expected to be slightly higher reflecting a more favorable geographic sales mix and improving sales price realizations in export markets, partially offset by higher planned maintenance outage costs.

EUROPEAN PAPERS net sales in 2009 were \$1.3 billion compared with \$1.7 billion in 2008 and \$1.5 billion in 2007. Operating profits in 2009 of \$92 million (\$115 million excluding expenses associated with the closure of the Inverurie mill) compared with \$39 million (\$146 million excluding a charge to reduce the carrying value of the fixed assets at the Inverurie, Scotland mill to their estimated realizable value) in 2008 and \$171 million in 2007. Sales volumes in 2009 were lower than in 2008 primarily due to reduced sales of uncoated freesheet paper following the closure of the Inverurie mill in 2009. Average sales price realizations decreased significantly in 2009 across most of Western Europe, but margins increased in Poland and Russia reflecting the effect of local currency devaluations. Input costs were favorable as lower wood costs, particularly in Russia, were only partially offset by higher energy costs in Poland and higher chemical costs. Planned maintenance downtime costs were higher in 2009 than in 2008, while manufacturing operating costs were lower. Operating profits in 2009 also reflect favorable foreign exchange impacts.

Looking ahead to 2010, sales volumes are expected to decline from strong 2009 fourth-quarter levels despite solid customer demand. Average sales price realizations are expected to increase over the quarter, primarily in Eastern Europe, as price increases

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for uncoated freesheet paper and market pulp announced at the end of 2009 become effective. Input costs are expected to be higher due to wood supply constraints at the Kwidzyn mill and annual tariff increases on energy in Russia. Planned maintenance outage costs are expected to be about flat, while operating costs should be favorable.

ASIAN PRINTING PAPERS net sales were approximately \$50 million in 2009 compared with approximately \$20 million in both 2008 and 2007. Operating earnings increased slightly in 2009 compared with 2008, but were less than \$1 million in all periods.

U.S. MARKET PULP net sales in 2009 totaled \$575 million compared with \$750 million in 2008 and \$655 million in 2007. Operating earnings in 2009 were \$140 million (a loss of \$71 million excluding alternative fuel mixture credits and plant closure costs) compared with a loss of \$156 million (a loss of \$33 million excluding costs associated with the permanent shutdown of the Bastrop mill) in 2008 and earnings of \$78 million in 2007.

Sales volumes in 2009 decreased from 2008 levels due to weaker global demand. Average sales price realizations were significantly lower as the decline in demand resulted in significant price declines for market pulp and smaller declines in fluff pulp. Input costs for wood, energy and chemicals decreased, and freight costs were significantly lower. Mill operating costs were favorable across all mills, and planned maintenance downtime costs were lower. Lack-of-order downtime in 2009 increased to approximately 540,000 tons, including 480,000 tons related to the permanent shutdown of our Bastrop mill in the fourth quarter of 2008, compared with 135,000 tons in 2008.

In the first quarter of 2010, sales volumes are expected to increase slightly, reflecting improving customer demand for fluff pulp, offset by slightly seasonally weaker demand for softwood and hardwood pulp in China. Average sales price realizations are expected to improve, reflecting the realization of previously announced sales price increases for fluff pulp, hardwood pulp and softwood pulp. Input costs are expected to increase for wood, energy and chemicals, and freight costs may also increase. Planned maintenance downtime costs will be higher, but operating costs should be about flat.

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 net sales in 2009 decreased 4% compared with 2008 and increased 1% compared with 2007. Operating profits increased significantly compared with both 2008 and 2007. Excluding alternative fuel mixture credits and facility closure costs, 2009 operating profits were significantly higher than 2008 and 57% higher than 2007. Benefits from higher average sales price realizations (\$114 million), lower raw material and energy costs (\$114 million), lower freight costs (\$21 million), lower costs associated with the reorganization of the Shorewood business (\$23 million), favorable foreign exchange effects (\$14 million) and other items (\$12 million) were partially offset by lower sales volumes and increased lack-of-order downtime (\$145 million) and costs associated with the permanent shutdown of the Franklin mill (\$67 million). Additionally, operating profits in 2009 included \$330 million of alternative fuel mixture credits.

Consumer Packaging

In millions

	2009	2008	2007
Sales	\$ 3,060	\$ 3,195	\$ 3,015
Operating Profit	433	17	112

NORTH AMERICAN CONSUMER PACKAGING net sales were \$2.2 billion compared with \$2.5 billion in 2008 and \$2.4 billion in 2007. Operating earnings in 2009 were \$343 million (\$87 million excluding alternative fuel mixture credits and facility closure costs) compared with \$8 million (\$38 million excluding facility closure costs) in 2008 and \$70 million in 2007.

Coated Paperboard sales volumes were lower in 2009 compared with 2008 reflecting weaker market conditions. Average sales price realizations were significantly higher, reflecting the full-year realization of price increases implemented in the second half of 2008. Raw material costs for wood, energy and chemicals were significantly lower in 2009, while freight costs were also favorable. Operating costs, however, were unfavorable and planned maintenance downtime costs were higher. Lack-of-order downtime increased to 300,000 tons in 2009 from 15,000 tons in 2008 due to weak demand. Operating results in 2009 include income of \$330 million for alternative fuel mixture credits and \$67 million of expenses for shutdown costs for the Franklin mill.

Foodservice sales volumes were lower in 2009 than in 2008 due to generally weak world-wide economic conditions. Average sales price realizations were

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higher in the first half of the year, but declined during the second half of the year reflecting the pass-through to customers of lower resin input costs. However, average margins benefitted from a more favorable mix of products sold. Raw material costs were lower, primarily for resins. Freight costs were also favorable, while operating costs increased.

Shorewood sales volumes in 2009 declined from 2008 levels reflecting weaker demand in the home entertainment segment and a decrease in tobacco segment orders as customers have shifted production outside of the United States, partially offset by higher shipments in the consumer products segment. Average sales margins improved reflecting a more favorable mix of products sold. Raw material costs were higher, but were partially offset by lower freight costs. Operating costs were favorable, reflecting benefits from business reorganization and cost reduction actions taken in 2008 and 2009. Charges to restructure operations totaled \$7 million in 2009 and \$30 million in 2008.

Entering 2010, Coated Paperboard sales volumes are expected to increase, while average sales price realizations should be comparable to 2009 fourth-quarter levels. Raw material costs are expected to be significantly higher for wood, energy and chemicals, but planned maintenance downtime costs will decrease. Foodservice sales volumes are expected to remain about flat, but average sales price realizations should improve slightly. Input costs for resins should be higher, but will be partially offset by lower costs for bleached board. Shorewood sales volumes are expected to decline reflecting seasonal decreases in home entertainment segment shipments. Operating costs are expected to be favorable reflecting the benefits of business reorganization efforts.

EUROPEAN CONSUMER PACKAGING net sales in 2009 were \$315 million compared with \$300 million in 2008 and \$280 million in 2007. Operating earnings in 2009 of \$66 million increased from \$22 million in 2008 and \$30 million in 2007. Sales volumes in 2009 were higher than in 2008 reflecting increased shipments to export markets. Average sales margins declined due to increased shipments to lower-margin export markets and lower average sales prices in Western Europe.

Entering 2010, sales volumes for the first quarter are expected to remain strong. Average margins should improve reflecting increased sales price realizations and a more favorable geographic mix of products sold. Input costs are expected to be higher due to increased wood prices in Poland and annual energy tariff increases in Russia.

ASIAN CONSUMER PACKAGING net sales were \$545 million in 2009 compared with \$390 million in 2008 and \$330 million in 2007. Operating earnings in 2009 were \$24 million compared with a loss of \$13 million in 2008 and earnings of \$12 million in 2007. The improved operating earnings in 2009 reflect increased sales volumes, higher average sales margins and lower input costs, primarily for chemicals. The loss in 2008 was primarily due to a \$12 million charge to revalue pulp inventories at our Shandong International Paper and Sun Coated Paperboard Co., Ltd. joint venture and start-up costs associated with the joint venture's new folding box board paper machine.

Distribution

xpedx, our distribution business, markets a diverse array of products and supply chain services to customers in many business segments. Customer demand is generally sensitive to changes in general economic conditions, although the commercial printing segment is also dependent on consumer advertising and promotional spending. Distribution's margins are relatively stable across an economic cycle. Providing customers with the best choice and value in both products and supply chain services is a key competitive factor. Additionally, efficient customer service, cost-effective logistics and focused working capital management are key factors in this segment's profitability.

Distribution

<i>In millions</i>	2009	2008	2007
Sales	\$ 6,525	\$ 7,970	\$ 7,320
Operating Profit	50	103	108

DISTRIBUTION S 2009 annual sales decreased 18% from 2008 and 11% from 2007 while operating profits in 2009 decreased 51% compared with 2008 and 54% compared with 2007.

Annual sales of printing papers and graphic arts supplies and equipment totaled \$4.1 billion in 2009 compared with \$5.2 billion in 2008 and \$4.7 billion in 2007, reflecting weak economic conditions in 2009. Trade margins as a percent of sales for printing papers increased from 2008 but decreased from 2007 due to a higher mix of lower margin direct shipments from manufacturers. Revenue from packaging products was \$1.3 billion in 2009 compared with \$1.7 billion in 2008 and \$1.5 billion in 2007. Trade margins as a percent of sales for packaging products were higher than in the past two years reflecting an improved product and service mix. Facility supplies annual revenue was \$1.1 billion in 2009,

essentially

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even with 2008 and 2007 levels. Operating profit decreased to \$50 million in 2009 from \$103 million in 2008 and \$108 million in 2007 primarily due to the weak U.S. economy. Earnings in 2009 benefited from a \$17 million fourth-quarter favorable inventory valuation adjustment. In addition, operating earnings in 2009 include a \$5 million charge for costs associated with the reorganization of the Company's *xpedx* operations in New Jersey.

Looking ahead to the first quarter of 2010, sales volumes and earnings are expected to be seasonally lower. The business will continue to focus on efficiency and productivity initiatives to mitigate the effect of the demand decline. Also, the favorable inventory valuation adjustment that impacted fourth-quarter 2009 earnings will not recur in the first quarter of 2010.

Forest Products

Forest Products currently manages nearly 200,000 acres of forestlands in the United States. Operating results are driven by the timing and pricing of specific forestland tract sales. Future operations will continue to be driven by pricing and demand for forestland and real estate sales.

Forest Products	2009	2008	2007
<i>In millions</i>			
Sales	\$ 45	\$ 200	\$ 485
Operating Profit	25	409	458

Sales in 2009 decreased 78% from 2008 and 91% from 2007. Operating profits were down 94% from 2008 and 95% from 2007. As part of the Company's 2006 Transformation Plan, 5.6 million acres of forestlands were sold in 2006, resulting in a significant decline in forestland acreage. The Company intends to focus future operations on maximizing the value from the sale of its remaining forestland and real estate properties. Operating profits in 2008 included \$261 million from the sale of 13,000 net acres of subsurface mineral rights in Louisiana. In the first quarter of 2010, a previously announced agreement to sell 143,000 acres expired in accordance with its terms and will not be completed.

Looking forward to 2010, the amount and timing of operating earnings will reflect the periodic sales of remaining acreage and mineral rights and can be expected to vary from quarter to quarter.

Specialty Businesses and Other

The Specialty Businesses and Other segment principally included the operating results of the Arizona Chemical business as well as certain smaller businesses. The Arizona Chemical business was sold in February 2007.

Specialty Businesses and Other

<i>In millions</i>	2009	2008	2007
Sales	\$	\$	\$ 135
Operating Profit			6

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

In October 2007, International Paper and Ilim Holding S.A. (Ilim) announced the completion of a 50:50 joint venture to operate in Russia. Due to the complex structure of Ilim's operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company reports its share of Ilim's operating results on a one-quarter lag basis. Accordingly, the accompanying consolidated statement of operations for the twelve months ended December 31, 2009 includes the Company's 50% share of Ilim's operating results for the period from October 1, 2008 through September 30, 2009, together with the results of other small equity investments, under the caption Equity earnings (losses), net of taxes. Ilim is reported as a separate reportable industry segment.

The Company recorded an equity loss, net of taxes, of \$50 million for Ilim in 2009 compared with equity earnings, net of taxes, of \$54 million in 2008. Operating results recorded in 2009 included a \$25 million after-tax foreign exchange loss on the remeasurement of U.S. dollar-denominated debt, a \$19 million charge to write-off project development expenses, and a \$5 million provision for the write-down of assets. Operating results recorded in 2008 included a \$4 million after-tax foreign exchange gain on the remeasurement of U.S. dollar-denominated debt, a \$3 million after-tax charge to write off a share repurchase option, and a one-time \$6 million after-tax charge reflecting the write-up of finished goods and work-in-process inventory to fair value as of the acquisition date. In August 2008, Ilim sold its 56% investment in the Saint Petersburg Cartonboard and Printing Mill (KPK) for \$238 million. No gain or loss was realized by the Company on the

sale of KPK because the fair value assigned to that business by the Company at the acquisition date was equal to the sales proceeds.

Sales volumes for the joint venture decreased year-over-year, principally for market pulp, reflecting significantly weaker customer demand in 2009, particularly in China, although demand strengthened in China in the second and third quarters of 2009. Average sales price realizations were lower in 2009 across all product lines. Softwood and hardwood

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pulp prices declined sharply in the fourth quarter of 2008, but began to recover in the second quarter of 2009. Mill operating costs were favorable, and input costs for wood, chemicals and energy were also favorable. The Company received cash dividends from the joint venture of \$51 million in December 2009 and \$67 million in December 2008.

For Ilim's 2009 fourth quarter, which will be reported in the Company's 2010 first quarter, demand in China is expected to remain good, while demand in European and Russian markets should improve slightly. Average sales price realizations are expected to reflect slight improvement in pulp prices in China and Europe. However, operating earnings are expected to decrease due to higher input costs, mill downtime costs and unfavorable foreign exchange impacts.

A key element of the proposed joint venture strategy is a long-term investment program in which the joint venture will invest, through cash from operations and additional borrowings by the joint venture, approximately \$1.5 billion in Ilim's three mills over approximately five years. This planned investment in the Russian pulp and paper industry will be used to upgrade equipment, increase production capacity and allow for new high-value uncoated paper, pulp and corrugated packaging product development. This capital expansion strategy is expected to be initiated in the second half of 2010, subject to Ilim obtaining financing sufficient to fund the project.

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 strong focus on cost controls has improved our cash flow generation over an operating cycle.

As part of our continuing focus on improving our return on investment, we have focused our capital spending on improving our key paper and packaging businesses both globally and in North America.

Financing activities in 2009 focused on strengthening our balance sheet by reducing debt by \$3.1 billion and refinancing \$2.8 billion in long-term debt.

Cash Provided by Operations

Cash provided by continuing operations totaled \$4.7 billion in 2009 compared with \$2.7 billion for 2008 and \$1.9 billion for 2007.

The major components of cash provided by continuing operations are earnings from continuing operations adjusted for non-cash income and expense items and changes in working capital. Earnings from continuing operations, adjusted for non-cash income and expense items, increased by \$1.8 billion in 2009 versus 2008 driven mainly by \$1.7 billion of cash received from alternative fuel mixture credits. This compares with a decrease of \$135 million for 2008 versus 2007. Changes in working capital components, accounts receivable and inventory less accounts payable and accrued liabilities, contributed \$479 million of cash in 2009 compared to \$317 million of cash contributed in 2008, and a \$539 million use of cash in 2007. Included in the 2009 changes in working capital is \$211 million of cash from the sale of accounts receivable in Europe.

Alternative Fuel Mixture Credits

The U.S. Internal Revenue Code provides a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to \$0.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. In January 2009, the Company received notification that its application to be registered as an alternative fuel mixer had been approved. For the year ended December 31, 2009, the Company filed claims for alternative fuel mixture credits covering eligible periods subsequent to November 2008 through October 25, 2009 totaling approximately \$1.7 billion, all of which had been received in cash at December 31, 2009 and included in the calculation of U.S. federal taxable income. Additionally, the Company has recorded \$379 million of alternative fuel mixture credits as a reduction of income taxes payable at December 31, 2009. The Company recorded these credits using the accrual method of accounting based on the estimated eligible volumes reflected in its filed claims. Accordingly, the accompanying consolidated statement of operations includes credits of approximately \$2.1 billion for the year ended December 31, 2009 in Cost of products sold (\$1.4 billion after taxes), representing eligible alternative fuel mixture credits earned through December 31, 2009, when the credit expired.

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Investment Activities

Investment activities in 2009 were down significantly from 2008 reflecting reduced capital spending and no significant acquisitions. Capital spending for continuing operations was \$534 million in 2009, or 36% of depreciation and amortization, compared with \$1.0 billion in 2008, or 74% of depreciation and amortization, and \$1.3 billion, or 119% of depreciation and amortization in 2007.

The following table shows capital spending for continuing operations by business segment for the years ended December 31, 2009, 2008 and 2007.

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 183	\$ 282	\$ 405
Printing Papers	218	383	556
Consumer Packaging	126	287	276
Distribution	6	9	6
Forest Products	1	2	22
Subtotal	534	963	1,265
Corporate and other		39	23
Total from continuing operations	\$ 534	\$ 1,002	\$ 1,288

Capital expenditures in 2010 are currently expected to be about \$800 million, or 55% of depreciation and amortization.

Acquisitions

On August 4, 2008, International Paper completed the acquisition of the assets of Weyerhaeuser Company's Containerboard, Packaging and Recycling (CBPR) business for approximately \$6 billion in cash, subject to post-closing adjustments. In June 2008, the Company had issued \$3 billion of unsecured senior notes in anticipation of the acquisition. The remainder of the purchase price was financed through borrowings under a \$2.5 billion bank term loan, \$0.4 billion of borrowings under a receivables securitization program and existing cash balances. The CBPR operating results are included in International Paper's North American Industrial Packaging business from the date of acquisition.

On August 24, 2007, International Paper completed the acquisition of Central Lewmar LLC, a privately held paper and packaging distributor in the United States, for \$189 million. Central Lewmar's results of operations have been included in International Paper's consolidated financial statements since its acquisition.

On July 31, 2007, International Paper purchased the remaining shares of Compagnie Marocaine des

Cartons et des Papiers (CMCP) in Morocco for approximately \$40 million. In October 2005, the Company had acquired approximately 65% of CMCP for approximately \$80 million in cash plus assumed debt of approximately \$40 million. The Moroccan packaging company is now wholly owned by International Paper and fully managed as part of the Company's European Container business.

Exchanges

On February 1, 2007, the Company completed the non-cash exchange of certain pulp and paper assets in Brazil with Votorantim Celulose e Papel S.A. (VCP) that had been announced in the fourth quarter of 2006. The Company exchanged its in-progress pulp mill project and certain forestland operations, including approximately 100,000 hectares of surrounding forestlands in Tres Lagoas, Brazil, for VCP's Luiz Antonio uncoated paper and pulp mill and approximately 55,000 hectares of forestlands in the state of Sao Paulo, Brazil. The exchange improved the Company's competitive position by adding a globally cost-competitive paper mill, thereby expanding the Company's uncoated freesheet capacity in Latin America and providing additional growth opportunities in the region. The exchange was accounted for based on the fair value of assets exchanged, resulting in the recognition in the 2007 first quarter of a pre-tax gain of \$205 million (\$159 million after taxes) representing the difference between the fair value and book value of the assets exchanged. This gain is included in Net losses (gains) on sales and impairments of businesses in the accompanying consolidated statement of operations.

Joint Ventures

In October 2007, International Paper and Ilim Holding S.A. announced the completion of the formation of a 50:50 joint venture to operate in Russia as Ilim Group. To form the joint venture, International Paper purchased 50% of Ilim Holding S.A. (Ilim) for approximately \$620 million,

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including \$545 million in cash and \$75 million of notes payable, and contributed an additional \$21 million in 2008. A key element of the proposed joint venture strategy is a long-term investment program in which the joint venture will invest, through cash from operations and additional borrowings by the joint venture, approximately \$1.5 billion in Ilim's three mills over approximately five years. This planned investment in the Russian pulp and paper industry will be used to upgrade equipment, increase production capacity and allow for new high-value uncoated paper, pulp and corrugated packaging product development. This capital

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expansion strategy is expected to be initiated in the second half of 2010, subject to Ilim obtaining financing sufficient to fund the project.

International Paper is accounting for its investment in Ilim using the equity method of accounting. Due to the complex structure of Ilim's operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company is reporting its share of Ilim's results of operations on a one-quarter lag basis. The Company's investment in Ilim is included in the caption Investments in the accompanying consolidated balance sheet.

Financing Activities

2009: Financing activities during 2009 included debt issuances of \$3.2 billion and retirements of \$6.3 billion, for a net reduction of \$3.1 billion.

In December 2009, International Paper issued \$750 million of 7.3% senior unsecured notes with a maturity date in November 2039. The proceeds from this borrowing, along with available cash, were used to repay the remaining \$1 billion of the \$2.5 billion long-term debt issued in connection with the CBPR acquisition. During 2009, additional payments related to this debt totaled approximately \$1.4 billion. Also in connection with the above debt repayment, International Paper undesignated \$1 billion of interest rate swaps entered into in 2008 that qualified as cash flow hedges, resulting in a \$24 million loss. This loss was reclassified from Accumulated other comprehensive loss and included in Restructuring and other charges in the accompanying consolidated statement of operations.

Also in the fourth quarter of 2009, the Company entered into various fixed-to-floating interest rate swap agreements with a notional amount of approximately \$1 billion to hedge existing debt. These interest rate swaps mature within a range of five to ten years. Subsequently in January 2010, approximately \$600 million of these swaps and the \$100 million swap entered into in August 2009 (discussed below) were terminated. These terminations were not in connection with early debt retirements. The resulting \$2 million gain was recorded in Long-term debt and will be amortized as an adjustment of interest expense over the life of the underlying debt through April 2015.

In December 2009, International Paper Investments (Luxembourg) S.a.r.l, a wholly-owned subsidiary of

International Paper, repaid \$214 million of notes with an interest rate of LIBOR plus 40 basis points and an original maturity in 2010. Other debt activity in the fourth quarter of 2009 included the repayment of approximately \$235 million of notes with interest rates ranging from 4.0% to 9.375% and original maturities from 2009 to 2038.

Additional pre-tax early debt retirement costs of \$34 million related to fourth-quarter debt repayments and swap activity are included in Restructuring and other charges in the accompanying consolidated statement of operations.

In August 2009, International Paper issued \$1 billion of 7.5% senior unsecured notes with a maturity date in August 2021. The proceeds from this borrowing were used to repay approximately \$942 million of notes with interest rates ranging from 5.125% to 7.4% and original maturities from 2012 to 2026.

Also during the third quarter in connection with these early debt retirements, interest rate swaps with a notional value of \$520 million, including \$500 million of swaps issued in the second quarter of 2009, were terminated or undesignated as effective fair value hedges, resulting in a gain of approximately \$9 million. In addition, previously deferred net gains of \$7 million related to earlier swap terminations were recognized in earnings. Pre-tax early debt retirement costs of \$102 million related to these debt repayments, net of the gains on swap terminations, are included in Restructuring and other charges in the accompanying consolidated statement of operations.

Also in August 2009, International Paper entered into a fixed-to-floating interest rate swap agreement with a notional amount of \$100 million due in 2015 to manage interest rate exposure.

In May 2009, International Paper issued \$1 billion of 9.375% senior unsecured notes with a maturity date in May 2019. The proceeds from this borrowing were used to repay approximately \$875 million of notes with interest rates ranging from 4.0% to 9.25% and original maturities from 2010 to 2012. Also during the second quarter, International Paper Company Europe Ltd, a wholly-owned subsidiary of International Paper, repaid \$75 million of notes issued in connection with the Ilim Holdings S.A. joint venture that matured during the quarter. Pre-tax early debt retirement costs of \$25 million related to second-quarter debt repayments and swap activity are included in Restructuring and other charges in the accompanying consolidated statement of operations.

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In March 2009, Luxembourg borrowed \$468 million of long-term debt with an initial interest rate of LIBOR plus a margin of 450 basis points that varied depending upon the credit rating of the Company, and a maturity date in March 2012. International Paper used the \$468 million of proceeds from the loan and cash of approximately \$170 million to repay a 500 million euro-denominated debt (equivalent to \$638 million at date of payment) with an original maturity date in August 2009. As of the end of the third quarter of 2009, the \$468 million loan was repaid. Other debt activities in the first quarter of 2009 included the repayment of approximately \$366 million of notes with interest rates ranging from 4.25% to 5.0% that had matured.

Also in the first quarter of 2009, International Paper terminated an interest rate swap with a notional value of \$100 million designated as a fair value hedge, resulting in a gain of \$11 million that was deferred and recorded in Long-term debt in the accompanying consolidated balance sheet. As the swap agreement was terminated early, the resulting gain will be amortized to earnings over the life of the related debt through April 2016.

International Paper utilizes interest rate swaps to change the mix of fixed and variable rate debt and manage interest expense. At December 31, 2009, International Paper had interest rate swaps with a total notional amount of \$3.2 billion and maturities ranging from one to nine years. During 2009, existing swaps increased the weighted average cost of debt from 6.55% to an effective rate of 6.67%. The inclusion of the offsetting interest income from short-term investments reduced this effective rate to 6.36%.

Other financing activities during 2009 included the issuance of approximately 2.2 million shares of treasury stock, net of restricted stock withholding, and 3.5 million shares of common stock for various plans. Payments of restricted stock withholding taxes totaled \$10 million.

2008: Financing activities during 2008 included debt issuances of \$6.0 billion and retirements of \$696 million, for a net issuance of \$5.3 billion.

In August 2008, International Paper borrowed \$2.5 billion of long-term debt with an initial interest rate of LIBOR plus a margin of 162.5 basis points. The margin varied depending upon the credit rating of the Company. Debt issuance costs of approximately \$50 million related to this borrowing were recorded in Deferred charges and other assets in the accompanying consolidated balance sheet and were being

amortized until the debt was repaid in 2009. Also in August 2008, International Paper borrowed approximately \$395 million under its receivables securitization program. These funds, together with the \$3 billion from unsecured senior notes borrowed in the second quarter (discussed below) and other available cash, were used for the CBPR business acquisition in August 2008. As of December 31, 2008, all of the borrowings under the receivables securitization program were repaid.

Also in the third quarter of 2008, International Paper repaid \$125 million of the \$2.5 billion long-term debt and repurchased \$63.5 million of notes with interest rates ranging from 4.25% to 8.70% and original maturities from 2009 to 2038.

The Company also entered into a series of forward-starting floating-to-fixed interest rate swap agreements with a notional amount of \$1.5 billion in anticipation of borrowing for the purchase of the CBPR business. The floating-to-fixed interest rate swaps were effective September 2008 and mature in September 2010. These forward-starting interest rate swaps were accounted for as cash flow hedges in accordance with ASC 815. In the fourth quarter of 2008, the Company terminated \$550 million of these floating-to-fixed interest rate swap agreements resulting in a loss of approximately \$17 million recorded in Accumulated other comprehensive loss in the accompanying consolidated balance sheet.

In the second quarter of 2008, International Paper issued \$3 billion of unsecured senior notes consisting of \$1 billion of 7.4% notes due in 2014, \$1.7 billion of 7.95% notes due in 2018, and \$300 million of 8.7% notes due in 2038. Debt issuance costs of approximately \$20 million related to the new debt were recorded in Deferred charges and other assets in the accompanying consolidated balance sheet and were amortized over the terms of the respective notes.

Also in the second quarter of 2008, International Paper entered into a series of fixed-to-floating interest rate swap agreements, with a notional amount of \$1 billion and maturities in 2014 and 2018, to manage interest rate exposures associated with the new \$3 billion of unsecured senior notes. These interest rate swaps were terminated in December 2008 along with other existing fixed-to-floating interest rate swaps, resulting in a gain of \$127 million that was deferred and recorded in Long-term debt in the accompanying consolidated balance sheet. This gain will be amortized over the life of the related debt through June 2018.

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At December 31, 2008, International Paper had interest rate swaps with a total notional amount of \$1.4 billion and maturities ranging from one to eight years. During 2008, existing swaps decreased the weighted average cost of debt from 6.41% to an effective rate of 6.07%. The inclusion of the offsetting interest income from short-term investments further reduced this effective rate to 5.21%.

Other financing activities during 2008 included the issuance of approximately 2.4 million shares of treasury stock for various incentive plans, including stock option exercises that generated approximately \$1 million of cash and restricted stock that did not generate cash. Payments of restricted stock withholding taxes totaled \$47 million.

2007: Financing activities during 2007 included debt issuances of \$78 million and retirements of \$875 million, for a net reduction of \$797 million.

In December 2007, International Paper repurchased \$96 million of 6.65% notes with an original maturity date of December 2037. Other reductions in the fourth quarter of 2007 included the repayment of \$147 million of maturing 6.5% debentures, and the payment of \$42 million for various environmental and industrial development bonds with coupon rates ranging from 4.25% to 5.75% that also matured within the quarter.

In October 2007, Luxembourg issued \$75 million of long-term notes with an initial interest rate of LIBOR plus 100 basis points and a maturity date in April 2009, in connection with its investment in the Ilim Holding S.A. joint venture.

In the second quarter of 2007, International Paper repurchased \$35 million of 5.85% notes with an original maturity in October 2012.

In March 2007, Luxembourg repaid \$143 million of long-term debt with an interest rate of LIBOR plus 40 basis points and a maturity date in November 2010. Other debt activity in the first quarter included the repayment of \$198 million of 7.625% notes that matured within the quarter.

At December 31, 2007, International Paper had interest rate swaps with a total notional amount of \$1.7 billion and maturities ranging from one to nine years. During 2007, existing swaps increased the weighted average cost of debt from 6.51% to an effective rate of 6.62%. The inclusion of the offsetting interest income from short-term investments reduced this effective rate to 4.36%.

Other financing activity in 2007 included the repurchase of 33.6 million shares of International Paper common stock for approximately \$1.2 billion, and a net issuance of 5.2 million shares under various incentive plans, including stock option exercises that generated \$128 million of cash.

Off-Balance Sheet Variable Interest Entities

During 2006 in connection with the sale of approximately 5.6 million acres of forestlands under the Company's 2006 Transformation Plan, the Company exchanged installment notes totaling approximately \$4.8 billion and approximately \$400 million of International Paper promissory notes for interests in entities formed to monetize the notes. International Paper determined that it was not the primary beneficiary of these entities, and therefore should not consolidate these entities. During 2006, these entities acquired an additional \$4.8 billion of International Paper debt securities for cash, resulting in a total of approximately \$5.2 billion of International Paper debt obligations held by these entities at December 31, 2006. Since International Paper has, and intends to affect, a legal right to offset its obligations under these debt instruments with its investments in the entities, International Paper has offset \$5.1 billion of interest in the entities against \$5.1 billion of International Paper debt obligations held by the entities as of December 31, 2009 and 2008.

International Paper also holds variable interests in two financing entities that were used to monetize long-term notes received from sales of forestlands in 2002 and 2001.

See Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a further discussion of these transactions.

Liquidity and Capital Resources Outlook for 2010

Capital Expenditures and Long-Term Debt

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International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during 2010 through current cash balances and cash from operations, supplemented as required by its various existing credit facilities.

At December 31, 2009, International Paper had approximately \$1.9 billion in cash and \$2.5 billion of committed liquidity facilities, including a \$1.5 billion

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contractually committed revolving bank credit agreement and \$1.0 billion of commercial paper-based financing based on eligible receivable balances under a receivables securitization program, which management believes are adequate to cover expected operating cash flow variability during the current economic cycle. The credit agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper's credit rating. In November 2009, International Paper replaced its \$1.5 billion revolving bank credit agreement that was scheduled to expire in March 2011 with a new \$1.5 billion fully committed revolving bank credit agreement that expires in November 2012 and has a facility fee of 0.50% payable quarterly. The liquidity facilities also include up to \$1.0 billion of commercial paper-based financings on eligible receivable balances (\$816 million at December 31, 2009) under a receivables securitization program that was scheduled to expire in January 2010 with a facility fee of 0.75%. On January 13, 2010, the Company amended this program to extend the maturity date from January 2010 to January 2011. The amended agreement has a facility fee of 0.50% payable monthly. At December 31, 2009, there were no borrowings under either the bank credit agreements or receivables securitization program.

The Company was in compliance with all of its debt covenants at December 31, 2009. The Company's financial covenants require the maintenance of a minimum net worth of \$9 billion and 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 loss. The total-debt-to-capital ratio is defined as total debt divided by the sum of total debt plus net worth. At December 31, 2009, International Paper's net worth was \$11.8 billion, and the total-debt-to-capital ratio was 43.3%.

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, 2009, the Company held long-term credit ratings of BBB (negative outlook) and Baa3 (negative outlook) and short-term credit ratings of A-3 and P-3 by S&P and Moody's, respectively.

On February 5, 2010, Moody's Investor Services reduced its credit rating of senior unsecured long-term debt of The Royal Bank of Scotland N.V. (formerly ABN AMRO Bank N.V.), which had issued letters of credit that support \$1.4 billion of installment notes received in connection with the Company's 2006 sale of forestlands. Following this sale, the installment notes were contributed to third-party entities that used them as collateral for borrowings from a third-party lender. The related loan agreements require that if the credit rating of any bank issuing letters of credit is downgraded below a specified level, these letters of credit must be replaced within 60 days by letters of credit from another qualifying institution. The Company expects that the issuer of installment notes will complete this replacement within the required 60-day period.

Contractual obligations for future payments under existing debt and lease commitments and purchase obligations at December 31, 2009, were as follows:

<i>In millions</i>	2010	2011	2012	2013	2014	Thereafter
Maturities of long-term debt (a)	\$ 304	\$ 574	\$ 199	\$ 131	\$ 562	\$ 7,263
Debt obligations with right of offset (b)	519	28				5,108
Lease obligations	177	148	124	96	79	184
Purchase obligations (c)	2,262	657	623	556	532	3,729
Total (d)	\$ 3,262	\$ 1,407	\$ 946	\$ 783	\$ 1,173	\$ 16,284

(a) Total debt includes scheduled principal payments only. The 2010 debt maturities reflect the reclassification of \$450 million of Notes payable and current maturities of long-term debt to Long-term debt based on International Paper's intent and ability to renew or convert these obligations, as evidenced by the Company's available bank credit agreements.

(b) Represents debt obligations borrowed from non-consolidated variable interest entities for which International Paper has, and intends to affect, a legal right to offset these obligations with investments held in the entities. Accordingly, in its consolidated balance sheet at December 31, 2009, International Paper has offset approximately \$5.7 billion of interests in the entities against this \$5.7 billion of debt obligations held by the entities (see Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data).

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(c) Includes \$2.8 billion relating to fiber supply agreements entered into at the time of the 2006 Transformation Plan forestland sales.

*(d) 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 \$225 million.
Pension Obligations and Funding*

At December 31, 2009, the projected benefit obligation for the Company's U.S. defined benefit plans determined under U.S. Generally Accepted Accounting Principles was approximately \$2.8 billion higher than the fair value of plan assets. Approximately \$2.4 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. At this time, we do not expect that the finalization of the funded status as of December 31, 2009 will require the Company to make cash contributions to its plans in 2010, 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, changes in interest rates and the possible impact of funding relief proposals that may be adopted by the U.S. Congress.

Ilim Holding S.A. Shareholders Agreement

In October 2007, in connection with the formation of the Ilim Holding S.A. joint venture (Ilim), International Paper entered into a shareholders agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time after the second anniversary of the formation of Ilim, either the Company or its partners may commence procedures specified under the deadlock provisions. Under certain circumstances, the Company would be required 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, International Paper estimates that the current purchase

price for its partners' 50% interests would be approximately \$350 million to \$400 million, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. Any such purchase by International Paper 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 provision of the shareholders' agreement, although they have the right to do so, and they are no longer discussing a deferral of the timeframe to commence those procedures.

CRITICAL ACCOUNTING POLICIES

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, goodwill and other intangible assets, pensions, postretirement benefits other than pensions, and income taxes. The following is a discussion of the impact of these accounting policies on International Paper:

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

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and estimates of future remediation alternatives and costs. International Paper determines these estimates after a detailed evaluation of each site.

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 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.

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.

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, a liability is recorded based upon the expected most likely outcome taking into consideration the 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.

SIGNIFICANT ACCOUNTING ESTIMATES

GOODWILL IMPAIRMENT ANALYSIS 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, the Company uses the projected future cash flows to be generated by each unit over the estimated remaining useful operating lives of the unit's assets, discounted using the estimated cost-of-capital 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 operat -

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ing 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.

During 2008, as in prior years, the Company performed the required annual goodwill testing for impairment as of the beginning of the fourth quarter, resulting in a \$59 million impairment charge to write off all goodwill for the Company's European Coated Paperboard business. Subsequent to this testing date, the Company performed an interim test as of December 31, 2008 and recalculated the estimated fair value of its reporting units as of that date using updated future cash flow projections and higher cost-of-capital discount rates. Based on this testing, step two testing for possible impairment was required for the Company's U.S. Printing Papers business and its U.S. Coated Paperboard business. Based on management's preliminary estimates, an additional goodwill impairment charge of \$379 million was recorded, representing all of the goodwill for the U.S. Coated Paperboard business, as this was management's best estimate of the minimum impairment charge that would be required upon the completion of detailed step two analyses. In February 2009, based on additional work performed to date, management determined that it was probable that all of the \$1.3 billion of recorded goodwill for the U.S. Printing Papers business would be impaired when testing was completed. Accordingly, an additional goodwill impairment charge of \$1.3 billion was recorded as a charge to operating results for the year ended December 31, 2008. During the first quarter of 2009, the Company finalized the testing for these businesses resulting in no changes to the recorded impairment charges.

No goodwill impairment charges were recorded in 2009 or 2007.

PENSION AND POSTRETIREMENT BENEFIT ACCOUNTING 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, 2009, for International Paper's pension and postretirement plans are as follows:

<i>In millions</i>	Benefit Obligation	Fair Value of Plan Assets
U.S. qualified pension	\$ 9,224	\$ 6,784
U.S. nonqualified pension	320	
U.S. postretirement	473	
Non-U.S. pension	186	150
Non-U.S. postretirement	18	

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

	2009	2008	2007
Discount rate	6.00%	6.20%	5.75%
Expected long-term rate of return on			
plan assets	8.25%	8.50%	8.50%
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:

2009	2008
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Health care cost trend rate assumed for next year	9.00%	9.50%
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	2017	2017

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 discount rate assumption is determined based on a yield curve that incorporates approximately 500 Aa-graded bonds. The plan's projected cash payments are then matched to this yield curve to develop the discount rate. The expected long-term rate of return on plan assets reflects projected returns for an investment mix determined upon completion of a detailed asset/liability study that meets the plans' investment objectives.

Increasing (decreasing) the expected long-term rate of return on U.S. plan assets by an additional 0.25% would decrease (increase) 2010 pension expense by approximately \$19 million, while a (decrease) increase of 0.25% in the discount rate would (increase) decrease pension expense by approximately \$29 million. The effect on net postretirement benefit cost from a 1% increase or decrease in the annual trend rate would be approximately \$2 million.

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

Year	Return	Year	Return
2009	23.8%	2004	14.1%
2008	(23.6)%	2003	26.0%
2007	9.6%	2002	(6.7)%
2006	14.9%	2001	(2.4)%
2005	11.7%	2000	(1.4)%

The annualized time-weighted rate of return earned on U.S. pension plan assets was 5.9% and 5.6% for the last 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 1999-2009.

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 (approximately 9 years) 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 loss into net periodic pension cost for the U.S. pension plans over the next fiscal year are \$178 million and \$30 million, respectively.

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

<i>In millions</i>	2009	2008	2007	2006	2005
Pension expense					
U.S. plans (non-cash)	\$ 213	\$ 123	\$ 210	\$ 377	\$ 243
Non-U.S. plans	3	4	5	17	15
Postretirement expense					
U.S. plans	27	28	15	7	20
Non-U.S. plans	3	3	8	3	3
Net expense	\$ 246	\$ 158	\$ 238	\$ 404	\$ 281

The increase in 2009 U.S. pension expense principally reflects a decrease in the assumed discount

rate to 6.00% in 2009 from 6.20% in 2008, a decrease in the return on assets assumption to 8.25% in 2009 from 8.50% in 2008 and higher amortization of unrecognized actuarial losses.

Assuming that discount rates, expected long-term returns on plan assets and rates of future compensation increases remain the same as in 2009, projected future net periodic pension and postretirement plan expenses would be as follows:

<i>In millions</i>	2011 (a)	2010 (a)
Pension expense		
U.S. plans (non-cash)	\$ 282	\$ 234
Non-U.S. plans	5	4
Postretirement expense		
U.S. plans	13	13
Non-U.S. plans	1	1
Net expense	\$ 301	\$ 252

(a) Based on 12/31/09 assumptions.

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The Company estimates that it will record net pension expense of approximately \$234 million for its U.S. defined benefit plans in 2010, with the increase from expense of \$213 million in 2009 principally reflecting higher amortization of actuarial losses and a decrease in the assumed discount rate to 5.80% in 2010 from 6.00% in 2009. Net postretirement benefit costs in 2010 will decrease primarily as a result of a plan amendment which increased cost sharing for a subgroup of retirees and more favorable terms from the pharmacy benefit manager for prescription drugs.

The market value of plan assets for International Paper's U.S. qualified pension plan at December 31, 2009 totaled approximately \$6.8 billion, consisting of approximately 49% equity securities, 32% debt securities, and 19% real estate and other assets. Plan assets did not include 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 expects to have no obligation to fund its domestic qualified plan in 2010 and made no contributions in 2009. The Company continually reassesses the amount and timing of any discretionary contributions and could elect to make such a contribution in the next 12 months. The nonqualified

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defined benefit plans are funded to the extent of benefit payments, which totaled \$35 million for the year ended December 31, 2009.

ACCOUNTING FOR STOCK OPTIONS International Paper follows ASC 718, Compensation Stock Compensation, in accounting for stock options. Under this guidance, expense for stock options is recorded over the related service period based on the grant-date fair market value.

During each reporting period, diluted earnings per share is calculated by assuming that in-the-money options are exercised and the exercise proceeds are used to repurchase shares in the marketplace. When options are actually exercised, option proceeds are credited to equity and issued shares are included in the computation of earnings per common share, with no effect on reported earnings. Equity is also increased by the tax benefit that International Paper will receive in its tax return for income reported by the optionees in their individual tax returns.

At December 31, 2009 and 2008, 22.2 million options and 25.1 million options, respectively, were outstanding with exercise prices ranging from \$29.31 to \$66.69 per share.

INCOME TAXES The Company's effective income tax rates, before equity earnings and discontinued operations, were 39%, (14)% and 25% for 2009, 2008 and 2007, 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 2009 was 30% of pre-tax earnings compared with 31.5% in 2008 and 30% in 2007. The higher rate in 2008 reflects a higher proportion of earnings in higher tax rate jurisdictions. We estimate that the 2010 effective income tax rate will be approximately 30-32% based on expected earnings and business conditions.

RECENT ACCOUNTING DEVELOPMENTS

The following represent recently issued accounting pronouncements that will affect reporting and disclosures in future periods.

ACCOUNTING FOR DECREASES IN OWNERSHIP OF A SUBSIDIARY In January 2010, the Financial

Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary, which clarifies the scope of the guidance for the decrease in ownership of a subsidiary in ASC 810, Consolidations, and expands the disclosures required for the deconsolidation of a subsidiary or derecognition of a group of assets. This guidance was effective on January 1, 2009. The application of the requirements of this guidance had no effect on accompanying consolidated financial statements.

ACCOUNTING FOR DISTRIBUTIONS TO SHAREHOLDERS In January 2010, the FASB issued ASU 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash, which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend for purposes of applying ASC 505, Equity, and ASC 260, Earnings Per Share. This guidance is effective for interim and annual periods ending on or after December 15, 2009 (calendar year 2009), and should be applied on a retrospective basis. The application of the requirements of this guidance had no effect on the accompanying consolidated financial statements.

REVENUE ARRANGEMENTS WITH MULTIPLE DELIVERABLES In September 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, which amends the multiple-element arrangement guidance under ASC 605, Revenue Recognition. This guidance amends the criteria for separating consideration for products or services in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation, and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (calendar year 2011). The Company is currently evaluating the provisions of this guidance but does not anticipate that it will have a material effect on its consolidated financial statements.

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VARIABLE INTEREST ENTITIES In June 2009, the FASB issued ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends the consolidation guidance that applies to variable interest entities under ASC 810, *Consolidation*. This guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance is effective for financial statements issued in fiscal years (and interim periods) beginning after November 15, 2009 (calendar year 2010). The application of the requirements of this guidance will not have a material effect on the consolidated financial statements.

TRANSFERS OF FINANCIAL ASSETS In June 2009, the FASB issued ASU 2009-16, *Accounting for Transfers of Financial Assets*, which amends the derecognition guidance in ASC 860, *Transfers and Servicing*. This guidance eliminates the concept of qualifying special-purpose entities, changes the requirements for derecognizing financial assets and requires additional disclosures. This guidance is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year beginning after November 15, 2009 (calendar year 2010). The application of the requirements of this guidance will not have a material effect on the consolidated financial statements.

SUBSEQUENT EVENTS In May 2009, the FASB issued ASC 855, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is effective prospectively for interim and annual periods ending after June 15, 2009. The Company included the requirements of this guidance in the preparation of the accompanying consolidated financial statements.

OTHER-THAN-TEMPORARY IMPAIRMENT FOR DEBT SECURITIES In April 2009, the FASB issued new guidance under ASC 320, *Investments—Debt and Equity Securities*, which provides a new other-than-temporary impairment model for debt securities. This guidance was effective for financial statements issued in fiscal years (and interim periods) ending after June 15, 2009. The application of the requirements of this guidance did not have a material effect on the accompanying consolidated financial statements.

ASSET TRANSFERS, VARIABLE INTEREST ENTITIES AND QUALIFYING SPECIAL PURPOSE ENTITIES In December 2008, the FASB issued new

guidance under ASC 860, *Transfers and Servicing*, which requires public companies to provide additional disclosures about transfers of financial assets and an enterprise's involvement with variable interest entities, including qualifying special purpose entities. The Company included the requirements of this guidance in the preparation of the accompanying consolidated financial statements.

INTANGIBLE ASSETS In April 2008, the FASB issued new guidance under ASC 350, *Intangibles—Goodwill and Other*, which amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset. This guidance was effective for financial statements issued for fiscal years (and interim periods) beginning after December 15, 2008 (calendar year 2009). The application of the requirements of this guidance did not have a material effect on the accompanying consolidated financial statements.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES In March 2008, the FASB issued new guidance under ASC 815, *Derivatives and Hedging*, that requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of, and gains and losses on, derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for fiscal years (and interim periods) beginning after November 15, 2008 (calendar year 2009). The Company included the disclosures required by this guidance in the accompanying consolidated financial statements.

BUSINESS COMBINATIONS In December 2007, the FASB issued new guidance under ASC 805, *Business Combinations*, which establishes principles and requirements for how an acquiring entity in a business combination recognizes and measures the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. This guidance was effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (calendar year 2009). The Company included the provisions of this guidance in the

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preparation of the accompanying consolidated financial statements.

FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES In February 2007, the FASB issued guidance under ASC 825, Financial Instruments, which permits an entity to measure certain financial assets and financial liabilities at fair value, which would result in the reporting of unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions, as long as it is applied to the instrument in its entirety. The guidance establishes presentation and disclosure requirements to help financial statement users understand the effect of an entity's election on its earnings, but does not eliminate the disclosure requirements of other accounting guidance. This guidance was effective January 1, 2008. The Company elected not to apply the fair value option to any of its financial assets or liabilities.

EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS In December 2008, the FASB issued new guidance under ASC 715, Compensation—Retirement Benefits, to require more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The disclosures required by this guidance must be provided in financial statements for fiscal years ending after December 15, 2009 (calendar year 2009). The Company included the provisions of this guidance in the preparation of the accompanying consolidated financial statements.

FAIR VALUE MEASUREMENTS In September 2006, the FASB issued guidance under ASC 820, Fair Value Measurements and Disclosures, which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest level being quoted prices in active markets.

In February 2008, the FASB issued new guidance under ASC 820 which delayed the effective date for fair value measurement and disclosure for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008 (calendar year 2009). The Com -

pany partially adopted the provisions of this guidance with respect to its financial assets and liabilities that are measured at fair value effective January 1, 2008 (see Note 14 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data). The Company included the remaining provisions of this guidance in the preparation of the accompanying consolidated financial statements.

In October 2008, the FASB issued new guidance under ASC 820 which clarifies the application of fair value measurement and disclosure in cases where the market for the asset is not active. This guidance was effective upon issuance. The Company considered the guidance in the preparation of the accompanying consolidated financial statements.

In April 2009, the FASB issued additional guidance under ASC 820 which provides guidance on estimating the fair value of an asset or liability (financial or nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased, and on identifying transactions that are not orderly. The application of the requirements of this guidance did not have a material effect on the accompanying consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, Measuring Liabilities at Fair Value, which further amends ASC 820 by providing clarification for circumstances in which a quoted price in an active market for the identical liability is not available. The Company included the disclosures required by this guidance in the accompanying consolidated financial statements.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES In June 2006, the FASB issued guidance under ASC 740, Income Taxes (formerly FIN 48). This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in tax returns. Specifically, the financial statement effects of a tax position may be recognized only when it is determined that it is more likely than not that, based on its technical merits, the tax position will be sustained upon examination by the relevant tax authority. The amount recognized shall be measured as the largest amount of tax benefits that exceed a 50% probability of being recognized. This guidance also expands income tax disclosure requirements. International Paper applied the provisions of this guidance beginning in the first quarter of 2007. The adoption of this guidance resulted in a charge to the beginning balance of retained earnings of \$94 million at the date of adoption.

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LEGAL PROCEEDINGS

International Paper is subject to extensive federal and state environmental regulation as well as similar regulations internationally. Our continuing objectives are to: (1) control emissions and discharges from our facilities into the air, water and groundwater to avoid adverse impacts on the environment, (2) make continual improvements in environmental performance, and (3) maintain 100% compliance with applicable laws and regulations. A total of \$15 million was spent in 2009 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend approximately \$55 million in 2010 for similar capital projects. The capital forecast for 2010 reflects increased spending due to recent environmental regulatory changes including the Greenhouse Gas Mandatory Reporting Rule and the effect of the Startup/Shutdown/Malfunction provisions being vacated by the D.C. circuit court.

Amounts to be spent for environmental control projects in future years will depend on new laws and regulations and changes in legal requirements and environmental concerns. Taking these uncertainties into account, our preliminary estimate for additional environmental expenditures is approximately \$92 million for 2011 and approximately \$151 million for 2012. The Environmental Protection Agency (EPA) is continuing the development of new programs and standards such as Boiler MACT, additional wastewater discharge allocations, water intake structure requirements and national ambient air quality standards. When regulatory requirements for new and changing standards are finalized, we will add any resulting future requirements to our expenditure forecast.

International Paper has been named as a potentially responsible party in environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Most of these proceedings involve the cleanup of hazardous substances at large commercial landfills that received waste from many different sources. While joint and several liability is authorized under CERCLA and equivalent state laws, as a practical matter, liability for CERCLA cleanups is allocated among the many potential responsible parties. Based upon previous experience with respect to the cleanup of hazardous substances using presently available information, International Paper believes that its liability is not likely to be significant at 55 such sites, and that its liability at 47 other sites is likely to be

significant but not material to International Paper's consolidated financial statements. Related costs are recorded in the financial statements when they are probable and reasonably estimable. International Paper believes that the probable liability associated with these 102 matters is approximately \$58 million.

During the 2009 third quarter, in connection with an environmental site remediation action under CERCLA, International Paper submitted to the EPA a feasibility study for this site. The EPA has indicated that it intends to select a proposed remedial action alternative from those identified in the study and present this proposal for public comment. Since it is not currently possible to determine the final remedial action that will be required, the Company has accrued, as of December 31, 2009, an estimate of the minimum costs that could be required for this site. When the remediation plan is finalized by the EPA, it is possible that the remediation costs could be significantly higher than amounts currently recorded.

In addition to the above proceedings, other remediation costs, typically associated with the cleanup of hazardous substances at International Paper current or former facilities, and recorded as liabilities in the balance sheet, totaled approximately \$46 million. Completion of these actions is not expected to have a material adverse effect on our consolidated financial statements.

As of January 31, 2010, there were no other pending judicial proceedings brought by government authorities against International Paper for alleged violations of applicable environmental laws or regulations.

Climate Change Regulation

Since 1997, when an international conference on global warming concluded an agreement known as the Kyoto Protocol, which called for reductions of certain emissions that may contribute to increases in atmospheric greenhouse gas concentrations, there have been a range of international, national and sub-national regulations proposed or implemented focusing on greenhouse gas reduction. These actual or proposed regulations do or will apply in countries where we currently have, or may in the future have, manufacturing facilities or investments.

In the United States, on the federal level, the U.S. Congress is considering legislation to reduce emissions of greenhouse gases. In addition, several states have already taken legal measures to require the reduction of emissions of greenhouse gases by companies and public utilities, primarily through the

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planned development of greenhouse gas emission inventories or regional greenhouse gas cap-and-trade programs.

It is possible that Congress, various states, the Environmental Protection Agency or analogous state regulators may adopt legislation or rules that restrict emissions of greenhouse gases. Since the outcome of the current climate change debate is unclear, it is not possible at this time to assess the impact, if any, and the scope of such legislation or regulations on our operations in the United States. However, it is unlikely that we will be disproportionately affected compared with owners of comparable operations in the United States.

The European Union, under the European Emissions Trading System (EUETS), has committed to greenhouse gas reductions. International Paper has two sites which will be covered by the EUETS in 2010. We believe that the EUETS reduction requirements will not have a material effect on our European operations in 2010, although they may have a material effect in the future. We have taken and will continue to take action as appropriate to minimize any such impact. As in the U.S., it is unlikely that we will be disproportionately affected compared with owners of comparable operations in the European Union.

The framework of the Kyoto Protocol, which expires in 2012, does not apply to underdeveloped nations. Brazil, Morocco, and China, three countries where we have operations, are considered underdeveloped nations by the Kyoto Protocol. A successor to the Kyoto Protocol is being discussed by representatives of various developed and underdeveloped countries, and it is unclear whether agreement among various countries will be reached. Moreover, countries that currently do not regulate greenhouse gases may adopt their own regulations in the future, whether or not they are signatories to a successor protocol. Due to the lack of clarity around any post-2012 climate change regime, it is not possible at this time to assess the potential impacts, if any, of future international agreements or national legislation on International Paper's operations.

In summary, regulation of greenhouse gases continues to evolve in all countries in which we do business. While there may be increased regulation relating to greenhouse gases and climate change, at this stage it is not possible to predict what, if any, regulations will be adopted, or to estimate either the timing for implementation, or our costs of compliance.

Other than the regulatory risks, we have identified no clear patterns of physical, social, or market related risks associated with climate change.

Other Legal Matters

The Company is involved in various inquiries, administrative proceedings and litigation relating to contracts, sales of property, intellectual property, environmental permits, taxes, personal injury, labor and employment and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, the Company believes that the outcome of any of the lawsuits or claims that are pending or threatened (other than those that cannot be assessed due to their preliminary nature), or all of them combined, will not have a material adverse effect on its consolidated financial statements.

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.

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. 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 lower U.S. dollar and stronger local currency is beneficial to International Paper. The currencies that have the most impact are the European euro, the Brazilian real, the Polish zloty and the Russian ruble.

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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 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data. A discussion of derivatives and hedging activities is included in Note 14 of the Notes to Consolidated Financial Statements in 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, 2009 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 consistent with International Paper's targeted capital structure, while at the same time taking advantage of market opportunities to reduce interest expense as appropriate. Derivative instruments, such as interest rate swaps, may be used to implement this capital structure. At December 31, 2009 and 2008, the net fair value liability of financial instruments with exposure to interest rate risk was approximately \$7.7 billion and \$6.4 billion, respectively. The potential loss in fair value resulting from a 10% adverse shift in quoted interest rates would have been approximately \$394 million and \$366 million at December 31, 2009 and 2008, 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 and option contracts have been used to manage risks associated with market fluctuations in energy prices. The net fair value liability of such outstanding energy hedge contracts at December 31, 2009 and 2008 was approximately \$26 million and \$75 million, respectively. The potential loss in fair value resulting from a 10% adverse change in the underlying commodity prices would have been approximately \$20 million and \$18 million at December 31, 2009 and 2008, 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 financing a portion of our investments in overseas operations with borrowings denominated in the same currency as the operation's functional currency, or by entering into cross-currency and interest rate swaps, or foreign exchange contracts. At December 31, 2009 and 2008, the net fair value asset of financial instruments with exposure to foreign currency risk was approximately \$32 million and \$2 million, 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 \$73 million and \$105 million at December 31, 2009 and 2008, respectively.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the preceding discussion and Note 14 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND GEOGRAPHIC AREA**

International Paper's industry segments, Industrial Packaging, Printing Papers, Consumer Packaging, Distribution, Forest Products and Specialty Businesses and Other, 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.

For management purposes, International Paper reports the operating performance of each business based on earnings before interest and income taxes (EBIT) excluding special and extraordinary items, gains or losses on sales of businesses and cumulative effects of accounting changes. Intersegment sales and transfers are recorded at current market prices.

External sales by major product is determined by aggregating sales from each segment based on similar products or services. External sales are defined as those that are made to parties outside International Paper's consolidated group, whereas sales by segment in the Net Sales table are determined using a management approach and include intersegment sales.

The Company also has a 50% equity interest in Ilim Holding S.A. in Russia that is a separate reportable industry segment. The Company recorded equity losses, net of taxes, of \$50 million and equity earnings, net of taxes, of \$54 million for Ilim in 2009 and 2008, respectively.

INFORMATION BY INDUSTRY SEGMENT**NET SALES**

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 8,890	\$ 7,690	\$ 5,245
Printing Papers	5,680	6,810	6,530
Consumer Packaging	3,060	3,195	3,015
Distribution	6,525	7,970	7,320
Forest Products	45	200	485
Specialty Businesses and Other (a)			135
Corporate and Intersegment Sales	(834)	(1,036)	(840)
Net Sales	\$ 23,366	\$ 24,829	\$ 21,890

OPERATING PROFIT

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 761	\$ 390	\$ 374
Printing Papers	1,091	474	839
Consumer Packaging	433	17	112
Distribution	50	103	108
Forest Products	25	409	458
Specialty Businesses and Other (a)			6
Operating Profit	2,360	1,393	1,897
Interest expense, net	(669)	(492)	(297)
Noncontrolling interests / equity earnings adjustment (b)	23	(2)	19
Corporate items, net	(181)	(103)	(206)
Restructuring and other charges	(333)	(179)	(95)
Gain on sale of forestlands		6	9
Impairments of goodwill		(1,777)	
Net gains (losses) on sales and impairments of businesses	(1)	1	327
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	\$ 1,199	\$ (1,153)	\$ 1,654

RESTRUCTURING AND OTHER CHARGES

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<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 684	\$ 8	\$ 56
Printing Papers	257	153	41
Consumer Packaging	74	30	
Distribution	5		
Forest Products			1
Corporate	333	179	(3)
Restructuring and Other Charges	\$ 1,353	\$ 370	\$ 95

ASSETS

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 9,120	\$ 10,212	\$ 4,486
Printing Papers	7,791	7,396	8,650
Consumer Packaging	3,000	3,333	3,285
Distribution	1,692	1,881	1,875
Forest Products	758	903	984
Specialty Businesses and Other (a)		8	12
Corporate and other (c)	3,187	3,180	4,867
Assets	\$ 25,548	\$ 26,913	\$ 24,159

Table of Contents**CAPITAL SPENDING**

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 183	\$ 282	\$ 405
Printing Papers	218	383	556
Consumer Packaging	126	287	276
Distribution	6	9	6
Forest Products	1	2	22
Subtotal	534	963	1,265
Corporate and other		39	23
Total from Continuing Operations	\$ 534	\$ 1,002	\$ 1,288

DEPRECIATION AND AMORTIZATION (d)

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 678	\$ 452	\$ 240
Printing Papers	447	517	470
Consumer Packaging	210	218	211
Distribution	14	17	18
Forest Products	6	7	10
Corporate	117	136	137
Depreciation and Amortization	\$ 1,472	\$ 1,347	\$ 1,086

EXTERNAL SALES BY MAJOR PRODUCT

<i>In millions</i>	2009	2008	2007
Industrial Packaging	\$ 8,813	\$ 7,465	\$ 5,240
Printing Papers	5,114	6,407	6,216
Consumer Packaging	2,911	2,982	2,659
Distribution	6,486	7,928	7,286
Forest Products	42	47	354
Other (e)			135
Net Sales	\$ 23,366	\$ 24,829	\$ 21,890

INFORMATION BY GEOGRAPHIC AREA**NET SALES (f)**

<i>In millions</i>	2009	2008	2007
United States (g)	\$ 18,355	\$ 19,501	\$ 17,096
Europe	2,716	3,177	2,986
Pacific Rim	1,002	827	678
Americas, other than U.S.	1,293	1,324	1,130
Net Sales	\$ 23,366	\$ 24,829	\$ 21,890

LONG-LIVED ASSETS (h)

<i>In millions</i>	2009	2008	2007
United States	\$ 9,626	\$ 11,336	\$ 6,905
Europe	1,123	1,215	1,540
Pacific Rim	369	386	244

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Americas, other than U.S.	2,117	1,599	1,981
Corporate	210	260	241
Long-Lived Assets	\$ 13,445	\$ 14,796	\$ 10,911

(a) Includes Arizona Chemical and certain other smaller businesses identified in the Company's divestiture program.

(b) Operating profits for industry segments include each segment's percentage share of the profits of subsidiaries included in that segment that are less than wholly-owned. The pre-tax noncontrolling interests and equity earnings for these subsidiaries is added here to present consolidated earnings from continuing operations before income taxes and equity earnings.

(c) Includes corporate assets and assets of businesses held for sale.

(d) Includes cost of timber harvested; excludes accelerated depreciation related to closure of mills.

(e) Includes sales of products not included in our major product lines.

(f) Net sales are attributed to countries based on the location of the seller.

(g) Export sales to unaffiliated customers were \$1.4 billion in 2009, \$1.6 billion in 2008 and \$1.5 billion in 2007.

(h) Long-Lived Assets includes Forestlands and Plants, Properties and Equipment, net.

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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 CONTROLS OVER FINANCIAL REPORTING

The management of International Paper Company is also responsible for establishing and maintaining adequate internal controls over financial reporting including the safeguarding of assets against unauthorized acquisition, use or disposition. These controls are designed to provide reasonable assurance to management and the Board of Directors regarding preparation of reliable published financial statements and such asset safeguarding. All internal control systems have inherent limitations, including the possibility of circumvention and overriding of controls, and therefore can provide only reasonable assurance as to such financial statement preparation

and asset safeguarding. 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, 2009. In making this assessment, it used the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2009, the Company's internal control over financial reporting is effective.

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 page 52.

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 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 currently consists of five independent directors, meets regularly with

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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, 2009, 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.

JOHN V. FARACI

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

TIM S. NICHOLLS

SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

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**REPORT OF DELOITTE & TOUCHE LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON
CONSOLIDATED FINANCIAL STATEMENTS**

To the 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, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 10 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertainty in income taxes, effective January 1, 2007.

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, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

Memphis, Tennessee

February 25, 2010

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REPORT OF DELOITTE & TOUCHE LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the 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, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Controls 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 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, 2009, based on the criteria established in Internal Control – Integrated Framework 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 as of and for the year ended December 31, 2009 of the Company and our report dated February 25, 2010 expressed an unqualified opinion on those financial statements.

Memphis, Tennessee

February 25, 2010

Table of Contents**CONSOLIDATED STATEMENT OF OPERATIONS**

<i>In millions, except per share amounts, for the years ended December 31</i>	2009	2008	2007
NET SALES	\$ 23,366	\$ 24,829	\$ 21,890
COSTS AND EXPENSES			
Cost of products sold (Notes 1 and 5)	15,220	18,742	16,060
Selling and administrative expenses	2,031	1,947	1,831
Depreciation, amortization and cost of timber harvested	1,472	1,347	1,086
Distribution expenses	1,175	1,286	1,034
Taxes other than payroll and income taxes	188	182	169
Restructuring and other charges	1,353	370	95
Gain on sale of mineral rights		(261)	
Gain on sale of forestlands		(6)	(9)
Impairments of goodwill		1,777	
Net losses (gains) on sales and impairments of businesses	59	106	(327)
Interest expense, net	669	492	297
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS	1,199	(1,153)	1,654
Income tax provision	469	162	415
Equity earnings (losses), net of taxes	(49)	49	
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	681	(1,266)	1,239
Discontinued operations, net of taxes		(13)	(47)
NET EARNINGS (LOSS)	\$ 681	\$ (1,279)	\$ 1,192
Less: Net earnings attributable to noncontrolling interests	18	3	24
NET EARNINGS (LOSS) ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY	\$ 663	\$ (1,282)	\$ 1,168
BASIC EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	\$ 1.56	\$ (3.02)	\$ 2.83
Discontinued operations, net of taxes		(0.03)	(0.11)
Net earnings (loss)	\$ 1.56	\$ (3.05)	\$ 2.72
DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	\$ 1.55	\$ (3.02)	\$ 2.81
Discontinued operations, net of taxes		(0.03)	(0.11)
Net earnings (loss)	\$ 1.55	\$ (3.05)	\$ 2.70
AMOUNTS ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	\$ 663	\$ (1,269)	\$ 1,215
Discontinued operations, net of taxes		(13)	(47)
Net earnings (loss)	\$ 663	\$ (1,282)	\$ 1,168

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

Table of Contents**CONSOLIDATED BALANCE SHEET**

<i>In millions, except per share amounts, at December 31</i>	2009	2008
ASSETS		
Current Assets		
Cash and temporary investments	\$ 1,892	\$ 1,144
Accounts and notes receivable, less allowances of \$136 in 2009 and \$121 in 2008	2,695	3,288
Inventories	2,179	2,495
Deferred income tax assets	368	261
Other current assets	417	172
Total Current Assets	7,551	7,360
Plants, Properties and Equipment, net	12,688	14,202
Forestlands	757	594
Investments	1,077	1,274
Goodwill	2,290	2,027
Deferred Charges and Other Assets	1,185	1,456
Total Assets	\$ 25,548	\$ 26,913
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	\$ 304	\$ 828