

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From to

Commission File Number 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation of organization)

6400 Poplar Avenue, Memphis, TN
(Address of principal executive offices)

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

38197
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

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

The number of shares outstanding of the registrant's common stock, par value \$1.00 per share, as of October 26, 2018 was 405,028,470 .

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Statement of Operations
(Unaudited)
(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Sales	\$ 5,901	\$ 5,517	\$ 17,355	\$ 16,032
Costs and Expenses				
Cost of products sold	3,887	3,713	11,757	11,100
Selling and administrative expenses	405	401	1,277	1,187
Depreciation, amortization and cost of timber harvested	335	350	990	1,004
Distribution expenses	397	354	1,166	1,061
Taxes other than payroll and income taxes	44	41	130	124
Restructuring and other charges	—	—	48	(16)
Net (gains) losses on sales and impairments of businesses	122	—	122	9
Litigation settlement	—	—	—	354
Net bargain purchase gain on acquisition of business	—	—	—	(6)
Interest expense, net	133	152	401	431
Non-operating pension expense	25	49	65	133
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	553	457	1,399	651
Income tax provision (benefit)	83	136	302	122
Equity earnings (loss), net of taxes	92	45	257	113
Earnings (Loss) From Continuing Operations	562	366	1,354	642
Discontinued operations, net of taxes	—	29	345	42
Net Earnings (Loss)	562	395	1,699	684
Less: Net earnings (loss) attributable to noncontrolling interests	—	—	3	—
Net Earnings (Loss) Attributable to International Paper Company	\$ 562	\$ 395	\$ 1,696	\$ 684
Basic Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$ 1.38	\$ 0.89	\$ 3.28	\$ 1.55
Discontinued operations, net of taxes	—	0.07	0.84	0.10
Net earnings (loss)	\$ 1.38	\$ 0.96	\$ 4.12	\$ 1.65
Diluted Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$ 1.37	\$ 0.88	\$ 3.25	\$ 1.54
Discontinued operations, net of taxes	—	0.07	0.83	\$ 0.10
Net earnings (loss)	\$ 1.37	\$ 0.95	\$ 4.08	\$ 1.64
Average Shares of Common Stock Outstanding – assuming dilution	411.4	417.4	416.3	417.4
Cash Dividends Per Common Share	\$ 0.4750	\$ 0.4625	\$ 1.4250	\$ 1.3875
Amounts Attributable to International Paper Company Common Shareholders				
Earnings (loss) from continuing operations	\$ 562	\$ 366	\$ 1,351	\$ 642
Discontinued operations, net of taxes	—	29	345	42
Net earnings (loss)	\$ 562	\$ 395	\$ 1,696	\$ 684

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

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Statement of Comprehensive Income
(Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Earnings (Loss)	\$ 562	\$ 395	\$ 1,699	\$ 684
Other Comprehensive Income (Loss), Net of Tax:				
Amortization of pension and post-retirement prior service costs and net loss:				
U.S. plans	76	59	227	176
Pension and postretirement liability adjustments:				
Non-U.S. plans	—	—	—	1
Change in cumulative foreign currency translation adjustment	(87)	100	(467)	234
Net gains/losses on cash flow hedging derivatives:				
Net gains (losses) arising during the period	1	1	(20)	9
Reclassification adjustment for (gains) losses included in net earnings (loss)	2	(2)	2	(6)
Total Other Comprehensive Income (Loss), Net of Tax	(8)	158	(258)	414
Comprehensive Income (Loss)	554	553	1,441	1,098
Net (earnings) loss attributable to noncontrolling interests	—	—	(3)	—
Other comprehensive (income) loss attributable to noncontrolling interests	2	1	4	(1)
Comprehensive Income (Loss) Attributable to International Paper Company	\$ 556	\$ 554	\$ 1,442	\$ 1,097

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

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Balance Sheet
(In millions)

	September 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Current Assets		
Cash and temporary investments	\$ 1,026	\$ 1,018
Accounts and notes receivable, net	3,580	3,287
Contract assets	383	—
Inventories	2,130	2,313
Assets held for sale	—	1,377
Other current assets	199	282
Total Current Assets	7,318	8,277
Plants, Properties and Equipment, net	13,088	13,265
Forestlands	388	448
Investments	1,615	390
Financial Assets of Special Purpose Entities (Note 15)	7,065	7,051
Goodwill	3,371	3,411
Deferred Charges and Other Assets	958	1,061
Total Assets	\$ 33,803	\$ 33,903
Liabilities and Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	\$ 555	\$ 311
Accounts payable	2,510	2,458
Accrued payroll and benefits	484	485
Liabilities held for sale	—	805
Other accrued liabilities	1,054	1,043
Total Current Liabilities	4,603	5,102
Long-Term Debt	10,700	10,846
Nonrecourse Financial Liabilities of Special Purpose Entities (Note 15)	6,296	6,291
Deferred Income Taxes	2,512	2,291
Pension Benefit Obligation	1,785	1,939
Postretirement and Postemployment Benefit Obligation	305	326
Other Liabilities	544	567
Equity		
Common stock, \$1 par value, 2018 – 448.9 shares and 2017 – 448.9 shares	449	449
Paid-in capital	6,256	6,206
Retained earnings	7,353	6,180
Accumulated other comprehensive loss	(4,887)	(4,633)
	9,171	8,202
Less: Common stock held in treasury, at cost, 2018 – 43.9 shares and 2017 – 36.0 shares	2,131	1,680
Total International Paper Shareholders' Equity	7,040	6,522
Noncontrolling interests	18	19
Total Equity	7,058	6,541
Total Liabilities and Equity	\$ 33,803	\$ 33,903

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

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Statement of Cash Flows
(Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net earnings (loss)	\$ 1,699	\$ 684
Depreciation, amortization and cost of timber harvested	990	1,075
Deferred income tax provision (benefit), net	163	295
Restructuring and other charges	48	(16)
Pension plan contributions	—	(1,250)
Net gain on transfer of North American Consumer Packaging business	(488)	—
Net bargain purchase gain on acquisition of business	—	(6)
Net (gains) losses on sales and impairments of businesses	122	9
Equity method dividends received	130	129
Equity (earnings) loss, net	(257)	(113)
Periodic pension expense, net	172	237
Other, net	75	92
Changes in current assets and liabilities		
Accounts and notes receivable	(441)	(293)
Contract assets	(20)	—
Inventories	(120)	(70)
Accounts payable and accrued liabilities	301	5
Interest payable	(33)	(11)
Other	64	(198)
Cash Provided By (Used For) Operations	2,405	569
Investment Activities		
Invested in capital projects	(1,286)	(935)
Acquisitions, net of cash acquired	—	(45)
Net settlement on transfer of North American Consumer Packaging business	(40)	—
Proceeds from divestitures, net of cash divested	—	4
Proceeds from sale of fixed assets	12	22
Other	4	(54)
Cash Provided By (Used For) Investment Activities	(1,310)	(1,008)
Financing Activities		
Repurchases of common stock and payments of restricted stock tax withholding	(532)	(46)
Issuance of debt	349	1,366
Reduction of debt	(242)	(369)
Change in book overdrafts	(33)	5
Dividends paid	(588)	(573)
Debt tender premiums paid	—	(1)
Other	—	(2)
Cash Provided By (Used For) Financing Activities	(1,046)	380
Effect of Exchange Rate Changes on Cash	(41)	24
Change in Cash and Temporary Investments	8	(35)
Cash and Temporary Investments		
Beginning of period	1,018	1,033
End of period	\$ 1,026	\$ 998

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

INTERNATIONAL PAPER COMPANY
Condensed Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in conformity with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments that are necessary for the fair presentation of International Paper Company's (International Paper's, the Company's or our) financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed herein, such adjustments are of a normal, recurring nature. Results for the first nine months of the year may not necessarily be indicative of full year results. It is suggested that these condensed financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which have previously been filed with the Securities and Exchange Commission.

NOTE 2 - RECENT ACCOUNTING DEVELOPMENTS

Intangibles

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this guidance. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This guidance eliminates the requirement to calculate the implied fair value of goodwill under Step 2 of today's goodwill impairment test to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This guidance should be applied prospectively and is effective for annual reporting periods beginning after December 15, 2019, for any impairment test performed in 2020. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the provisions of this guidance; however, we do not anticipate adoption having a material impact on the financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The new guidance modifies disclosure requirements related to fair value measurement. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within those years. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance gives entities the option to reclassify stranded tax effects caused by the newly-enacted U.S. Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The objective of this new guidance is the improvement of the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition to that main objective, the amendments in this guidance make certain targeted improvements to simplify the

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application of the hedge accounting guidance in current GAAP. This guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Company early adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." This guidance adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. This guidance is effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted. This guidance should be applied on a retrospective basis to all periods presented. The Company is currently evaluating the provisions of this guidance.

The Company adopted the provision of ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," on January 1, 2018. Under this new guidance, employers present the service costs component of the net periodic benefit cost in the same income statement line

items as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component is eligible for capitalization in assets. Employers present the other components separately from the line items that includes the service cost and outside of any subtotal of operating income. In addition, disclosure of the lines used to present the other components of net periodic benefit cost are required if the components are not presented separately in the income statement. The following table details the impact of the retrospective adoption of this standard on the three months and nine months ended September 30, 2017, reported in the accompanying condensed consolidated statement of operations. The retrospective adoption had no impact on Net earnings (loss).

Condensed Consolidated Statement of Operations

<i>In millions</i>	Three Months Ended September 30, 2017		
	Previously Reported	Impact of Adoption Increase/(Decrease)	As Revised
Cost of products sold	\$ 3,756	\$ (43)	\$ 3,713
Selling and administrative expenses	407	(6)	401
Non-operating pension expense	—	49	49

<i>In millions</i>	Nine Months Ended September 30, 2017		
	Previously Reported	Impact of Adoption Increase/(Decrease)	As Revised
Cost of products sold	\$ 11,214	\$ (114)	\$ 11,100
Selling and administrative expenses	1,206	(19)	1,187
Non-operating pension expense	—	133	133

Business Combinations

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." Under the new guidance, an entity must first determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set of transferred assets and activities is not a business. If this threshold is not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This ASU requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs rather than defer the income tax effects which is current practice. This new guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within

those years. The guidance requires companies to apply a modified retrospective approach with a cumulative catch-up adjustment to opening retained earnings in the period of adoption. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Stock Compensation

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under this guidance, entities will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. This guidance was effective for annual reporting periods beginning after December 15, 2017, and interim periods within those years. The Company adopted the provisions of this guidance on January 1, 2018, with no material impact on the financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases Topic (842): Leases." This ASU will require most leases to be recognized on the balance sheet which will increase reported assets and liabilities. Lessor accounting will remain substantially similar to current U.S. GAAP. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, and mandates a modified retrospective transition method for all entities. In July 2018, the FASB issued ASU 2018-11, "Leases Topic (842): Targeted Improvements." This ASU provides companies an option to apply the transition provisions of the new lease standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The Company expects to adopt the new lease guidance using the newly approved transition method. We expect to recognize a liability and corresponding asset associated with in-scope operating and finance leases but are still in the process of determining those amounts and the processes required to account for leasing activity on an ongoing basis.

The Company has formed a global implementation team, including representatives from accounting, tax, legal, global sourcing, information technology, policies and controls and operations. Surveys were developed and utilized to gather initial information regarding existing leases and the various processes that currently exist to procure, track and account for leases globally. The implementation team has selected and begun working with a third-party vendor to implement a lease accounting solution to deliver the accounting and disclosures required under the new lease accounting guidance. Initial data loads are substantially complete and preliminary testing in the system is underway.

Revenue Recognition

On January 1, 2018, the Company adopted the new revenue recognition standard ASC 606, "Revenue from Contracts With Customers," (new revenue standard) and all related amendments, using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of Retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company recorded a net increase to opening Retained earnings of \$73 million as of January 1, 2018, due to the cumulative impact of adopting the new revenue standard, with the impact primarily related to our customized products. The impacts of the adoption of the new revenue standard on the Company's condensed consolidated financial statements were as follows:

Condensed Consolidated Statement of Operations

<i>In millions, except per share amounts</i>	Three Months Ended September 30, 2018			
	As Reported	Balances Without Adoption of ASC 606		Impact of Adoption Increase/(Decrease)
Net sales	\$ 5,901	\$ 5,898	\$	3
Cost of products sold	3,887	3,885		2
Distribution expenses	397	396		1
Income tax provision (benefit), net	83	83		—
Earnings (loss) from continuing operations	562	562		—
Net earnings (loss)	562	562		—
Earnings per share attributable to International Paper Company Shareholders				
Basic	\$ 1.38	\$ 1.38	\$	—
Diluted	1.37	1.37		—

Condensed Consolidated Statement of Operations

<i>In millions, except per share amounts</i>	Nine Months Ended September 30, 2018			
	As Reported	Balances Without Adoption of ASC 606		Impact of Adoption Increase/(Decrease)
Net sales	\$ 17,355	\$ 17,335	\$	20
Cost of products sold	11,757	11,748		9
Distribution expenses	1,166	1,163		3
Income tax provision (benefit), net	302	300		2
Earnings (loss) from continuing operations	1,354	1,348		6
Net earnings (loss)	1,699	1,693		6
Earnings per share attributable to International Paper Company Shareholders				
Basic	\$ 4.12	\$ 4.10	\$	0.02
Diluted	4.08	4.06		0.02

Condensed Consolidated Balance Sheet

<i>In millions, except per share amounts</i>	September 30, 2018			
	As Reported	Balances Without Adoption of ASC 606		Impact of Adoption Increase/(Decrease)
Contract assets	\$ 383	\$ —	\$	383
Inventories	2,130	2,389		(259)
Other current assets	199	213		(14)
Other accrued liabilities	1,054	1,035		19
Deferred income taxes	2,512	2,500		12
Retained earnings	7,353	7,274		79

Condensed Consolidated Statement of Cash Flows

<i>In millions, except per share amounts</i>	Nine Months Ended September 30, 2018			
	As Reported	Balances Without Adoption of ASC 606		Impact of Adoption Increase/(Decrease)
Net earnings (loss)	\$ 1,699	\$ 1,693	\$	6
Deferred income tax provision (benefit), net	163	175		(12)
Contract assets	(20)	—		(20)
Inventories	(120)	(128)		8
Accounts payable and accrued liabilities	301	298		3
Other	64	49		15

Historically, the Company has recognized all of its revenue on a point-in-time basis across its businesses. The trigger for International Paper's point-in-time recognition is when the customer takes title to the goods and assumes the risks and rewards

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for the goods. As such, the adoption of ASC 606 did not have a material impact on the Company's revenue recognition for point-in-time goods. However, across the majority of our businesses, there are certain goods designed to customers' unique specifications, including customer logos and labels (customized goods). Due to the manually intensive process and significant costs that would be required to rework these products, and in many cases contractual restrictions, the Company has determined that these products do not have an alternative future use under ASC 606.

The majority of the customized goods discussed above are covered by non-cancelable purchase orders or customer agreements and the Company has determined that in most cases, it does have an enforceable right to payment for these goods. As such, the Company's adoption of ASC 606 resulted in the acceleration of revenue for customized products without an alternative future use and where the Company has a legally enforceable right to payment for production of products completed to date. The Company now records a contract asset for revenue recognized on our customized products prior to having an unconditional right to payment from the customer, which generally does not occur until title and risk of loss for the products passes to the customer.

[NOTE 3 - REVENUE RECOGNITION](#)

Disaggregated Revenue

A geographic disaggregation of revenues across our company segmentation in the following tables provide information to assist in evaluating the nature, timing and uncertainty of revenue and cash flows and how they may be impacted by economic factors.

<i>In millions</i>	Three Months Ended September 30, 2018					Total
	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Corporate and Inter- segment Sales		
Primary Geographical Markets (a)						
United States	\$ 3,394	\$ 602	\$ 482	\$ 52	\$	\$ 4,530
EMEA	396	77	328	(4)		797
Pacific Rim and Asia	40	35	62	6		143
Americas, other than U.S.	204	—	230	(3)		431
Total	\$ 4,034	\$ 714	\$ 1,102	\$ 51	\$	\$ 5,901
Operating Segments						
North American Industrial Packaging	\$ 3,653	\$ —	\$ —	\$ —	\$	\$ 3,653
EMEA Industrial Packaging	311	—	—	—		311
Brazilian Industrial Packaging	57	—	—	—		57
European Coated Paperboard	87	—	—	—		87
Global Cellulose Fibers	—	714	—	—		714
North American Printing Papers	—	—	492	—		492
Brazilian Papers	—	—	255	—		255
European Papers	—	—	311	—		311
Indian Papers	—	—	47	—		47
Intra-segment Eliminations	(74)	—	(3)	—		(77)
Corporate & Inter-segment Sales	—	—	—	51		51
Total	\$ 4,034	\$ 714	\$ 1,102	\$ 51	\$	\$ 5,901

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

<i>In millions</i>	Nine Months Ended September 30, 2018					Total
	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Corporate & Intersegment		
Primary Geographical Markets (a)						
United States	\$ 9,832	\$ 1,720	\$ 1,399	\$ 163	\$	\$ 13,114
EMEA	1,275	222	988	(13)		2,472
Pacific Rim and Asia	110	140	185	35		470
Americas, other than U.S.	666	1	643	(11)		1,299
Total	\$ 11,883	\$ 2,083	\$ 3,215	\$ 174	\$	\$ 17,355
Operating Segments						
North American Industrial Packaging	\$ 10,604	\$ —	\$ —	\$ —	\$	\$ 10,604
EMEA Industrial Packaging	1,017	—	—	—		1,017
Brazilian Industrial Packaging	175	—	—	—		175
European Coated Paperboard	265	—	—	—		265
Global Cellulose Fibers	—	2,083	—	—		2,083
North American Printing Papers	—	—	1,443	—		1,443
Brazilian Papers	—	—	706	—		706
European Papers	—	—	932	—		932
Indian Papers	—	—	150	—		150
Intra-segment Eliminations	(178)	—	(16)	—		(194)
Corporate & Inter-segment Sales	—	—	—	174		174
Total	\$ 11,883	\$ 2,083	\$ 3,215	\$ 174	\$	\$ 17,355

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

The nature of the Company's contracts can vary based on the business, customer type and region; however, in all instances it is International Paper's customary business practice to receive a valid order from the customer, in which each parties' rights and related payment terms are clearly identifiable.

Revenue Contract Balances

The opening and closing balances of the Company's contract assets and current contract liabilities are as follows:

<i>In millions</i>	Contract Assets (Short-Term)	Contract Liabilities (Short-Term)
Beginning Balance - January 1, 2018	\$ 366	\$ 53
Ending Balance - September 30, 2018	383	25
Increase / (Decrease)	\$ 17	\$ (28)

A contract asset is created when the Company recognizes revenue on its customized products prior to having an unconditional right to payment from the customer, which generally does not occur until title and risk of loss passes to the customer.

A contract liability is created when customers prepay for goods prior to the Company transferring those goods to the customer. The contract liability is reduced once control of the goods is transferred to the customer. The majority of our customer prepayments are received during the fourth quarter each year for goods that will be transferred to customers over the following twelve months.

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing difference between the Company's performance and the point at which we have an unconditional right to payment or receive pre-payment from the customer, respectively.

Performance Obligations and Significant Judgments

International Paper's principal business is to manufacture and sell fiber-based packaging, pulp and paper goods. As a general rule, none of our businesses provide equipment installation or other ancillary services outside producing and shipping packaging, pulp and paper goods to customers.

The Company's revenue is primarily derived from fixed consideration; however, we do have contract terms that give rise to variable consideration, primarily cash discounts and volume rebates. International Paper offers early payment discounts to customers across the Company's businesses. The Company estimates the expected cash discounts and other customer refunds based on the historical experience across the Company's portfolio of customers to record reductions in revenue which is consistent with the most likely amount method outlined in ASC 606. Management has concluded that this method is the best estimate of the consideration the Company will be entitled to from its customers.

Contracts or purchase orders with customers could include a single type of product or it could include multiple types/grades of products. Regardless, the contracted price with the customer is agreed to at the individual product level outlined in the customer contracts or purchase orders. The Company does not bundle prices; however, we do negotiate with customers on pricing and rebates for the same products based on a variety of factors (e.g. level of contractual volume, geographical location, etc.). Management has concluded that the prices negotiated with each individual customer are representative of the stand-alone selling price of the product.

Generally, the Company recognizes revenue on a point in time basis when the customer takes title to the goods and assumes the risks and rewards for the goods. For customized goods where the Company has a legally enforceable right to payment for the goods, the Company recognizes revenue over time which in this case, is generally as the goods are produced.

Practical Expedients and Exemptions

As part of our adoption of the new revenue standard, the Company has elected to present all sales taxes on a net basis, account for shipping and handling activities as fulfillment activities, recognize the incremental costs of obtaining a contract as expense when incurred if the amortization period of the asset the Company would recognize is one year or less and not record interest income or interest expense when the difference in timing of control transfer and customer payment is one year or less. The election of these practical expedients results in accounting treatments consistent with our historical accounting policies and therefore, these elections and expedients do not have a material impact on comparability of our financial statements.

NOTE 4 - EQUITY

A summary of the changes in equity for the nine months ended September 30, 2018 and 2017 is provided below:

	Nine Months Ended September 30,					
	2018			2017		
<i>In millions, except per share amounts</i>	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1	\$ 6,522	\$ 19	\$ 6,541	\$ 4,341	\$ 18	\$ 4,359
Adoption of ASC 606 revenue from contracts with customers	73	—	73	—	—	—
Issuance of stock for various plans, net	112	—	112	130	—	130
Repurchase of stock	(532)	—	(532)	(46)	—	(46)
Common stock dividends (\$1.4250 per share in 2018 and \$1.3875 per share in 2017)	(596)	—	(596)	(584)	—	(584)
Transactions of equity method investees	19	—	19	(24)	—	(24)
Comprehensive income (loss)	1,442	(1)	1,441	1,097	1	1,098
Ending Balance, September 30	\$ 7,040	\$ 18	\$ 7,058	\$ 4,914	\$ 19	\$ 4,933

NOTE 5 - OTHER COMPREHENSIVE INCOME

The following table presents changes in accumulated other comprehensive income (AOCI) for the three months and nine months ended September 30, 2018 and 2017 :

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Defined Benefit Pension and Postretirement Adjustments				
Balance at beginning of period	\$ (2,376)	\$ (2,954)	\$ (2,527)	\$ (3,072)
Other comprehensive income (loss) before reclassifications	—	—	—	1
Amounts reclassified from accumulated other comprehensive income	76	59	227	176
Balance at end of period	(2,300)	(2,895)	(2,300)	(2,895)
Change in Cumulative Foreign Currency Translation Adjustments				
Balance at beginning of period	(2,489)	(2,155)	(2,111)	(2,287)
Other comprehensive income (loss) before reclassifications	(87)	101	(469)	235
Amounts reclassified from accumulated other comprehensive income	—	(1)	2	(1)
Other comprehensive income (loss) attributable to noncontrolling interest	2	1	4	(1)
Balance at end of period	(2,574)	(2,054)	(2,574)	(2,054)
Net Gains and Losses on Cash Flow Hedging Derivatives				
Balance at beginning of period	(16)	1	5	(3)
Other comprehensive income (loss) before reclassifications	1	1	(20)	9
Amounts reclassified from accumulated other comprehensive income	2	(2)	2	(6)
Balance at end of period	(13)	—	(13)	—
Total Accumulated Other Comprehensive Income (Loss) at End of Period	\$ (4,887)	\$ (4,949)	\$ (4,887)	\$ (4,949)

The following table presents details of the reclassifications out of AOCI for the three months and nine months ended September 30, 2018 and 2017 :

<i>In millions:</i>	Amounts Reclassified from Accumulated Other Comprehensive Income				Location of Amount Reclassified from AOCI
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2018	2017	2018	2017	
Defined benefit pension and postretirement items:					
Prior-service costs	\$ (4)	\$ (6)	(11)	(19)	(a) Non-operating pension expense
Actuarial gains (losses)	(97)	(89)	(291)	(266)	(a) Non-operating pension expense
Total pre-tax amount	(101)	(95)	(302)	(285)	
Tax (expense) benefit	25	36	75	109	
Net of tax	(76)	(59)	(227)	(176)	
Change in cumulative foreign currency translation adjustments:					
Business acquisitions/divestitures	—	1	(2)	1	(b) Discontinued operations, net of taxes
Tax (expense) benefit	—	—	—	—	
Net of tax	—	1	(2)	1	
Net gains and losses on cash flow hedging derivatives:					
Foreign exchange contracts	(3)	3	(3)	8	(c) Cost of products sold
Total pre-tax amount	(3)	3	(3)	8	
Tax (expense)/benefit	1	(1)	1	(2)	
Net of tax	(2)	2	(2)	6	
Total reclassifications for the period	\$ (78)	\$ (56)	\$ (231)	\$ (169)	

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- (a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 18 for additional details).
 (b) Amounts for the three and nine months ended September 30, 2017 were reclassified to Net (gains) losses on sales and impairment of businesses.
 (c) This accumulated other comprehensive income component is included in our derivatives and hedging activities (see Note 17 for additional details).

NOTE 6 - EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per common share are computed assuming that all potentially dilutive securities were converted into common shares. There are no adjustments required to be made to net income for purposes of computing basic and diluted earnings per share. A reconciliation of the amounts included in the computation of basic earnings (loss) per share, and diluted earnings (loss) per share is as follows:

<i>In millions, except per share amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Earnings (loss) from continuing operations attributable to International Paper Company common shareholders	\$ 562	\$ 366	\$ 1,351	\$ 642
Weighted average common shares outstanding	407.4	412.9	411.4	412.6
Effect of dilutive securities				
Restricted stock performance share plan	4.0	4.5	4.9	4.8
Weighted average common shares outstanding – assuming dilution	411.4	417.4	416.3	417.4
Basic earnings (loss) per share from continuing operations	\$ 1.38	\$ 0.89	\$ 3.28	\$ 1.55
Diluted earnings (loss) per common share from continuing operations	\$ 1.37	\$ 0.88	\$ 3.25	\$ 1.54

NOTE 7 - RESTRUCTURING AND OTHER CHARGES

2018 : There were no restructuring charges recorded during the three months ended September 30, 2018.

During the three months ended June 30, 2018, the Company recorded a \$26 million pre-tax charge, in the Industrial Packaging segment, related to approximately \$12 million of severance, \$6 million in accelerated depreciation, \$2 million in accelerated amortization and \$6 million in other charges in conjunction with the optimization of our EMEA Packaging business.

During the three months ended March 31, 2018, the Company recorded a \$22 million pre-tax charge, in the Industrial Packaging segment, primarily related to the severance charges in conjunction with the optimization of our EMEA Packaging business.

The majority of the severance charges recorded year to date are expected to be paid over the remainder of the year.

2017: There were no restructuring charges recorded during the three months ended September 30, 2017.

During the three months ended June 30, 2017, restructuring and other charges totaling a \$16 million benefit before taxes were recorded. This benefit included a \$14 million gain on the sale of the Company's investment in ArborGen and \$2 million of other benefits.

There were no restructuring and other charges recorded during the three months ended March 31, 2017.

NOTE 8 - ACQUISITIONS***Tangier, Morocco Facility***

On June 30, 2017, the Company completed the acquisition of Europac's Tangier, Morocco facility, a corrugated packaging facility, for €40 million (approximately \$46 million using the June 30, 2017 exchange rate). After working capital and other post-closing adjustments, final consideration exchanged was €33 million (approximately \$38 million using the June 30, 2017 exchange rate).

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The following table summarizes the final fair value assigned to assets and liabilities acquired as of June 30, 2017:

<i>In millions</i>	June 30, 2017	
Cash and temporary investments	\$	1
Accounts and notes receivable		7
Inventory		3
Plants, properties and equipment		31
Goodwill		4
Other intangible assets		5
Deferred charges and other assets		4
Total assets acquired		55
Accounts payable and accrued liabilities		4
Long-term debt		11
Other long-term liabilities		2
Total liabilities assumed		17
Net assets acquired	\$	38

Pro forma information related to the acquisition of the Europac business has not been included as it is impractical to obtain the information due to the lack of availability of U.S. GAAP financial data and does not have a material effect on the Company's consolidated results of operations.

The Company has accounted for the above acquisition under ASC 805, "Business Combinations" and the results of operations have been included in International Paper's financial statements beginning with the date of acquisition.

NOTE 9 - DIVESTITURES AND IMPAIRMENTS

Discontinued Operations

On January 1, 2018, the Company completed the transfer of its North American Consumer Packaging business, which included its North American Coated Paperboard and Foodservice businesses, to a subsidiary of Graphic Packaging Holding Company in exchange for a 20.5% ownership interest in a subsidiary of Graphic Packaging Holding Company that holds the assets of the combined business. International Paper is accounting for its ownership interest in the combined business under the equity method. The Company determined the fair value of its investment in the combined business and recorded a pre-tax gain of \$516 million (\$385 million , net of tax) on the transfer in the first quarter of 2018, subject to final working capital settlement. During the second quarter of 2018, the Company recorded a pre-tax charge of \$28 million (\$21 million after tax) to adjust the previously recorded gain on the transfer. See [Note 11](#) for further discussion on the Company's investment in a subsidiary of Graphic Packaging Holding Company.

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All historical operating results for North American Consumer Packaging are included in Discontinued operations, net of tax in the accompanying consolidated statement of operations. The following summarizes the major classes of line items comprising Earnings (Loss) Before Income Taxes and Equity Earnings reconciled to Discontinued operations, net of tax, related to the transfer of the North American Consumer Packaging business for all periods presented in the consolidated statement of operations:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Sales	\$ —	\$ 397	\$ —	\$ 1,165
Costs and Expenses				
Cost of products sold	—	268	—	855
Selling and administrative expenses	—	24	25	69
Depreciation, amortization and cost of timber harvested	—	24	—	72
Distribution expenses	—	32	—	94
Taxes other than payroll and income taxes	—	3	—	8
(Gain) loss on transfer of business	—	—	(488)	—
Earnings (Loss) Before Income Taxes and Equity Earnings	—	46	463	67
Income tax provision (benefit)	—	17	118	25
Discontinued Operations, Net of Taxes	\$ —	\$ 29	\$ 345	\$ 42

Total cash provided by (used for) operations related to the North American Consumer Packaging business of \$(25) million and \$137 million for the nine months ended September 30, 2018 and September 30, 2017 is included in Cash Provided By (Used For) Operations in the consolidated statement of cash flows. Total cash provided by (used for) investing activities related to the North American Consumer Packaging business of \$(40) million and \$(77) million for the nine months ended September 30, 2018 and September 30, 2017, is included in Cash Provided By (Used For) Investing Activities in the consolidated statement of cash flows.

Impairments

During the third quarter of 2018, a determination was made that the current carrying value of the long-lived assets of the Brazil Packaging business exceeded their estimated fair value due to a change in the outlook for the business. Management engaged a third party to assist with determining the fair value of the business and the fixed assets. The fair value of the business was calculated using a probability-weighted approach based on discounted future cash flows, market multiples, and transaction multiples and the fair value of the fixed assets was determined using a market approach. As a result, a pre-tax charge of \$122 million (\$81 million, net of tax) was recorded related to the impairment of an intangible asset and fixed assets. This charge is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations and is included in the results for the Industrial Packaging segment. On October 25, 2018, the Company announced that it was exploring strategic options for its Brazil Packaging business.

NOTE 10 - SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Temporary Investments

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost. Temporary investments totaled \$628 million and \$661 million at September 30, 2018 and December 31, 2017, respectively.

Accounts and Notes Receivable

<i>In millions</i>	September 30, 2018	December 31, 2017
Accounts and notes receivable, net:		
Trade	\$ 3,333	\$ 3,017
Other	247	270
Total	\$ 3,580	\$ 3,287

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The allowance for doubtful accounts was \$81 million and \$73 million at September 30, 2018 and December 31, 2017 , respectively.

Inventories

<i>In millions</i>	September 30, 2018		December 31, 2017	
Raw materials	\$	287	\$	274
Finished pulp, paper and packaging		1,109		1,337
Operating supplies		609		615
Other		125		87
Total	\$	2,130	\$	2,313

Depreciation

Accumulated depreciation was \$21.0 billion and \$20.5 billion at September 30, 2018 and December 31, 2017 , respectively. Depreciation expense was \$315 million and \$317 million for the three months ended September 30, 2018 and 2017 , respectively and \$930 million and \$926 million for the nine months ended September 30, 2018 and 2017 , respectively.

Interest

Interest payments made during the nine months ended September 30, 2018 and 2017 were \$606 million and \$600 million , respectively.

Amounts related to interest were as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,					
	2018	2017	2018	2017				
Interest expense	\$	184	\$	198	\$	547	\$	571
Interest income		51		46		146		140
Capitalized interest costs		9		6		26		18

Asset Retirement Obligations

The Company had recorded liabilities of \$86 million related to asset retirement obligations at September 30, 2018 and December 31, 2017 .

NOTE 11 - EQUITY METHOD INVESTMENTS

The Company accounts for the following investments in affiliated companies under the equity method of accounting.

Graphic Packaging International, LLC

On January 1, 2018, the Company completed the transfer of its North American Consumer Packaging business, which includes its North American Coated Paperboard and Foodservice businesses, to a subsidiary of Graphic Packaging International Partners, LLC (GPIP), a subsidiary of Graphic Packaging Holding Company, in exchange for a 20.5% ownership interest in GPIP. GPIP subsequently transferred the North American Consumer Packaging business to Graphic Packaging International, LLC (GPI), a wholly-owned subsidiary of GPIP that holds the assets of the combined business. The Company recorded equity earnings of \$19 million and \$36 million for the three months and nine months ended September 30, 2018 , respectively. The Company received cash dividends from GPIP of \$12 million during the first nine months of 2018. At September 30, 2018 , the Company's investment in GPI was \$1.1 billion , which was \$519 million more than the Company's proportionate share of the entity's underlying net assets. The difference primarily relates to the basis difference between the fair value of our investment and the underlying net assets and is generally amortized in equity earnings over a period consistent with the underlying long-lived assets. The Company is party to various agreements with GPI under which it sells fiber and other products to GPI. Sales under these agreements were \$62 million and \$180 million for the three months and nine months ended September 30, 2018 , respectively.

Summarized financial information for GPI is presented in the following tables:

Balance Sheet

<i>In millions</i>	September 30, 2018	
Current assets	\$	1,943
Noncurrent assets		5,347
Current liabilities		1,143
Noncurrent liabilities		3,150

Income Statement

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018		2018	
Net sales	\$	1,530	\$	4,515
Gross profit		256		714
Income from continuing operations		135		278
Net income		135		278

Ilim Holding S.A.

The Company has a 50% equity interest in Ilim Holding S.A. (Ilim), which has subsidiaries whose primary operations are in Russia. The Company recorded equity earnings (losses), net of taxes, of \$74 million and \$48 million for the three months ended September 30, 2018 and 2017, respectively and \$223 million and \$119 million for the nine months ended September 30, 2018 and 2017, respectively. The Company received cash dividends from the joint venture of \$118 million and \$129 million during the first nine months of 2018 and 2017, respectively. At September 30, 2018 and December 31, 2017, the Company's investment in Ilim was \$440 million and \$338 million, respectively, which was \$153 million and \$154 million, respectively, more than the Company's proportionate share of the joint venture's underlying net assets. The differences primarily relate to currency translation adjustments and the basis difference between the fair value of our investment at acquisition and the underlying net assets. The Company is party to a joint marketing agreement with JSC Ilim Group, a subsidiary of Ilim, under which the Company purchases, markets and sells paper produced by JSC Ilim Group. Purchases under this agreement were \$50 million and \$52 million for the three months ended September 30, 2018 and 2017, respectively, and \$159 million and \$151 million for the nine months ended September 30, 2018 and 2017, respectively.

Summarized financial information for Ilim is presented in the following tables:

Balance Sheet

<i>In millions</i>	September 30, 2018		December 31, 2017	
Current assets	\$	741	\$	689
Noncurrent assets		1,702		1,696
Current liabilities		393		1,039
Noncurrent liabilities		1,460		972
Noncontrolling interests		17		6

Income Statement

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$	655	\$	523
Gross profit		376		252
Income from continuing operations		149		99
Net income		143		95

NOTE 12 - GOODWILL AND OTHER INTANGIBLES
Goodwill

The following table presents changes in goodwill balances as allocated to each business segment for the nine -months ended September 30, 2018 :

<i>In millions</i>	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Total
Balance as of January 1, 2018				
Goodwill	\$ 3,382	\$ 52	\$ 2,150	\$ 5,584
Accumulated impairment losses (a)	(296)	—	(1,877)	(2,173)
	3,086	52	273	3,411
Currency translation and other (b)	—	—	(38)	(38)
Additions/reductions	(2) (c)	—	—	(2)
Balance as of September 30, 2018				
Goodwill	3,380	52	2,112	5,544
Accumulated impairment losses (a)	(296)	—	(1,877)	(2,173)
Total	\$ 3,084	\$ 52	\$ 235	\$ 3,371

(a) Represents accumulated goodwill impairment charges since the adoption of ASC 350, "Intangibles-Goodwill and Other" in 2002.

(b) Represents the effects of foreign currency translations and reclassifications.

(c) Reflects a reduction from tax benefits generated by the deduction of goodwill amortization for tax purposes in the US.

Other Intangibles

Identifiable intangible assets comprised the following:

<i>In millions</i>	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Customer relationships and lists	\$ 540	\$ 238	\$ 302	\$ 610	\$ 247	\$ 363
Non-compete agreements	65	65	—	72	72	—
Tradenames, patents and trademarks, and developed technology	173	85	88	172	72	100
Land and water rights	8	2	6	8	2	6
Software	27	25	2	24	23	1
Other	36	28	8	38	26	12
Total	\$ 849	\$ 443	\$ 406	\$ 924	\$ 442	\$ 482

The Company recognized the following amounts as amortization expense related to intangible assets:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Amortization expense related to intangible assets	\$ 15	\$ 27	\$ 44	\$ 60

NOTE 13 - INCOME TAXES

International Paper made income tax payments, net of refunds, of \$195 million and \$122 million for the nine months ended September 30, 2018 and 2017 , respectively.

The Company currently estimates, that as a result of ongoing discussions, pending tax settlements and expirations of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately \$2 million during the next 12 months.

International Paper uses the flow-through method to account for investment tax credits earned on eligible open loop-biomass facilities and Combined Heat and Power system expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense in the year they are earned rather than a reduction in the asset basis. The Company recorded a

tax benefit of \$6 million and \$29 million for the nine months ended September 30, 2018 and 2017, respectively. The 2017 amount includes \$2 million which is now reported as discontinued operations.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) requiring companies to pay a one-time deemed repatriation transition tax (the Transition Tax) on certain earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminating the corporate alternative minimum tax (AMT) and changing how AMT credits can be realized; (6) capital expensing; (7) eliminating the deduction on U.S. manufacturing activities; and (8) creating new limitations on deductible interest expense and executive compensation.

The Securities Exchange Commission staff issued Staff Accounting Bulletin (SAB) 118 which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

In connection with our initial analysis of the impact of the Tax Act, we recorded a provisional net tax benefit of \$1.22 billion in the period ending December 31, 2017. The net tax benefit primarily consisted of a net tax benefit for the re-measurement of U.S. deferred taxes of \$1.454 billion and an expense for the Transition Tax of \$231 million. For various reasons that are discussed more fully below, as of the quarter ended September 30, 2018, we have not completed our accounting for the income tax effects of the Tax Act. However, in the third quarter, we have updated certain estimates and recorded a beneficial adjustment of \$36 million to our provisional estimate.

The provisional estimates and related adjustments relate to the following:

Reduction of U.S. federal corporate tax rate: The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018. For certain of our deferred tax assets and liabilities, we recorded a provisional net decrease of \$1.451 billion with a corresponding adjustment to deferred income tax benefit in the same amount for the year ended December 31, 2017. After the completion of the federal income tax return during the reporting period, we recognized a beneficial adjustment of \$11 million from the remeasurement of certain temporary differences. The effect of the measurement-period adjustment on the 2018 third quarter effective tax rate was approximately 2.0%. A total decrease to the deferred tax liabilities to date of \$1.462 billion has been recorded with a corresponding adjustment of \$1.462 billion to income tax benefit. However, our accounting for these items is not yet complete because the state tax effect of adjustments made to federal temporary differences is not yet finalized. We will complete our accounting in the fourth quarter.

Deemed Repatriation Transition Tax: This is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of foreign subsidiaries. To determine the amount of the transition tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We were able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation of \$231 million in the tax period ending December 31, 2017. On the basis of revised E&P computations that were calculated during the reporting period, as well as the impacts of guidance received from the IRS pertaining to the Transition Tax computation, we recognized an income tax benefit adjustment of \$25 million related to the Transition Tax obligation. The effect of the measurement-period adjustment on the 2018 third quarter effective tax rate was approximately 4.5%. A total Transition Tax obligation to date of \$206 million has been recorded as of September 30, 2018. Due to the fiscal year end of several significant foreign subsidiaries, we are continuing to gather additional information necessary to complete the calculation of the Transition Tax, and our accounting for this item is not yet complete. We will complete our accounting in the fourth quarter.

Our accounting for the following elements of the Tax Act is incomplete as of September 30, 2018. The estimates reported in the period ending December 31, 2017, were not adjusted in the period ending September 30, 2018. As of September 30, 2018, there has been no change in previous estimates made and reported in the period ending December 31, 2017.

Valuation Allowances: The Company has assessed whether its U.S. state and local income tax valuation allowance analysis is affected by various aspects of the Tax Act (e.g. deemed repatriation of foreign income, acceleration of cost recovery). Since, as discussed herein, the Company has recorded provisional amounts related to elements of the Tax Act, any corresponding determination of the need for a change in a valuation allowance is also provisional. For certain of our state deferred tax assets, we recorded a net \$3 million provisional decrease in the recorded valuation allowance with a corresponding adjustment to deferred income tax benefit in the same amount for the year ended December 31, 2017. While we are able to make a reasonable

estimate of the impact of the Tax Act on state attributes, the resolution of, or changes from, other factors noted herein may result in changes in our recorded valuation allowance.

The Tax Act may impact decisions surrounding the Company's permanent reinvestment assertions related to its foreign investments and could have an impact on the Company's accounting for untaxed outside basis differences. We previously considered the earnings in our non-U.S. subsidiaries to be permanently reinvested, and, accordingly deferred income taxes were not provided for such basis differences. While the transition tax resulted in a reduction in these basis differences, an actual repatriation from our non-U.S. subsidiaries could still be subject to additional taxes, including, but not limited to, foreign withholding taxes and U.S. state income taxes. In light of the Tax Act, the Company is evaluating its global cash management and non-U.S. repatriation strategy but we have yet to determine whether we plan to change our prior assertion. Accordingly, we have not recorded any deferred taxes attributable to our investments in our non-U.S. subsidiaries.

These estimates may change materially due to, among other things, further clarification of existing guidance that may be issued by U.S. taxing authorities or regulatory bodies and/or changes in interpretations and assumptions we have preliminarily made. We will continue to analyze the Tax Act to finalize its financial statement impact, including the mandatory deemed repatriation of foreign earnings, re-measurement of deferred taxes and all other provisions of the legislation and will record the effects of any changes to provisional amounts in the fourth quarter as required by SAB 118.

Because of the complexity of the new Global Intangible Low Tax Income (GILTI) rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects of our estimated future results of global operations, we are not yet able to reasonably estimate the long-term effects of this provision of the Act. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We expect to complete our accounting within the prescribed measurement period.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Environmental

International Paper has been named as a potentially responsible party (PRP) in environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Many 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 typically allocated among the many PRPs. There are other remediation costs typically associated with the cleanup of hazardous substances at the Company's current, closed or formerly-owned facilities, and recorded as liabilities in the balance sheet.

Remediation costs are recorded in the consolidated financial statements when they become probable and reasonably estimable. International Paper has estimated the probable liability associated with these matters to be approximately \$131 million (\$142 million undiscounted) in the aggregate at September 30, 2018 . Other than as described below, completion of required remedial actions is not expected to have a material effect on our consolidated financial statements.

Cass Lake: One of the matters included above arises out of a closed wood-treating facility located in Cass Lake, Minnesota. In June 2011, the United States Environmental Protection Agency (EPA) selected and published a proposed soil remedy at the site with an estimated cost of \$46 million . The overall remediation reserve for the site is currently \$50 million to address the selection of an alternative for the soil remediation component of the overall site remedy, which includes the ongoing groundwater remedy. In October 2011, the EPA released a public statement indicating that the final soil remedy decision would be delayed. In March 2016, the EPA issued a proposed plan concerning clean-up standards at a portion of the site, the estimated cost of which is included within the reserve referenced above. In October 2012, the Natural Resource Trustees for this site provided notice to International Paper and other PRPs of their intent to perform a Natural Resource Damage Assessment. It is premature to predict the outcome of the assessment or to estimate a loss or range of loss, if any, which may be incurred.

Kalamazoo River: The Company is a PRP with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site in Michigan. The EPA asserts that the site is contaminated by polychlorinated biphenyls (PCBs) primarily as a result of

discharges from various paper mills located along the Kalamazoo River, including a paper mill (the Allied Paper Mill) formerly owned by St. Regis Paper Company (St. Regis). The Company is a successor in interest to St. Regis.

- In March 2016, the Company and other PRPs received a special notice letter from the EPA (i) inviting participation in implementing a remedy for a portion of the site known as Operable Unit 5, Area 1, and (ii) demanding reimbursement of EPA past costs totaling \$37 million, including \$19 million in past costs previously demanded by the EPA. The Company responded to the special notice letter. In December 2016, the EPA issued a unilateral administrative order to the Company and other PRPs to perform the remedy. The Company responded to the unilateral administrative order, agreeing to comply with the order subject to its sufficient cause defenses.
- In April 2016, the EPA issued a separate unilateral administrative order to the Company and certain other PRPs for a time-critical removal action (TCRA) of PCB-contaminated sediments from a different portion of the site. The Company responded to the unilateral administrative order and agreed along with two other parties to comply with the order subject to its sufficient cause defenses.
- In October 2016, the Company and another PRP received a special notice letter from the EPA inviting participation in the remedial design component of the landfill remedy for the Allied Paper Mill. The record of decision establishing the final landfill remedy for the Allied Paper Mill was issued by the EPA in September 2016. The Company responded to the Allied Paper Mill special notice letter in late December 2016. In February 2017, the EPA informed the Company that it would make other arrangements for the performance of the remedial design.

The Company's CERCLA liability has not been finally determined with respect to these or any other portions of the site, and except as noted above, the Company has declined to perform any work or reimburse the EPA at this time.

The Company was named as a defendant by Georgia-Pacific Consumer Products LP, Fort James Corporation and Georgia Pacific LLC in a contribution and cost recovery action for alleged pollution at the site. The suit seeks contribution under CERCLA for costs purportedly expended by plaintiffs (\$79 million as of the filing of the complaint) and for future remediation costs. The suit alleges that a mill, during the time it was allegedly owned and operated by St. Regis, discharged PCB contaminated solids and paper residuals resulting from paper de-inking and recycling. NCR Corporation and Weyerhaeuser Company are also named as defendants in the suit. In mid-2011, the suit was transferred from the District Court for the Eastern District of Wisconsin to the District Court for the Western District of Michigan. The trial of the initial liability phase took place in February 2013. Weyerhaeuser conceded prior to trial that it was a liable party with respect to the site. In September 2013, an opinion and order was issued in the suit. The order concluded that the Company (as the successor to St. Regis) was not an "operator," but was an "owner," of the mill at issue during a portion of the relevant period and is therefore liable under CERCLA. The order also determined that NCR is a liable party as an "arranger for disposal" of PCBs in waste paper that was de-inked and recycled by mills along the Kalamazoo River. The order did not address the Company's responsibility, if any, for past or future costs. The parties' responsibility, including that of the Company, was the subject of a second trial, which was concluded in late 2015. In March 2018, the Court issued an Opinion addressing the Company's liability for past costs. The Court's Final Judgment and Order were issued on June 19, 2018. The Court fixed the past cost amount at approximately \$50 million (plus interest to be determined) and allocated to the Company a 15% share of responsibility for those past costs. The Court did not address responsibility for future remediation costs in its decision. In July 2018, the Company and each of the other parties filed notices appealing the Final Judgment and prior orders incorporated into that Judgment. As to future remediation costs, the Company remains unable to estimate our maximum reasonably possible loss with respect to this site. However, we do not believe that any material loss is probable.

Harris County: International Paper and McGinnis Industrial Maintenance Corporation (MIMC), a subsidiary of Waste Management, Inc. (WMI), are PRPs at the San Jacinto River Waste Pits Superfund Site in Harris County, Texas. The PRPs have been actively participating in the activities at the site and share the costs of these activities. In September 2016, the EPA issued a proposed remedial action plan (PRAP) for the site, which identified the preferred remedy as the removal of the contaminated material currently protected by an armored cap. In addition, the EPA selected a preferred remedy for the separate southern impoundment that requires offsite disposal. In January 2017, the PRPs submitted comments on the PRAP.

On October 11, 2017, the EPA issued a Record of Decision (ROD) selecting the final remedy for the site: removal and relocation of the waste material from both the northern and southern impoundments. The EPA did not specify the methods or practices needed to perform this work. While the EPA's selected remedy was accompanied by a cost estimate of approximately \$115 million, we do not believe that estimate provides a reasonable basis for accrual under GAAP because the estimate was based on a technological method for performing the work that we believe is not feasible. Subsequent to the issuance of the ROD, there have been several meetings between the EPA and the PRPs, and the Company continues to work with the EPA and MIMC/WMI to develop the remedial design. To this end, in April 2018, the PRPs entered into an Administrative Order on

Consent (AOC) with the EPA, agreeing to work together to develop the remedial design over the subsequent 29 months. The AOC does not include any agreement to perform waste removal or other construction activity at the site. Rather, it involves adaptive management techniques and a pre-design investigation, the objectives of which include filling data gaps (including but not limited to post-Hurricane Harvey technical data generated prior to the ROD and not incorporated into the selected remedy), refining areas and volumes of materials to be addressed, determining if the excavation remedy is able to be implemented in a manner protective of human health and the environment, and investigating potential impacts to infrastructure in the vicinity. The Company has identified a number of concerns and uncertainties regarding the remedy described in the ROD and regarding the EPA's estimates for the costs and time required to implement the selected remedy. The Company has determined, however, that even if the ROD cannot be implemented, a sheet pile "engineered barrier" can be constructed, which would enhance the existing remedy and could also be used should the ROD be determined to be feasible and implementable. We have increased our recorded liability accordingly to reflect the estimated cost of constructing this barrier. Because of ongoing questions regarding cost effectiveness, technical feasibility, timing and other technical data, however, it is uncertain how the ROD will be implemented. Consequently, while additional losses are probable as a result of the selected remedy, we are currently unable to determine any further adjustment to our immaterial recorded liability. It remains reasonably possible that additional losses could be material as the remedial design process with the EPA continues over the coming quarters.

International Paper and MIMC/WMI are also defending an additional lawsuit related to the site brought by approximately 600 individuals who allege property damage and personal injury. Because this case is still in the discovery phase, it is premature to predict the outcome or to estimate a loss or range of loss, if any, which may be incurred.

Antitrust

Containerboard: In June 2016, a lawsuit captioned *Ashley Furniture Indus., Inc. v. Packaging Corporation of America (W.D. Wis.)*, was filed in federal court in Wisconsin against ten defendants, including the Company, Temple-Inland and Weyerhaeuser Company. The *Ashley Furniture* lawsuit alleges a civil violation of Section 1 of the Sherman Act (in particular, that defendants conspired to limit the supply and thereby increase prices of containerboard products), and also asserts Wisconsin state antitrust claims.

In January 2011, International Paper was named as a defendant in a lawsuit filed in state court in Cocke County, Tennessee alleging that International Paper violated Tennessee law by conspiring to limit the supply and fix the prices of containerboard from mid-2005 to the present. Plaintiffs in the state court action seek certification of a class of Tennessee indirect purchasers of containerboard products, damages and costs, including attorneys' fees. No class certification materials have been filed to date in the Tennessee action.

The Company disputes the allegations made in the *Ashley Furniture* and Tennessee lawsuits and is vigorously defending each. At this time, however, because the actions are in a preliminary stage, we are unable to predict an outcome or estimate a range of reasonably possible loss.

Contract

Signature: In August 2014, a lawsuit captioned *Signature Industrial Services LLC et al. v. International Paper Company* was filed in state court in Texas. The *Signature* lawsuit arises out of approximately \$1 million in disputed invoices related to the installation of new equipment at the Company's Orange, Texas mill. In addition to the invoices in dispute, *Signature* and its president allege consequential damages arising from the Company's nonpayment of those invoices. The lawsuit was tried before a jury in Beaumont, Texas, in May 2017. On June 1, 2017, the jury returned a verdict awarding approximately \$125 million in damages to the plaintiffs. The Court issued a judgment on December 14, 2017, awarding the plaintiffs a total of approximately \$137 million in actual and consequential damages, fees, costs and pre-judgment interest, and awarding post-judgment interest. The Company has appealed this judgment. The Company has numerous and strong bases for appeal, and we believe we will prevail on appeal. Because the appellate proceedings are in a preliminary stage, we are unable to estimate a range of reasonably possible loss, but we expect the amount of any loss to be immaterial.

General

The Company is involved in various other inquiries, administrative proceedings and litigation relating to environmental and safety matters, personal injury, labor and employment, contracts, sales of property, intellectual property 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 these other lawsuits or claims that are pending or threatened or all of them combined (other than those that cannot be assessed due to their preliminary nature) will not have a material effect on its consolidated financial statements.

NOTE 15 - VARIABLE INTEREST ENTITIES AND PREFERRED SECURITIES OF SUBSIDIARIES*Variable Interest Entities*

As of September 30, 2018, the fair value of the Timber Notes and Extension Loans is \$4.67 billion and \$4.19 billion, respectively, for the 2015 Financing Entities. The Timber Notes and Extension Loans are classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Activity between the Company and the 2015 Financing Entities was as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue (a)	\$ 24	\$ 24	\$ 71	\$ 71
Expense (a)	32	32	96	96
Cash receipts (b)	48	48	95	95
Cash payments (c)	64	64	128	128

- (a) The revenue and expense are included in Interest expense, net in the accompanying statement of operations.
 (b) The cash receipts are interest received on the Financial assets of special purpose entities.
 (c) The cash payments represent interest paid on Nonrecourse financial liabilities of special purpose entities.

As of September 30, 2018, the fair value of the Timber Notes and Extension Loans is \$2.25 billion and \$2.09 billion, respectively, for the 2007 Financing Entities. The Timber Notes and Extension Loans are classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Activity between the Company and the 2007 Financing Entities was as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue (a)	\$ 19	\$ 12	\$ 52	\$ 35
Expense (b)	18	13	48	36
Cash receipts (c)	15	7	34	19
Cash payments (d)	16	10	40	28

- (a) The revenue is included in Interest expense, net in the accompanying statement of operations and includes approximately \$5 million and \$14 million for both of the three and nine months ended September 30, 2018 and 2017, respectively, of accretion income for the amortization of the basis difference adjustment on the Financial assets of special purpose entities.
 (b) The expense is included in Interest expense, net in the accompanying statement of operations and includes approximately \$2 million and \$5 million for both of the three and nine months ended September 30, 2018 and 2017, respectively, of accretion expense for the amortization of the basis difference adjustment on the Nonrecourse financial liabilities of special purpose entities.
 (c) The cash receipts are interest received on the Financial assets of special purpose entities.
 (d) The cash payments are interest paid on Nonrecourse financial liabilities of special purpose entities.

NOTE 16 - DEBT

In December 2017, International Paper received \$660 million in cash proceeds from a new loan entered into as part of the transfer of the North American Consumer Packaging business to a subsidiary of Graphic Packing Holding Company discussed in [Note 9](#) and [Note 11](#). The Company used the cash proceeds, together with available cash, to pay down existing debt of approximately \$900 million. The \$660 million term loan was subsequently assumed by a subsidiary of Graphic Packaging Holding Company, on January 1, 2018 and was classified as Liabilities held for sale at December 31, 2017, in the accompanying consolidated balance sheet.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of \$750 million. In June 2018, the borrowing capacity of the commercial paper program was increased to \$1.0 billion. Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed or floating rate notes. As of September 30, 2018, the Company had \$400 million of borrowings outstanding under the program at a weighted average interest rate of 2.34%.

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At September 30, 2018, the fair value of International Paper's \$11.3 billion of debt was approximately \$11.5 billion. The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues. International Paper's long-term debt is classified as Level 2 within the fair value hierarchy, which is further defined in Note 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE 17 - DERIVATIVES AND HEDGING ACTIVITIES

As a multinational company we are exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices.

The notional amounts of qualifying and non-qualifying financial instruments used in hedging transactions were as follows:

<i>In millions</i>	September 30, 2018		December 31, 2017	
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange contracts (a)	\$	432	\$	329
Derivatives Not Designated as Hedging Instruments:				
Electricity contract		8		13
Foreign exchange contracts		9		10

(a) These contracts had maturities of two years or less as of September 30, 2018.

The following table shows gains or losses recognized in AOCI, net of tax, related to derivative instruments:

<i>In millions</i>	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Foreign exchange contracts	\$ 1	\$ 1	\$ (18)	\$ 9
Interest rate contracts	—	—	(2)	—
Total	\$ 1	\$ 1	\$ (20)	\$ 9

During the next 12 months, the amount of the September 30, 2018 AOCI balance, after tax, that is expected to be reclassified to earnings is a loss of \$8 million.

The amounts of gains and losses recognized in the statement of operations on qualifying and non-qualifying financial instruments used in hedging transactions were as follows:

<i>In millions</i>	Gain (Loss) Reclassified from AOCI (Effective Portion)				Location of Gain (Loss) Reclassified from AOCI (Effective Portion)
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2018	2017	2018	2017	
Derivatives in Cash Flow Hedging Relationships:					
Foreign exchange contracts	\$ (2)	\$ 2	\$ (2)	\$ 6	Cost of products sold
Total	\$ (2)	\$ 2	\$ (2)	\$ 6	

<i>In millions</i>	Gain (Loss) Recognized				Location of Gain (Loss) In Statement of Operations
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2018	2017	2018	2017	
Derivatives Not Designated as Hedging Instruments:					
Electricity contract	\$ 2	\$ (8)	\$ 1	\$ (10)	Cost of products sold
Foreign exchange contracts	3	—	4	—	Cost of products sold
Total	\$ 5	\$ (8)	\$ 5	\$ (10)	

Fair Value Measurements

The Company has not changed its valuation techniques for measuring the fair value of any financial assets or liabilities during the year. Transfers between levels, if any, are recognized at the end of the reporting period.

The following table provides a summary of the impact of our derivative instruments in the balance sheet:

Fair Value Measurements Level 2 – Significant Other Observable Inputs

<i>In millions</i>	Assets		Liabilities	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Derivatives designated as hedging instruments				
Foreign exchange contracts – cash flow	\$ 2 (a)	\$ 11 (b)	\$ 21 (c)	\$ 1 (d)
Total derivatives designated as hedging instruments	2	11	21	1
Derivatives not designated as hedging instruments				
Electricity contract	—	—	3 (d)	8 (e)
Foreign exchange contracts	1 (a)	—	—	—
Total derivatives not designated as hedging instruments	1	—	3	8
Total derivatives	\$ 3	\$ 11	\$ 24	\$ 9

(a) Included in Other current assets in the accompanying consolidated balance sheet.

(b) Includes \$10 million recorded in Other current assets and \$1 million recorded in Deferred charges and other assets in the accompanying balance sheet.

(c) Includes \$16 million recorded in Other accrued liabilities and \$5 million recorded in Other liabilities in the accompanying consolidated balance sheet.

(d) Included in Other accrued liabilities in the accompanying balance sheet.

(e) Includes \$5 million recorded in Other accrued liabilities and \$3 million recorded in Other liabilities in the accompanying consolidated balance sheet.

The above contracts are subject to enforceable master netting arrangements that provide rights of offset with each counterparty when amounts are payable on the same date in the same currency or in the case of certain specified defaults. Management has made an accounting policy election to not offset the fair value of recognized derivative assets and derivative liabilities in the balance sheet. The amounts owed to the counterparties and owed to the Company are considered immaterial with respect to each counterparty and in the aggregate with all counterparties.

NOTE 18 - RETIREMENT PLANS

International Paper sponsors and maintains the Retirement Plan of International Paper Company (the Pension Plan), a tax-qualified defined benefit pension plan that provides retirement benefits to substantially all U.S. salaried employees and hourly employees (receiving salaried benefits) hired prior to July 1, 2004, and substantially all other U.S. hourly and union employees who work at a participating business unit regardless of hire date. These employees generally are eligible to participate in the Pension Plan upon attaining 21 years of age and completing one year of eligibility service. U.S. salaried employees and hourly employees (receiving salaried benefits) hired after June 30, 2004, are not eligible for the Pension Plan, but receive a company contribution to their individual savings plan accounts; however, salaried employees hired by Temple Inland prior to March 1, 2007 or Weyerhaeuser Company's Cellulose Fibers division prior to December 1, 2011 also participate in the Pension Plan.

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The Pension Plan provides defined pension benefits based on years of credited service and either final average earnings (salaried employees and hourly employees receiving salaried benefits), hourly job rates or specified benefit rates (hourly and union employees).

The Company will freeze participation, including credited service and compensation, for salaried employees under the Pension Plan, the Pension Restoration Plan and the two SERP plans for all service on or after January 1, 2019. This change will not affect benefits accrued through December 31, 2018.

Net periodic pension expense for our qualified and nonqualified U.S. defined benefit plans comprised the following:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost	\$ 40	\$ 39	\$ 119	\$ 118
Interest cost	118	138	356	415
Expected return on plan assets	(200)	(192)	(600)	(577)
Actuarial loss	95	87	285	260
Amortization of prior service cost	4	7	12	21
Net periodic pension expense	\$ 57	\$ 79	\$ 172	\$ 237

The components of net periodic pension expense other than the Service cost component are included in Non-operating pension expense in the Consolidated Statement of Operations.

The Company's funding policy for our 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 made no voluntary cash contributions in the first nine months of 2018 and a voluntary cash contribution of \$1.25 billion to the qualified pension plan in the first nine months of 2017. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled \$24 million for the nine months ended September 30, 2018.

On September 25, 2018, the Company entered into an agreement with The Prudential Insurance Company of America to purchase a group annuity contract and transfer approximately \$1.6 billion of International Paper's U.S. qualified pension plan projected benefit obligations, subject to customary closing conditions. The transaction closed on October 2, 2018 and was funded with plan assets. Under the transaction, Prudential will assume responsibility for pension benefits and annuity administration for approximately 23,000 retirees or their beneficiaries receiving less than \$1,000 in monthly benefit payments from the plan. The Company expects to recognize a non-cash pension settlement charge of approximately \$425 million before tax in the fourth quarter of 2018.

[NOTE 19 - STOCK-BASED COMPENSATION](#)

International Paper has an Incentive Compensation Plan (ICP) which is administered by the Management Development and Compensation Committee of the Board of Directors (the Committee). The ICP authorizes the grants of restricted stock, restricted or deferred stock units, performance awards payable in cash or stock upon the attainment of specified performance goals, dividend equivalents, stock options, stock appreciation rights, other stock-based awards and cash-based awards at the discretion of the Committee. As of September 30, 2018, 11.9 million shares were available for grant under the ICP.

Stock-based compensation expense and related income tax benefits were as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total stock-based compensation expense (selling and administrative)	\$ 35	\$ 37	\$ 102	\$ 116
Income tax benefits related to stock-based compensation	(6)	(2)	16	43

At September 30, 2018, \$134 million, net of estimated forfeitures, of compensation cost related to unvested restricted performance shares, executive continuity awards and restricted stock attributable to future service had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.8 years.

Performance Share Plan

During the first nine months of 2018, the Company granted 1.8 million performance units at an average grant date fair value of \$62.97.

NOTE 20 - BUSINESS SEGMENT INFORMATION

International Paper's business segments, Industrial Packaging, Global Cellulose Fibers and Printing Papers, 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.

The Company also holds a 50% interest in Ilim Holding S.A. and a 20.5% interest in Graphic Packaging International LLC, which are separate reportable industry segments. See [Note 11](#) for details of the Company's ownership in each of these investments.

Business segment operating profits are used by International Paper's management to measure the earnings performance of its businesses. Management believes that this measure allows a better understanding of trends in costs, operating efficiencies, prices and volumes. Business segment operating profits are defined as earnings (loss) from continuing operations before income taxes and equity earnings, but including the impact of equity earnings and noncontrolling interests, excluding corporate items, corporate special items and non-operating pension expense.

Sales by business segment for the three months and nine months ended September 30, 2018 and 2017 were as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Industrial Packaging	\$ 4,034	\$ 3,822	\$ 11,883	\$ 11,184
Global Cellulose Fibers	714	654	2,083	1,830
Printing Papers	1,102	1,039	3,215	3,051
Corporate and Intersegment Sales	51	2	174	(33)
Net Sales	\$ 5,901	\$ 5,517	\$ 17,355	\$ 16,032

Operating profit by business segment for the three months and nine months ended September 30, 2018 and 2017 were as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Industrial Packaging	\$ 472	\$ 490	\$ 1,446	\$ 938
Global Cellulose Fibers	83	49	160	(14)
Printing Papers	183	135	341	321
Business Segment Operating Profits	738	674	1,947	1,245
Earnings (loss) from continuing operations before income taxes and equity earnings	553	457	\$ 1,399	\$ 651
Interest expense, net	133	152	401	431
Noncontrolling interests/equity earnings adjustment	(2)	—	(7)	(1)
Corporate items, net	20	32	59	73
Corporate special items, net	9	—	30	(7)
Non-operating pension expense	25	33	65	98
Business Segment Operating Profits	\$ 738	\$ 674	\$ 1,947	\$ 1,245

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

Net earnings (loss) attributable to International Paper common shareholders were \$562 million (\$1.37 per diluted share) in the third quarter of 2018 , compared with \$405 million (\$0.97 per diluted share) in the second quarter of 2018 and \$395 million (\$0.95 per diluted share) in the third quarter of 2017 . Adjusted Operating Earnings is a non-GAAP measure and is defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. International Paper generated Adjusted Operating Earnings Attributable to International Paper Common Shareholders of \$641 million (\$1.56 per diluted share) in the third quarter of 2018 , compared with \$498 million (\$1.19 per diluted share) in the 2018 second quarter and \$420 million (\$1.01 per diluted share) in the 2017 third quarter.

International Paper delivered a strong performance in the third quarter and year-over-year earnings growth of more than 50%. The strong performance was driven by solid commercial execution and continued price realization across our three businesses. Our operations also performed well in a lighter planned maintenance outage quarter. Our North American Industrial Packaging business performed very well, with volume ahead of industry growth in the third quarter. Our Global Cellulose Fibers business delivered record fluff pulp shipments, despite the impacts of Hurricane Florence, and our Printing Papers business had outstanding commercial and operational performance to deliver very strong results globally. Our equity earnings were \$92 million, which includes \$74 million from our Ilim joint venture and \$19 million from our ownership interest in Graphic Packaging.

Earnings momentum continued in the third quarter with continued price realization across all three businesses, including our North American Industrial Packaging business which realized 90% of our recent box increase as we exited the third quarter. Hurricane Florence negatively impacted volume by \$8 million and operations by \$28 million, mostly in our Global Cellulose Fibers business. Box shipments in our North American Industrial Packaging business were up year-over-year in the third quarter, and volumes in our European Packaging business were seasonally lower and negatively impacted by weak fruit and vegetable demand due to adverse weather conditions. Input costs were a headwind across all of our businesses during the quarter, primarily driven by higher wood, energy, chemical and recovered fiber costs. Performance in our European Packaging business was negatively impacted by the start-up and commissioning costs, as well as, the overhead burden of the Madrid mill. Distribution costs were unfavorable across all of our businesses as the distribution environment remains very tight. Our Ilim joint venture again delivered strong results in a heavy planned maintenance outage quarter. Our equity earnings also included the impact of a non-cash foreign currency charge on Ilim's U.S. dollar denominated net debt.

Looking ahead, the Company is well positioned for strong fourth quarter results. In our North American Industrial Packaging business, we expect to see flow-through benefits from the last part of the recent price increase. Volumes are expected to be seasonally higher and in Europe, we expect to start capturing integrated margins on recycled containerboard as the Madrid mill ramps up. Outage expenses are expected to be significantly lower and input costs are expected to be stable. In our Global Cellulose Fibers business, additional realization of prior price increases will be largely offset by geographic and product mix in the fourth quarter. Volumes are expected to be seasonally higher and operations are expected to improve. Outage expense will be slightly higher. In our Printing Papers business, we expect continued realization of recent price increases and improved mix. Volumes are expected to improve due to stronger seasonal demand in Latin America and Europe. Outage costs will be slightly higher and input costs are expected to be a headwind, largely due to higher wood costs in Brazil and Russia. Finally, for our Ilim joint venture, we expect higher volumes due to lower planned maintenance outages and a continued strong commercial and operating performance.

Adjusted Operating Earnings and Adjusted Operating Earnings Per Share are non-GAAP measures and are defined as net earnings from continuing operations (a GAAP measure) excluding special items and non-operating pension expense. Net earnings (loss) and Diluted earnings (loss) per share attributable to common shareholders are the most direct comparable GAAP measures. The Company calculates Adjusted Operating Earnings by excluding the after-tax effect of non-operating pension expense, items considered by management to be unusual and discontinued operations from the earnings reported under GAAP. Adjusted Operating Earnings Per Share is calculated by dividing Adjusted Operating Earnings by diluted average shares of common stock outstanding. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. The Company believes that using this information, along with the most direct comparable GAAP measure, provides for a more complete analysis of the results of operations.

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The following are reconciliations of Earnings (loss) attributable to common shareholders to Adjusted Operating Earnings (Loss) attributable to common shareholders.

<i>In millions</i>	Three Months Ended September 30,		Three Months Ended June 30,	
	2018	2017	2018	
Earnings (Loss) Attributable to Shareholders	\$ 562	\$ 395	\$ 405	
Less - Discontinued operations (gain) loss	—	(29)	23	
Earnings (Loss) from Continuing Operations	562	366	428	
Add Back - Non-operating pension (income) expense	25	33	36	
Add Back - Net special items expense (income)	142	23	47	
Income tax effect - Non-operating pension and special items expense	(88)	(2)	(13)	
Adjusted Operating Earnings (Loss) Attributable to Shareholders	\$ 641	\$ 420	\$ 498	

	Three Months Ended September 30,		Three Months Ended June 30,	
	2018	2017	2018	
Diluted Earnings (Loss) Per Share Attributable to Shareholders	\$ 1.37	\$ 0.95	\$ 0.97	
Less - Discontinued operations (gain) loss per share	—	(0.07)	0.05	
Diluted Earnings (Loss) Per Share from Continuing Operations	1.37	0.88	1.02	
Add Back - Non-operating pension (income) expense per share	0.06	0.08	0.09	
Add Back - Net special items expense (income) per share	0.34	0.05	0.11	
Income tax effect per share - Non-operating pension and special items expense	(0.21)	—	(0.03)	
Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders	\$ 1.56	\$ 1.01	\$ 1.19	

The Company generated free cash flow of approximately \$1.1 billion and \$1.2 billion in the first nine months of 2018 and 2017, respectively. Free cash flow is a non-GAAP measure and the most directly comparable GAAP measure is cash provided by operations. Management believes that free cash flow is useful to investors as a liquidity measure because it measures the amount of cash generated that is available, after reinvesting in the business, to maintain a strong balance sheet, pay dividends, repurchase stock, service debt and make investments for future growth. It should not be inferred that the entire free cash flow amount is available for discretionary expenditures. By adjusting for certain items that are not indicative of the Company's ongoing performance, free cash flow also enables investors to perform meaningful comparisons between past and present periods.

The following is a reconciliation of cash provided by operations to free cash flow:

<i>In millions</i>	Nine Months Ended September 30,	
	2018	2017
Cash provided by operations	\$ 2,405	\$ 569
Adjustments:		
Cash invested in capital projects	(1,286)	(935)
Cash contribution to pension plan	—	1,250
Cash payment for Kleen settlement	—	354
Free Cash Flow	\$ 1,119	\$ 1,238

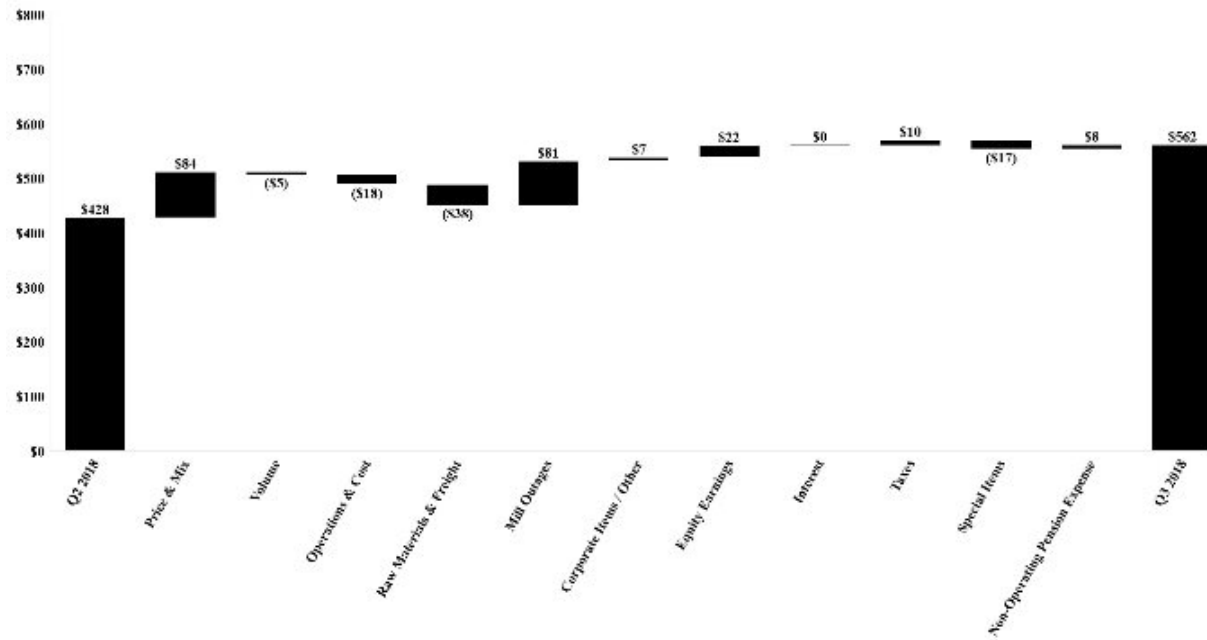
RESULTS OF OPERATIONS

For the third quarter of 2018, International Paper Company reported net sales of \$5.9 billion, compared with \$5.8 billion in the second quarter of 2018 and \$5.5 billion in the third quarter of 2017.

Net earnings attributable to International Paper totaled \$562 million, or \$1.37 per diluted share, in the 2018 third quarter. This compared with \$405 million, or \$0.97 per diluted share, in the second quarter of 2018 and \$395 million, or \$0.95 per diluted share, in the third quarter of 2017.

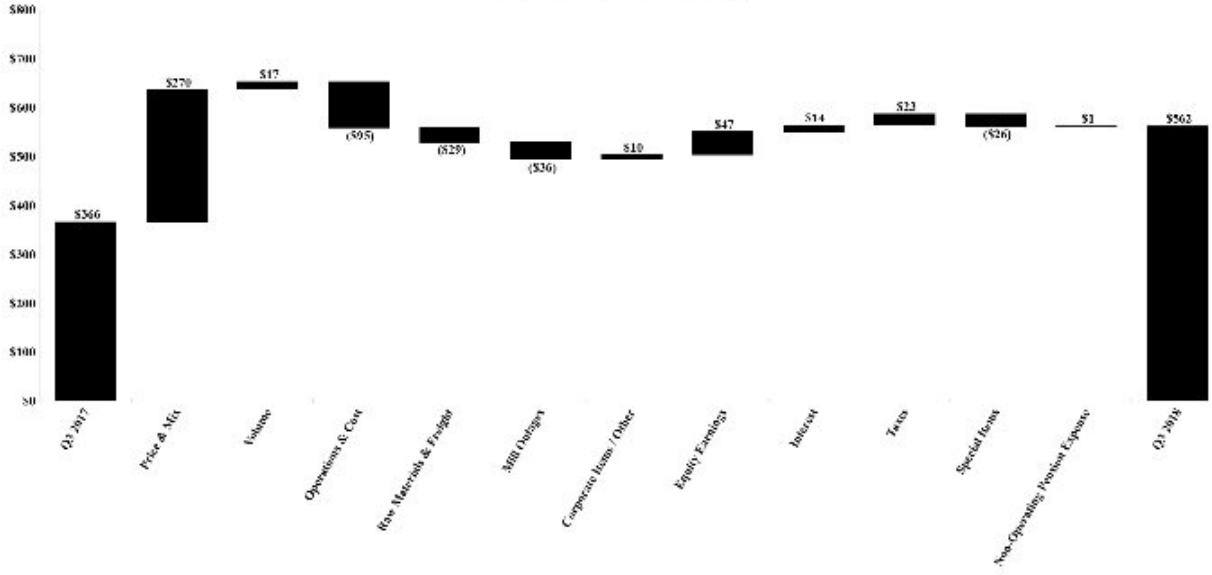
Earnings from continuing operations attributable to International Paper Company were \$562 million in the third quarter of 2018, \$428 million in the second quarter of 2018 and \$366 million in the third quarter of 2017.

Earnings from Continuing Operations Attributable to International Paper Company (after tax, in millions)



Compared with the second quarter of 2018, earnings benefited from higher average sales prices and a favorable mix (\$84 million), lower mill maintenance outage costs (\$81 million), lower corporate and other items (\$7 million), lower tax expense (\$10 million) reflecting a lower estimated tax rate and lower non-operating pension expense (\$8 million). These benefits were offset by lower sales volumes (\$5 million), higher operating costs (\$18 million) and higher raw material and freight costs (\$38 million). Equity earnings, net of taxes, relating to International Paper's investments in Ilim Holding S.A., Graphic Packaging International Partners, LLC, and other investments were \$22 million higher than in the 2018 second quarter. Net special items in the 2018 third quarter were a loss of \$60 million compared with a loss of \$43 million in the 2018 second quarter.

**Earnings from Continuing Operations Attributable to International Paper Company
(after tax, in millions)**



Compared with the third quarter of 2017, the 2018 third quarter reflects higher average sales prices and a favorable mix (\$ 270 million), higher sales volumes (\$17 million), lower corporate and other costs (\$10 million), lower net interest expense (\$14 million), lower tax expense (\$23 million) reflecting a lower estimated tax rate and lower non-operating pension expense (\$1 million). These benefits were offset by higher operating costs (\$95 million), higher raw material and freight costs (\$29 million) and higher mill maintenance outage costs (\$36 million). Equity earnings, net of taxes, relating to International Paper's investments in Ilim Holding S.A., Graphic Packaging International Partners, LLC, and other investments were \$47 million higher in the 2018 third quarter than in the 2017 third quarter. Net special items in the 2018 third quarter were a loss of \$60 million compared with a loss of \$34 million in the 2017 third quarter.

Business Segment Operating Profits are used by International Paper's management to measure the earnings performance of its businesses. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. International Paper believes that using this information, along with net earnings, provides a more complete analysis of the results of operations by quarter. Business Segment Operating Profits are defined as earnings (loss) from continuing operations before income taxes and equity earnings, but including the impact of equity earnings and noncontrolling interests, excluding corporate items, corporate special items and non-operating pension expense.

International Paper operates in three segments: Industrial Packaging, Global Cellulose Fibers and Printing Papers.

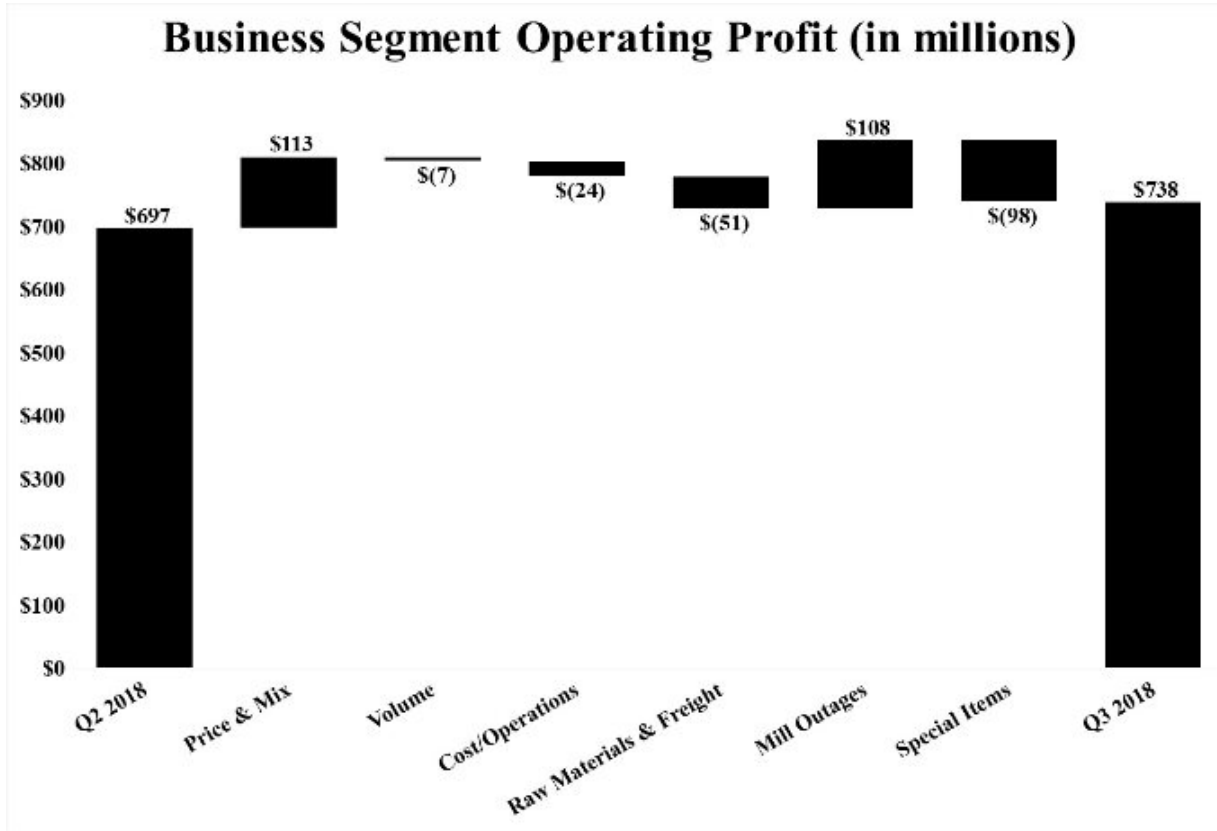
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The following table presents a reconciliation of net earnings (loss) from continuing operations attributable to International Paper Company to its Total Business Segment Operating Profit:

<i>In millions</i>	Three Months Ended		
	September 30,		June 30,
	2018	2017	2018
Net Earnings (Loss) From Continuing Operations Attributable to International Paper Company	\$ 562	\$ 366	\$ 428
Add back (deduct):			
Income tax provision (benefit)	83	136	130
Equity (earnings) loss, net of taxes	(92)	(45)	(70)
Noncontrolling interests, net of taxes	—	—	2
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	553	457	490
Interest expense, net	133	152	133
Noncontrolling interests / equity earnings included in operations	(2)	—	(4)
Corporate items	20	32	30
Corporate special items (income) expense	9	—	12
Non-operating pension expense	25	33	36
Adjusted Operating Profit	\$ 738	\$ 674	\$ 697
Business Segment Operating Profit:			
Industrial Packaging	\$ 472	\$ 490	\$ 537
Global Cellulose Fibers	83	49	66
Printing Papers	183	135	94
Total Business Segment Operating Profit	\$ 738	\$ 674	\$ 697

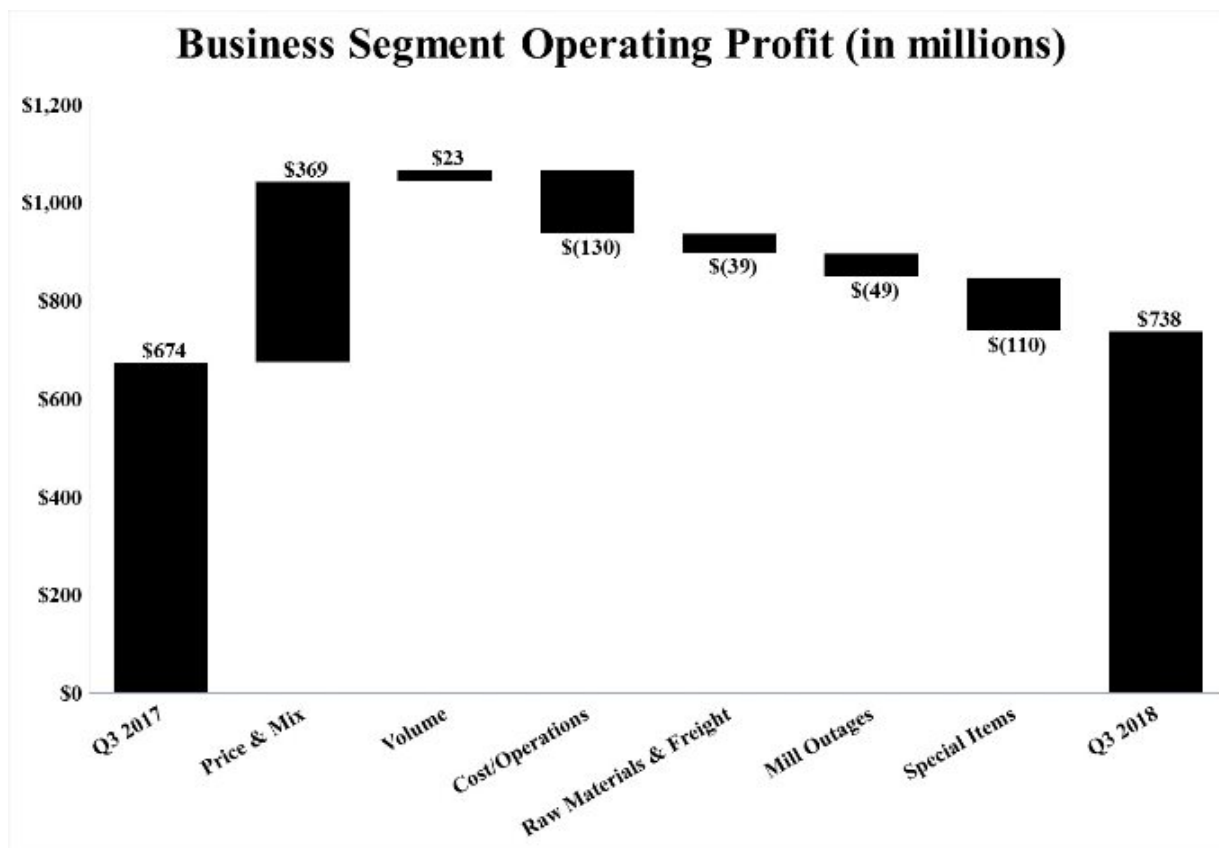
Business Segment Operating Profit

Total business segment operating profits were \$738 million in the 2018 third quarter, \$697 million in the 2018 second quarter, and \$674 million in the 2017 third quarter.



Compared with the second quarter of 2018 , operating profits benefited from higher average sales prices and a favorable mix (\$113 million) and lower mill outage costs (\$108 million). These benefits were offset by lower sales volumes (\$7 million), higher operating costs (\$24 million) and higher raw material and freight costs (\$51 million). Special items were a loss of \$133 million in the 2018 third quarter compared with a loss of \$35 million in the 2018 second quarter.

The third quarter of 2018 results were impacted by approximately \$36 million related to Hurricane Florence, primarily from higher operating costs and lower volumes. Costs and operations in the third quarter of 2018 also reflect higher expenses related to the Madrid mill startup. The higher startup costs were offset by lower spending in our businesses, mainly related to lower health and medical benefit costs.



Compared with the third quarter of 2017, operating profits in the current quarter benefited from higher average sales prices and a favorable mix (\$ 369 million) and higher sales volumes (\$23 million). These benefits were offset by higher operating costs (\$130 million), higher raw material and freight costs (\$39 million) and higher mill outage costs (\$49 million). Special items were a loss of \$133 million in the 2018 third quarter compared with a loss of \$23 million in the 2017 third quarter.

Economic downtime is taken to balance internal supply with our customer demand, while maintenance downtime is taken periodically during the year. The following table details maintenance and economic-related downtime (in tons):

	Three Months Ended September 30, 2018	Three Months Ended June 30, 2018	Three Months Ended September 30, 2017
Economic-related downtime	—	—	—
Maintenance downtime	197,000	265,000	93,000

Sales Volumes by Product (a)

Sales volumes of major products for the three months and nine months ended September 30, 2018 and 2017 were as follows:

<i>In thousands of short tons (except as noted)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Industrial Packaging				
Corrugated Packaging (c)	2,666	2,599	7,969	7,784
Containerboard	853	828	2,436	2,438
Recycling	566	544	1,700	1,684
Saturated Kraft	51	45	149	132
Gypsum/Release Kraft	56	54	176	165
Bleached Kraft	8	7	24	20
EMEA Packaging (c) (d)	329	350	1,113	1,124
Brazilian Packaging (c)	92	93	263	266
European Coated Paperboard	98	103	284	296
Industrial Packaging	4,719	4,623	14,114	13,909
Global Cellulose Fibers (<i>in thousands of metric tons</i>) (b)	886	933	2,665	2,706
Printing Papers				
U.S. Uncoated Papers	461	497	1,415	1,451
European and Russian Uncoated Papers	363	365	1,066	1,104
Brazilian Uncoated Papers	293	280	818	832
Indian Uncoated Papers	62	58	195	186
Printing Papers	1,179	1,200	3,494	3,573

- (a) Sales volumes include third party and inter-segment sales and exclude sales of equity investees.
(b) Includes North American, European and Brazilian volumes and internal sales to mills.
(c) Volumes for corrugated box sales reflect consumed tons sold (CTS). Board sales for these businesses reflect invoiced tons.
(d) Excludes newsprint sales volumes at the Madrid, Spain mill through the third quarter of 2017.

Discontinued Operations

See discussion in [Note 9 - Divestitures](#) in the Condensed Notes to the Consolidated Financial Statements.

Income Taxes

An income tax provision of \$83 million was recorded for the 2018 third quarter and the reported effective income tax rate was 15% . Excluding a benefit of \$82 million related to the tax effects of special items and a benefit of \$6 million related to the tax effects of non-operating pension expense, the effective income tax rate was 24% for the quarter.

An income tax provision of \$130 million was recorded for the 2018 second quarter and the reported effective income tax rate was 27% . Excluding a benefit of \$4 million related to the tax effects of special items and a benefit of \$9 million related to the tax effects of non-operating pension expense, the effective income tax rate was 25% for the quarter.

An income tax provision of \$136 million was recorded for the 2017 third quarter and the reported effective income tax rate was 30% . Excluding an expense of \$11 million related to the tax effects of special items and a benefit of \$13 million related to the tax effects of non-operating pension expense, the effective income tax rate was 27% for the quarter.

Interest Expense

Net interest expense was \$133 million for both the 2018 third quarter and 2018 second quarter and \$152 million in the 2017 third quarter.

Effects of Special Items and Non-Operating Pension Expense

Details of special items and non-operating pension expense for the three months ended are as follows:

<i>In millions</i>	Three Months Ended					
	September 30,				June 30,	
	2018		2017		2018	
	Before Tax	After Tax	Before Tax	After Tax	Before Tax	After Tax
Business Segments						
EMEA Packaging optimization	\$ —	\$ —	\$ —	\$ —	\$ 26	\$ 18
Abandoned property removal	6	4	7	4	9	7
Riverdale mill conversion	5	4	—	—	—	—
Brazil Packaging impairment	122	81	—	—	—	—
Brazil Packaging wood supply accelerated amortization	—	—	10	7	—	—
Weyerhaeuser pulp business integration costs	—	—	6	4	—	—
Business Segments Total	133	89	23	15	35	25
Corporate						
Smurfit-Kappa acquisition proposal costs	—	—	—	—	12	9
Environmental remediation reserve adjustment	9	7	—	—	—	—
Corporate Total	9	7	—	—	12	9
Total special items	142	96	23	15	47	34
Non-operating pension expense	25	19	33	20	36	27
Total special items and non-operating pension expense	\$ 167	\$ 115	\$ 56	\$ 35	\$ 83	\$ 61

Special items include the following tax expenses (benefits):

<i>In millions</i>	Three Months Ended		
	September 30,		June 30,
	2018	2017	2018
State income tax legislative changes	\$ —	\$ —	\$ 9
International legal entity restructuring	—	19	—
Tax benefits from Tax Cuts and Jobs Act	(36)	—	—
Total	\$ (36)	\$ 19	\$ 9

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Details of special items and non-operating pension expense for the nine months ended are as follows:

<i>In millions</i>	Nine Months Ended			
	September 30,			
	2018		2017	
	Before Tax	After Tax	Before Tax	After Tax
Business Segments				
EMEA Packaging optimization	\$ 48	\$ 35	\$ —	\$ —
Abandoned property removal	24	18	14	9
Riverdale mill conversion	5	4	—	—
Brazil Packaging impairment	122	81	—	—
Kleen Products anti-trust class action lawsuit settlement	—	—	354	219
Weyerhaeuser pulp business acquisition inventory fair value step-up amortization	—	—	14	8
Weyerhaeuser pulp business acquisition and integration costs	—	—	15	9
Holmen mill bargain purchase gain	—	—	(6)	(6)
Brazil Packaging wood supply accelerated amortization	—	—	10	7
Business Segments Total	199	138	401	246
Corporate				
Smurfit-Kappa acquisition proposal costs	12	9	—	—
India Packaging business evaluation write-off	—	—	(2)	(2)
Legal settlement	9	7	—	—
Environmental remediation reserve adjustment	9	7	—	—
Gain of sale of investment in ArborGen	—	—	(14)	(9)
Foodservice Asia impairment	—	—	9	4
Interest income related to income tax refund claim	—	—	(4)	(2)
Corporate Total	30	23	(11)	(9)
Total special items	229	161	390	237
Non-operating pension expense	65	49	98	60
Total special items and non-operating pension expense	\$ 294	\$ 210	\$ 488	\$ 297

Special items include the following tax expenses (benefits):

<i>In millions</i>	Nine Months Ended	
	September 30,	
	2018	2017
Income tax refund claims	\$ —	\$ (85)
State income tax legislative changes	9	—
Tax benefits from Tax Cuts and Jobs Act	(36)	—
Pension contribution return to accrual	—	38
International investment restructuring	—	34
Total	\$ (27)	\$ (13)

BUSINESS SEGMENT OPERATING RESULTS

The following tables present net sales and operating profit (loss) which is the Company's measure of segment profitability. The tables include a detail of special items in each year, where applicable, in order to show operating profit before special items. The Company calculates Operating Profit Before Special Items (non-GAAP) by excluding the pre-tax effect of items considered by management to be unusual from the earnings reported under U.S. generally accepted accounting principles ("GAAP"). Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. International Paper believes that using this information, along with net earnings, provides for a more complete analysis of the results of operations by quarter. Net

earnings attributable to International Paper is the most directly comparable GAAP measure. See [Note 20 - Business Segment Information](#) in the Condensed Notes to the Consolidated Financial Statements for the GAAP reconciliation of segment operating profit.

Industrial Packaging

Total Industrial Packaging	2018			2017								
	In millions	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months					
Sales	\$	4,034	\$	4,022	\$	11,883	\$	3,822	\$	3,785	\$	11,184
Operating Profit	\$	472	\$	537	\$	1,446	\$	490	\$	64	\$	938
Holmen mill bargain purchase gain		—		—		—		—		—		(6)
Kleen Products anti-trust settlement		—		—		—		—		354		354
Abandoned property removal		4		6		15		5		3		9
EMEA Packaging optimization		—		26		48		—		—		—
Brazil Packaging impairment		122		—		122		—	\$	—	\$	—
Brazil Packaging wood supply accelerated amortization		—		—		—		10		—		10
Operating Profit Before Special Items	\$	598	\$	569	\$	1,631	\$	505	\$	421	\$	1,305

Industrial Packaging net sales for the third quarter of 2018 were about even with the second quarter of 2018 and were 6% higher than in the third quarter of 2017. Operating profit before special items was 5% higher in the third quarter of 2018 than in the second quarter of 2018 and 18% higher than in the third quarter of 2017.

North American Industrial Packaging	2018			2017								
	In millions	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months					
Sales (a)	\$	3,653	\$	3,582	\$	10,604	\$	3,383	\$	3,336	\$	9,874
Operating Profit	\$	618	\$	574	\$	1,651	\$	487	\$	51	\$	899
Kleen Products anti-trust settlement		—		—		—		—		354		354
Abandoned property removal		4		6		15		5		3		9
Operating Profit Before Special Items	\$	622	\$	580	\$	1,666	\$	492	\$	408	\$	1,262

- (a) Includes intra-segment sales of \$74 million and \$50 million for the three months ended September 30, 2018 and 2017, respectively; \$46 million and \$31 million for the three months ended June 30, 2018 and 2017, respectively; and \$178 million and \$113 million for the nine months ended September 30, 2018 and 2017, respectively.

North American Industrial Packaging sales volumes for boxes in the third quarter of 2018 were slightly seasonally lower on a daily basis than in the second quarter of 2018 and include one less shipping day. Containerboard shipments to export markets increased as the mills recovered from production constraints experienced in the second quarter. Total planned maintenance downtime was 161,000 tons in the 2018 third quarter, an increase of 7,000 tons from 154,000 tons in the 2018 second quarter. Average sales margins for boxes were higher reflecting the continuing realization of Spring 2018 sales price increases. Average sales prices for containerboard also continued to increase in both the domestic and export markets. Input costs were higher, primarily for recycled fiber, wood and freight. Planned maintenance downtime costs were \$46 million lower in the 2018 third quarter compared with the 2018 second quarter. Manufacturing operating costs were seasonally higher.

Compared with the third quarter of 2017, sales volumes for boxes were higher in the third quarter of 2018 due to market demand growth and one more shipping day. Sales volumes for containerboard were relatively flat in the domestic market, but grew in the export markets. Total planned maintenance downtime was 76,000 tons higher in the 2018 third quarter than in the 2017 third quarter. Average sales margins for boxes increased significantly, primarily due to higher average sales prices. Average sales prices were also higher for containerboard exports, reflecting sales price increases implemented during 2017 and 2018. Input costs for recycled fiber were lower, but were partially offset by higher costs for freight, wood and chemicals. Planned maintenance downtime costs were \$27 million higher in the third quarter of 2018 compared with the third quarter of 2017. Manufacturing operating costs were higher, largely due to inflation.

Entering the fourth quarter of 2018, sales volumes for boxes are expected to be about flat overall with higher daily volumes, but two fewer shipping days. Containerboard export shipments are expected to increase slightly. Input costs are projected to be generally flat. Planned maintenance downtime costs should be \$57 million lower in the 2018 fourth quarter than in the 2018 third quarter.

EMEA Industrial Packaging		2018			2017		
<i>In millions</i>	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months	
Sales	\$ 311	\$ 344	\$ 1,017	\$ 333	\$ 341	\$ 991	
Operating Profit	\$ (37)	\$ (43)	\$ (114)	\$ (5)	\$ 5	\$ 14	
EMEA Packaging optimization	—	26	48	—	—	—	
Holmen mill net bargain purchase gain	—	—	—	—	—	(6)	
Operating Profit Before Special Items	\$ (37)	\$ (17)	\$ (66)	\$ (5)	\$ 5	\$ 8	

EMEA Industrial Packaging sales volumes for boxes in the third quarter of 2018 were seasonally lower than in the second quarter of 2018 primarily in the fruit and vegetable segment in Morocco and Spain. Average sales prices improved, but margins remained squeezed due to higher containerboard costs. Operating profit continues to be negatively impacted by costs associated with the Madrid mill conversion to recycled containerboard production.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were lower due to a weak fruit and vegetable season in the Euro-zone, although sales volumes were higher in Morocco. Average sales prices for boxes increased, but were offset by higher containerboard costs. Operating costs were unfavorably impacted by inflation, particularly in Morocco and Turkey. Also, compared with the third quarter of 2017, operating profit declined due to the absence of newsprint sales and operating profit from the Madrid mill in addition to the conversion costs incurred in the third quarter of 2018.

Looking ahead to the fourth quarter of 2018, sales volumes are expected to reflect seasonally stronger demand in the fruit and vegetable box segment, primarily in Morocco. Operating costs for the box business should be lower as the benefits of optimization initiatives begin to be realized, and start-up costs at the Madrid mill are lower than in the third quarter.

Brazilian Industrial Packaging		2018			2017		
<i>In millions</i>	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months	
Sales	\$ 57	\$ 56	\$ 175	\$ 68	\$ 60	\$ 187	
Operating Profit	\$ (127)	\$ (11)	\$ (146)	\$ (13)	\$ (6)	\$ (29)	
Brazil Packaging impairment	122	—	122	—	—	—	
Brazil Packaging wood supply accelerated amortization	—	—	—	10	—	10	
Operating Profit Before Special Items	\$ (5)	\$ (11)	\$ (24)	\$ (3)	\$ (6)	\$ (19)	

Brazilian Industrial Packaging sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher for boxes, but lower for containerboard. Average sales margins were flat as the benefit from higher box sales prices was offset by an unfavorable product mix. Planned maintenance downtime costs were \$1 million lower in the third quarter of 2018 than in the second quarter of 2018. Operating costs were lower, while input costs were slightly higher, primarily for utilities. Earnings in the third quarter of 2018 were higher than the second quarter of 2018 due to the the absence of the nationwide truckers' strike that occurred in the second quarter.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were higher for boxes, but lower for containerboard. Average sales prices increased for boxes, but the benefit was partially offset by an unfavorable product mix. Input costs were higher, primarily for recycled fiber and utilities. Operating costs increased mainly due to inflation.

Looking ahead to the fourth quarter of 2018, sales volumes for boxes are expected to be lower, while containerboard volumes should be higher. Average sales margins are expected to be slightly higher due to a more favorable product mix. Input costs are projected to be higher for recycled fiber.

European Coated Paperboard		2018			2017		
<i>In millions</i>	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months	
Sales	\$ 87	\$ 86	\$ 265	\$ 88	\$ 79	\$ 245	
Operating Profit	\$ 18	\$ 17	\$ 55	\$ 21	\$ 14	\$ 54	

European Coated Paperboard sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher in both Europe and Russia. Average sales prices decreased in both regions due to unfavorable mix. Input costs were higher, mainly in Europe for energy, chemicals and purchased fiber. Distribution costs also increased. Planned maintenance downtime costs were \$4 million lower in the third quarter of 2018, which included no outages, compared with the second quarter of 2018. Mill operating costs were higher.

Compared with the third quarter of 2017, sales volumes decreased in Europe, but increased in Russia. However, average sales margins increased in both regions due to higher average sales prices and a favorable mix. Input costs for wood, energy and

chemicals increased in both Europe and Russia, and in Europe purchased fiber prices also increased. Mill operating costs were higher.

Entering the fourth quarter of 2018, sales volumes are expected to be about flat in Russia and are subject to competitive pressure in Europe. Average sales prices are expected to be stable in both Europe and Russia. Input costs are expected to increase primarily for wood and energy in Russia and for purchased fiber in Europe. In addition, earnings should benefit by \$2 million from the anticipated receipt of an insurance payment related to the Kwidzyn fire.

Global Cellulose Fibers

Total Global Cellulose Fibers		2018			2017		
<i>In millions</i>	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months	
Sales	\$ 714	\$ 692	\$ 2,083	\$ 654	\$ 612	\$ 1,830	
Operating Profit	\$ 83	\$ 66	\$ 160	\$ 49	\$ 7	\$ (14)	
Acquisition and integration costs	—	—	—	6	5	15	
Inventory fair value step-up amortization	—	—	—	—	—	14	
Abandoned property removal	2	3	9	2	—	3	
Operating Profit Before Special Items	\$ 85	\$ 69	\$ 169	\$ 57	\$ 12	\$ 18	

Global Cellulose Fibers net sales were 3% higher in the third quarter of 2018 than in the second quarter of 2018 and 9% higher than in the third quarter of 2017. Operating profit before special items was 23% higher in the third quarter of 2018 than in the second quarter of 2018 and 49% higher than in the third quarter of 2017.

Sales volumes in the third quarter of 2018, excluding the impact of Hurricane Florence, increased compared with the second quarter of 2018 as demand remains strong. Sales margins benefited from higher average sales prices across all product lines and regions and a more favorable product mix. Input costs, primarily for energy, were slightly higher. Planned maintenance downtime costs in the third quarter of 2018 were \$5 million lower than in the second quarter of 2018. Earnings were negatively impacted by about \$28 million for costs and lost sales related to Hurricane Florence. In Russia, sales volumes were higher, but in Europe, sales volumes were slightly lower due to operational issues at the Saillat mill. Average sales prices were higher in both regions. With no planned maintenance outages in the third quarter of 2018 in both Europe and Russia, associated costs were \$8 million lower than in the previous quarter. Manufacturing costs were favorable in Europe, but other operating costs were unfavorable in both Europe and Russia.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 were about flat. Average sales prices improved significantly across all product lines reflecting the realization of price increases. Input costs were higher primarily for chemicals and wood, while distribution costs also increased. Planned maintenance downtime costs in the third quarter of 2018 were \$17 million higher than in the third quarter of 2017. Earnings in 2018 include the impact of Hurricane Florence. In Europe, sales volumes decreased, but in Russia sales volumes increased. Average sales margins improved significantly, reflecting higher average sales prices and a favorable geographical mix. Input costs were higher, primarily for energy and chemicals in Europe and for wood in Russia.

Entering the fourth quarter of 2018, sales volumes are expected to increase and recover from the Hurricane Florence impact in the third quarter. Market demand remains strong although shipments to China may be adversely impacted by trade tensions. Average sales prices are expected to include the continued realization of price increases for absorbents and paper grade pulp. Input costs are expected to be flat. Planned maintenance downtime costs in the fourth quarter of 2018 should be \$3 million higher than in the third quarter of 2018. The impact from Hurricane Florence in the fourth quarter is estimated to be about \$14 million primarily for infrastructure repair and higher distribution costs. In Europe, sales volumes are expected to increase as production issues are resolved, although market demand is expected to begin to soften. Sales volumes are forecasted to decrease slightly in Russia. Average sales margins in Europe and Russia should be stable.

Printing Papers

Total Printing Papers		2018			2017		
<i>In millions</i>	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months	
Sales	\$ 1,102	\$ 1,060	\$ 3,215	\$ 1,039	\$ 1,017	\$ 3,051	
Operating Profit	\$ 183	\$ 94	\$ 341	\$ 135	\$ 86	\$ 321	
Abandoned property removal	—	—	—	—	2	2	
Riverdale mill conversion	5	—	5	—	—	—	
Operating Profit Before Special Items	\$ 188	\$ 94	\$ 346	\$ 135	\$ 88	\$ 323	

Printing Papers net sales for the third quarter of 2018 were 4% higher than in the second quarter of 2018 and 6% higher than in the third quarter of 2017 . Operating profit before special items in the third quarter of 2018 was 100% higher than in the second quarter of 2018 and 39% higher than in the third quarter of 2017 .

North American Papers	2018			2017			
	In millions	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months
Sales	\$	492	\$ 493	\$ 1,443	\$ 470	\$ 446	\$ 1,384
Operating Profit	\$	59	\$ 25	\$ 85	\$ 54	\$ 19	\$ 106
Abandoned property removal		—	—	—	—	2	2
Riverdale mill conversion		5	—	5	—	—	—
Operating Profit Before Special Items	\$	64	\$ 25	\$ 90	\$ 54	\$ 21	\$ 108

North American Papers sales volumes in the third quarter of 2018 were lower than in the second quarter of 2018 reflecting the impact of Hurricane Florence and production constraints at our mills. Average sales prices were higher due to the continuing realization of sales price increases. Input costs were higher for wood and chemicals. Planned maintenance downtime costs were \$23 million lower in the third quarter of 2018 , compared with the second quarter of 2018 . Operating costs included \$6 million related to Hurricane Florence, but were otherwise favorable.

Compared with the third quarter of 2017 , sales volumes in the third quarter of 2018 were lower due to a planned inventory build coupled with production constraints. Average sales prices were higher reflecting the impact of price increases in late 2017 and in 2018. Average sales margins were favorably affected by an improved geographic mix, partially offset by an unfavorable mill sourcing mix. Input costs increased, primarily for chemicals, energy and wood. Planned maintenance downtime costs were \$5 million higher than in the third quarter of 2017. Operating costs were higher due primarily to inflation, distribution costs and the impact of Hurricane Florence.

Entering the fourth quarter of 2018 , sales volumes are expected to be slightly higher due to the resolution of the third-quarter production issues. Average sales price realizations for uncoated freesheet paper should reflect continuing realization of sales price increases announced in the third quarter. Input costs are expected to be flat, while operating costs should be lower with the absence of the impact of Hurricane Florence. Planned maintenance downtime costs should be \$4 million higher in the fourth quarter.

European Papers	2018			2017			
	In millions	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months
Sales	\$	311	\$ 302	\$ 932	\$ 292	\$ 299	\$ 865
Operating Profit	\$	46	\$ 15	\$ 82	\$ 38	\$ 26	\$ 93

European Papers sales volumes for uncoated freesheet paper in the third quarter of 2018 compared with the second quarter of 2018 were higher in Europe reflecting the absence of production constraints experienced in the second quarter, but slightly lower in Russia despite stable market demand. Average sales margins for uncoated freesheet paper increased in both regions due to the realization of sales price increases for cut-size paper. Input costs were higher, primarily for energy, purchased pulp and chemicals in Europe. Planned maintenance downtime costs were \$18 million lower in the third quarter of 2018 which included no outages. Operating costs were lower as the Kwidzyn mill recovered from the fire that occurred in the first quarter.

Sales volumes for uncoated freesheet paper in the third quarter of 2018 compared with the third quarter of 2017 were higher in Europe, but lower in Russia mainly due to timing. Average sales prices for uncoated freesheet paper increased in both regions reflecting increases implemented in late 2017 and in 2018. Input costs, primarily for wood in Russia and for purchased pulp, wood, chemicals and energy in Europe, were higher. Mill operating costs were also higher due to mill inefficiencies.

Looking forward to the fourth quarter of 2018 , sales volumes for uncoated freesheet paper are expected to increase in both Europe and Russia. Average sales prices should be higher in Europe and in Russia due to the realization of third-quarter price increases. Input costs are expected to increase in Russia, primarily for wood and energy, but decrease in Europe as lower wood costs are partially offset by higher energy and purchased pulp costs. Manufacturing operating costs are expected to be favorable. In addition, earnings should benefit by \$2 million from the anticipated receipt of an insurance payment related to the Kwidzyn fire.

Brazilian Papers	2018			2017			
	In millions	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months
Sales (a)	\$	255	\$ 222	\$ 706	\$ 239	\$ 232	\$ 685
Operating Profit	\$	75	\$ 49	\$ 164	\$ 46	\$ 43	\$ 128

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- (a) Includes intra-segment sales of \$3 million and \$6 million for the three months ended September 30, 2018 and 2017, respectively; \$8 million and \$7 million for the three months ended June 30, 2018 and 2017, respectively; and \$16 million and \$22 million for the nine months ended September 30, 2018 and 2017, respectively.

Brazilian Papers sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were higher due to seasonally stronger demand for uncoated freesheet paper and the absence of the nationwide truckers' strike that occurred in the second quarter. Average sales margins increased due to higher average sales prices for domestic and export uncoated freesheet papers and a favorable geographic mix. Input costs increased for wood, purchased pulp and chemicals. There were no planned maintenance outage costs in the third quarter of 2018 compared with \$4 million in the second quarter of 2018. Operating costs were also lower.

Compared with the third quarter of 2017, sales volumes for uncoated freesheet paper in the third quarter of 2018 were higher for exports, reflecting increased demand, but lower in the domestic market. Average sales margins improved significantly due to higher average sales prices, both domestically and abroad. Input costs were higher, primarily for purchased pulp, chemicals and energy, while operating costs were lower.

Entering the fourth quarter of 2018, sales volumes for uncoated freesheet paper are expected to be seasonally stronger in the domestic market and about flat in export markets. Input costs are expected to increase for wood, purchased pulp and energy.

Indian Papers	2018			2017		
	3rd Quarter	2nd Quarter	Nine Months	3rd Quarter	2nd Quarter	Nine Months
<i>In millions</i>						
Sales	\$ 47	\$ 51	\$ 150	\$ 44	\$ 47	\$ 139
Operating Profit	\$ 3	\$ 5	\$ 10	\$ (3)	\$ (2)	\$ (6)

Indian Papers sales volumes in the third quarter of 2018 compared with the second quarter of 2018 were lower due to production constraints associated with the planned maintenance outage at the Rajahmundry mill. Average sales prices were higher due to growing demand for uncoated freesheet paper and stable economic conditions. Planned maintenance downtime costs in the third quarter of 2018 were \$1 million higher than in the second quarter of 2018. Raw material costs also increased.

Compared with the third quarter of 2017, which included the impact of a contract workers' strike, sales volumes in the third quarter of 2018 were higher. Average sales prices increased. Operating costs were lower, reflecting improved mill productivity, while input costs were higher for chemicals and fuel, partially offset by lower wood costs.

Looking ahead to the fourth quarter of 2018, sales volumes are expected to improve with seasonally stronger demand and the absence of planned maintenance outages. Average sales prices should be slightly higher due to the further realization of previous price increases. Input costs are expected to be higher. There are no planned maintenance outages in the fourth quarter of 2018.

Equity Earnings, Net of Taxes – Ilim

Since October 2007, International Paper has had a 50% equity interest in Ilim Holding S.A. (Ilim), which operates in Russia through its subsidiaries. The Ilim joint venture is a separate reportable industry segment. The Company recorded equity earnings, net of taxes, of \$74 million in the third quarter of 2018, compared with \$57 million in the second quarter of 2018 and \$48 million in the third quarter of 2017. In the third quarter of 2018, the after-tax foreign exchange impact, primarily on the remeasurement of U.S. dollar-denominated net debt, was a loss of \$23 million compared with a loss of \$39 million in the second quarter of 2018.

Compared with the second quarter of 2018, sales volumes in the third quarter of 2018 were 5% lower, primarily for sales of softwood pulp in China and other export markets, partially offset by higher sales of hardwood pulp in China and Russia, and higher sales of containerboard in Russia. Average sales prices were higher, primarily for containerboard in all markets, partially offset by lower prices in China for softwood and hardwood pulp. In the third quarter of 2018, input costs primarily for wood and fuel were higher. Planned annual maintenance costs were also higher in the third quarter.

Compared with the third quarter of 2017, sales volumes in the third quarter of 2018 increased overall by 2%, primarily for sales of softwood pulp and containerboard in China, partially offset by lower sales of hardwood pulp in China. In Russia, sales volumes were higher for softwood pulp and hardwood pulp, while containerboard sales were lower. Average sales price realizations were higher for softwood pulp, hardwood pulp and containerboard in all markets. Input costs, primarily for wood and fuel were higher. Distribution costs were also higher. An after-tax foreign exchange gain of \$7 million primarily on the remeasurement of U.S. dollar denominated net debt was recorded in the third quarter of 2017.

Looking forward to the fourth quarter of 2018, sales volumes are expected to be higher. Average sales price realizations are projected to decrease compared with the third quarter of 2018, primarily for softwood and hardwood pulp. Input costs are expected to be seasonally higher. Planned maintenance mill outage costs will be significantly lower.

Equity Earnings – GPI

International Paper recorded equity earnings of \$19 million on its 20.5% ownership position in GPI in the third quarter of 2018 compared with \$15 million in the second quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations totaled \$2.4 billion for the first nine months of 2018 , compared with \$569 million for the comparable 2017 nine -month period. Cash used for working capital components totaled \$249 million for the first nine months of 2018 compared to \$567 million for the comparable 2017 nine -month period.

Investments in capital projects totaled \$1.3 billion in the first nine months of 2018 compared to \$935 million in the first nine months of 2017 . Full-year 2018 capital spending is currently expected to be approximately \$1.6 billion, or about 119% of depreciation and amortization expense for our current businesses.

Financing activities for the first nine months of 2018 included a \$107 million net increase in debt versus a \$997 million net increase in debt during the comparable 2017 nine -month period.

Amounts related to early debt extinguishment during the three months and nine months ended September 30, 2018 and 2017 were as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Early debt reductions (a)	\$ 75	\$ 95	\$ 79	\$ 122
Pre-tax early debt extinguishment costs	1	2	1	2

(a) Reductions related to notes with interest rates ranging from 3.00% to 7.00% with original maturities from 2022 to 2032 and from 4.63% to 6.63% with original maturities from 2018 to 2031 for the three months ended September 30, 2018 and 2017, respectfully, and from 3.00% to 7.00% with original maturities from 2022 to 2032 and from 1.57% to 6.63% with original maturities from 2018 to 2031 for the nine months ended September 30, 2018 and 2017, respectively.

At September 30, 2018 , contractual obligations for future payments of debt maturities by calendar year were as follows: \$415 million in 2018 ; \$135 million in 2019 ; \$86 million in 2020 ; \$445 million in 2021 ; \$907 million in 2022 ; \$349 million in 2023 ; and \$8.9 billion thereafter.

Maintaining an investment-grade credit rating is an important element of International Paper’s financing strategy. At September 30, 2018 , the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody’s, respectively. In addition, the Company held short-term credit ratings of A2 and P2 by S&P and Moody’s, respectively, for borrowings during the current quarter under the Company’s commercial paper program.

At September 30, 2018 , International Paper’s credit agreements totaled \$2.1 billion , 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. The liquidity facilities include a \$1.5 billion contractually committed bank credit agreement that expires in December 2021 and has a facility fee of 0.15% per annum payable quarterly. The liquidity facilities also include up to \$600 million of uncommitted financings based on eligible receivable balances under a receivables securitization program that expires in December 2018. At September 30, 2018 , there were no borrowings outstanding under either the bank facility or receivables securitization program.

In June 2016, International Paper entered into a commercial paper program with a borrowing capacity of \$750 million . In June 2018, the borrowing capacity of the commercial paper program was increased to \$1.0 billion . Under the terms of the program, individual maturities on borrowings may vary, but not exceed one year from the date of issue. Interest bearing notes may be issued either as fixed notes or floating rate notes. As of September 30, 2018 , the Company had \$400 million of borrowings outstanding under this program at a weighted average interest rate of 2.34% .

During the first nine months of 2018 , International Paper used 1.7 million shares of treasury stock for various incentive plans. International Paper also acquired 9.6 million shares of treasury stock, including restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled \$532 million . In September 2013, the Company announced a share repurchase program to acquire up to \$1.5 billion of the Company’s common stock in open market repurchase transactions. In July 2014, the Company announced that it would acquire up to \$1.5 billion of additional shares. In addition, on October 9, 2018, the Company’s board of directors approved an authorization to repurchase another \$2 billion of the Company’s common stock to supplement the share repurchase programs authorized in September 2013 and July 2014. The Company will continue to repurchase such shares in open market repurchase transactions. Under the original combined \$3.0 billion share repurchase programs, the Company has repurchased 53.6 million shares at an average price of \$47.87, for a total of approximately \$2.6 billion, as of September 30, 2018 .

During the first nine months of 2017, International Paper used approximately 2.6 million shares of treasury stock for various incentive plans. International Paper also acquired 0.9 million shares of treasury stock, including shares for the payment of restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled \$46 million. Cash dividend payments related to common stock totaled \$588 million and \$573 million for the first nine months of 2018 and 2017, respectively. Dividends were \$1.4250 per share and \$1.3875 per share for the first nine months in 2018 and 2017, respectively.

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during the remainder of 2018 with current cash balances and cash from operations, supplemented as required by its existing credit facilities. The Company will continue to rely on 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.

Acquisitions

See discussion in [Note 8 - Acquisitions](#) in the Condensed Notes to the Consolidated Financial Statements.

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 shareholder's agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time, either the Company or its partners may commence procedures specified under the deadlock agreement. If these or any other deadlock procedures under the shareholder's agreement are commenced, although it is not obligated to do so, the Company may in certain situations choose to purchase its partners' 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, the Company estimates that the current purchase price for its partners' 50% interests would be approximately \$2.3 billion, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. The purchase by the Company of its partners' 50% interest in Ilim would result in the consolidation of Ilim's financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provisions of the shareholder's agreement.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

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

Accounting policies whose application may have a significant effect on the reported results of operations and financial position of International Paper, and that can require judgments by management that affect their application, include accounting for contingencies, impairment or disposal of long-lived assets, goodwill and other intangible assets, pensions, postretirement benefits other than pensions, income taxes and business combinations.

The Company has included in its 2017 Form 10-K a discussion of these critical accounting policies, which are important to the portrayal of the Company's financial condition and results of operations and require management's judgments. The Company has not made any changes in these critical accounting policies during the first nine months of 2018, other than a change in the accounting for revenue recognition prescribed under ASC 606, which is referenced in [Note 2 - Recent Accounting Developments](#) in the Condensed Notes to the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q that are not historical in nature may be considered "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words, "will," "may," "should," "continue," "anticipate," "believe," "expect," "plan," "appear," "project," "estimate," "intend," and words of a similar nature. These statements are not guarantees of future performance and reflect management's current views with respect to future events, which are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ include but are not limited to: (i) the level of our indebtedness and changes in interest rates; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicality and changes in consumer preferences, demand and pricing for our products; (iii) global economic conditions and political changes, including but not limited to trade protection measures, the impairment of financial institutions, changes in currency

exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation, changes in tax laws and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with existing and new environmental and other governmental regulations and to actual or potential litigation; (v) whether we experience a material disruption at one of our manufacturing facilities; (vi) risks inherent in conducting business through joint ventures; (vii) our ability to achieve the benefits we expect from strategic acquisitions, divestitures, restructurings and capital investments, and (viii) other factors you can find in our press releases and filings with the Securities and Exchange Commission, including the risk factors identified in Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as updated in Item 1A of Part II of this Quarterly Report on Form 10-Q ("Risk Factors"). We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosures about market risk is shown on pages 35 and 36 of International Paper's 2017 Form 10-K, which information is incorporated herein by reference. There have been no material changes in the Company's exposure to market risk since December 31, 2017 .

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported (and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure) within the time periods specified in the Securities and Exchange Commission's rules and forms. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018 (the end of the period covered by this report).

Changes in Internal Control over Financial Reporting:

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

A discussion of material developments in the Company's litigation matters occurring in the period covered by this report is found in [Note 14](#) of the Condensed Notes to the Consolidated Financial Statements in this Form 10-Q.

Additionally, in the third quarter of 2018, the Company received a natural resource damages penalty assessment of RUB 18.8 million (approximately \$275,000) arising from the Company's voluntary disclosure of mercury contamination identified in sediment in a river tributary that traverses the site of the Company's mill in Svetogorsk, Russia. The mercury contamination is associated with a former manufacturing facility located on the Svetogorsk mill site. The Company is cooperating with the Russian government to resolve the matter.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (Part I, Item 1A).

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (in billions)
July 1, 2018 - July 31, 2018	71,805	\$51.96	69,394	\$0.629
August 1, 2018 - August 31, 2018	2,431,910	52.27	2,422,856	0.503
September 1, 2018 - September 30, 2018	1,350,668	51.68	1,349,679	0.433
Total	3,854,383			

(a) 12,455 shares were acquired from employees from share withholdings to pay income taxes under the Company's restricted stock programs. The remainder were purchased under a share repurchase program that was approved by our Board of Directors and announced on July 8, 2014. Through this program, which does not have an expiration date, we were authorized to purchase, in open market transactions (including block trades), privately negotiated transactions or otherwise, up to \$1.5 billion of shares of our common stock. There is approximately \$433 million that may yet be purchased under the authorization at September 30, 2018. On October 9, 2018, the Board of Directors approved an additional \$2.0 billion of share repurchases.

ITEM 6. EXHIBITS

10.1	Commitment Agreement, dated September 25, 2018, between International Paper Company and Prudential Insurance Company of America, relating to the Retirement Plan of International Paper Company.*
10.2	Termination Agreement and Release date July 6, 2018, and executed July 23, 2018, between International Paper Company and Glenn R. Landau (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K/A filed on July 27, 2018).
10.3	Letter to Glenn R. Landau dated July 23, 2018 (incorporate by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K/A filed on July 27, 2018).
11	Statement of Computation of Per Share Earnings.
12	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Extension Presentation Linkbase.

* Confidential treatment has been requested for certain information pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**INTERNATIONAL PAPER COMPANY
(Registrant)**

November 2, 2018	By	/s/ Tim S. Nicholls
		_____ Tim S. Nicholls Senior Vice President and Chief Financial Officer
November 2, 2018	By	/s/ Vincent P. Bonnot
		_____ Vincent P. Bonnot Vice President – Finance and Controller

THE USE OF THE FOLLOWING NOTATION IN THIS EXHIBIT INDICATES THAT THE CONFIDENTIAL PORTION HAS BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT AND THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION: [***]

COMMITMENT AGREEMENT

September 25, 2018 (the “Commitment Agreement Date”)

The Prudential Insurance Company of America (“Prudential”) is pleased to provide, on the following terms, the non-participating single premium group annuity contract, supported by a dedicated separate account and guaranteed by its general account (the “Contract”) for the Retirement Plan of International Paper Company (the “Plan”) in consideration of the mutual promises made and representations, warranties and covenants contained in this Commitment Agreement (this “Commitment Agreement”). For purposes of this Commitment Agreement, capitalized terms will have the meaning set forth in paragraph 10. By signing this Commitment Agreement, Prudential and International Paper Company (the “Company”), and State Street Global Advisors Trust Company, acting solely in its capacity as the independent fiduciary of the Plan (the “Independent Fiduciary”), agree as follows:

1. **GAC Issuance and GAC Issuance True-Up Premium**. Prudential agrees to issue the Contract as follows:
 - a. **Specimen GAC Form Issuance**. On the Scheduled GAC Issuance Date, subject to Prudential’s receipt of the Premium Due Date Transfers and any GAC Issuance True-Up Premium due to Prudential and subject to the terms of paragraphs 1.b. and 1.c., Prudential irrevocably agrees to issue the Contract with an effective date that is the Premium Due Date, and in accordance with the Contract, irrevocably commits to make payments owed to Payees under the Contract on and after the Annuity Start Date; provided that, if the parties are unable to complete the takeover of administration services regarding payments under the Contract pursuant to paragraph 6 prior to the Annuity Start Date, Prudential shall make a bulk payment to the Plan Trust (or in such other manner as the parties agree) equal to the Aggregate Monthly Payment (as defined in the Contract) for each month until administration is transferred to Prudential pursuant to paragraph 6. The Contract will be in substantially the form of the specimen group annuity contract (the “Specimen GAC Form”) attached hereto as Schedule 1 unless a Modified GAC Form is issued pursuant to and in accordance with paragraph 2.
 - b. **Form of Annuities and Payments under the Contract**. The type, description and forms of annuities (e.g., single life annuity, joint and survivor annuity), payments under the Contract and other terms of the Contract will be consistent with the terms of Prudential’s proposal dated June 7, 2018 and September 21, 2018 (the “Proposal”) as updated to reflect (i) any modifications contemplated in Prudential’s Final Annuity Quote Sheet dated September 25, 2018 (the “Final Annuity Quote Sheet”) and (ii) any modifications mutually agreed to between the parties after the Commitment Agreement Date and before the 35th Business Day prior to the Scheduled GAC Issuance Date. Subject to Prudential’s receipt of the Premium Due Date Transfers, Prudential will make payments to Payees commencing on December 31, 2018 in accordance with the Proposal and the Final Annuity Quote Sheet until the Contract has been issued and, for the avoidance of doubt, will make such payments even if the Contract has not been

Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

issued by Prudential as of December 31, 2018. The original annuity exhibit to the Contract will be consistent with the Payees (including annuitants, contingent annuitants, alternate payees and beneficiaries) on Tab DG3 of the Base File.

- c. Necessary Data. As a condition to Prudential's issuing the Contract, the Company will deliver or cause to be delivered to Prudential the data necessary for Prudential to prepare the annuity exhibit and the information necessary for Prudential to draft provisions of the Contract and administer the payments thereunder. If there are any delays in the delivery of the foregoing information based on the delivery dates set forth in Schedule 7 or such other delivery dates as may be designated by Prudential, Prudential may refer any Payee who contacts Prudential to the Company Contact for assistance and Prudential may, in its sole discretion, delay the mailing of Welcome Kits and annuity certificates. The annuity exhibit will not include any Payee for which Prudential has not been provided each of the following: (i) name, (ii) gender, (iii) date of birth and (iv) social security or federal taxpayer identification number.
- d. GAC Issuance True-Up Premium. Schedule 8 provides a description of the methodologies and procedures by which Prudential will calculate the GAC Issuance True-Up Premium. Prudential and the Company will cooperate in good faith so that Prudential can calculate the GAC Issuance True-Up Premium, subject to the following acknowledgements, limitations and conditions:
 - i. GAC Issuance Data. To the extent that the Company discovers or has any Removed Lives or Data Corrections after the Commitment Agreement Date and prior to the date that is 35 Business Days prior to the Scheduled GAC Issuance Date (the "GAC Issuance Data Notice Date"), the Company will provide written notice of such Removed Life or Data Correction as promptly as reasonably practicable to Prudential. Prudential will only be responsible for incorporating into the calculation of the GAC Issuance True-Up Premium those Data Corrections and Removed Lives that have been notified to Prudential by the Company on or prior to the GAC Issuance Data Notice Date together with any other Removed Lives and Data Corrections identified by Prudential (the "GAC Issuance Data"). Such incorporation is subject to Prudential's agreement with such Removed Lives or Data Corrections and any limitations on incorporating such Data Corrections and Removed Lives into the GAC Issuance True-Up Premium set forth in Schedule 8.
 - ii. GAC Issuance Annuity Exhibit. Twenty Business Days prior to the Scheduled GAC Issuance Date, Prudential will deliver to the Company a proposed annuity exhibit utilizing and consistent with the Base File and the GAC Issuance Data. Fifteen Business Days prior to the Scheduled GAC Issuance Date, the Company will respond to Prudential with any questions on the annuity exhibit. Prudential and the Company will cooperate in good faith to resolve any discrepancies on or prior to the eleventh Business Day prior to the Scheduled GAC Issuance Date and Prudential will reflect in the annuity exhibit any changes that have been agreed to on or prior to such eleventh Business Day. The annuity exhibit will not include any Payee for which Prudential has not been provided each of the following: (1) name, (2) gender, (3) date of birth and (4) social security or federal taxpayer identification number. Notwithstanding the foregoing, if the (1) name, (2) gender, (3) date of birth or (4) social security or federal taxpayer identification number for a Payee that is provided in accordance with this paragraph 1.d.ii is determined to be incorrect after

the Scheduled GAC Issuance Date, any adjustments or amendments to the Contract shall be made solely in accordance with the terms of the Contract.

- iii. GAC Issuance True-Up Premium. Eight Business Days prior to the Scheduled GAC Issuance Date, Prudential will send the calculation of the GAC Issuance True-Up Premium to the Company for review [***]. Five Business Days prior to the Scheduled GAC Issuance Date, the Company will respond to Prudential with any questions on the GAC Issuance True-Up Premium. If the Company and Prudential cannot resolve any dispute with respect to the GAC Issuance True-Up Premium on or prior to the date that is three Business Days prior to the Scheduled GAC Issuance Date, then Prudential's determination will control for purposes of the GAC Issuance True-Up Premium but the Company may immediately commence an arbitration dispute pursuant to Schedule 4 with respect to the GAC Issuance True-Up Premium.
- iv. GAC Issuance True-Up Premium Payment. The GAC Issuance True-Up Premium will be paid on the Scheduled GAC Issuance Date as follows: (A) if the GAC Issuance True-Up Premium is a positive number, then the Independent Fiduciary will irrevocably direct the Plan Trustee to pay to Prudential an amount, in Cash, equal to the GAC Issuance True-Up Premium or (B) if the GAC Issuance True-Up Premium is a negative number, then Prudential will pay to the Plan Trust an amount, in Cash, equal to the absolute value of the GAC Issuance True-Up Premium.

2. Negotiation of Modified GAC Form. After the Commitment Agreement Date, Prudential, the Company and the Independent Fiduciary will each use commercially reasonable efforts to revise the Specimen GAC Form to reflect such revisions that were mutually agreed to by the parties prior to the Commitment Agreement Date and will use commercially reasonable efforts to negotiate any additional revisions to the Specimen GAC Form (the "Modified GAC Form") and related forms of annuity certificates, subject to the following acknowledgements, limitations and conditions:

- a. Regulatory Approvals. Prudential will use commercially reasonable efforts to obtain regulatory approvals, to the extent required by applicable law, of the Modified GAC Form prior to the date that is 90 Business Days after the Commitment Agreement Date (the "Modified GAC Deadline Date") and in the event that any approval, to the extent required by applicable law, is not granted, or if the Contract is disapproved, Prudential, the Independent Fiduciary and the Company will cooperate in good faith to mutually agree on modifications to the Contract to address the requests of the Tennessee Department of Commerce and Insurance, if any, and, to the extent possible, to preserve the provisions included in the Modified GAC Form. Prudential will use commercially reasonable efforts to obtain regulatory approvals, to the extent required by applicable law, of customized annuity certificates prior to the annuity certificate mailing date set forth in paragraph 5.b.
- b. Modified GAC Form Issuance. If, in accordance with paragraph 2.a., the negotiation of the Modified GAC Form and the receipt of any related regulatory approvals for all negotiated changes to the Specimen GAC Form are completed by the Modified GAC Deadline Date, then, subject to Prudential's receipt of the Premium Due Date Transfers and any GAC Issuance True-Up Premium due to Prudential, (i) if Prudential

has not previously issued the Contract in the form of the Specimen GAC Form, Prudential will issue the Contract using the Modified GAC Form in lieu of the Specimen GAC Form, subject to and in accordance with paragraphs 1.a., 1.b. and 1.c., or (ii) if Prudential has previously issued the Contract in the form of the Specimen GAC Form subject to and in accordance with paragraphs 1.a., 1.b. and 1.c., Prudential will amend and restate the Contract so that its terms are replaced by the Modified GAC Form (or applicable provisions thereof). Such Contract will have an effective date that is the Premium Due Date.

3. **Premium Due Date Transfers.** The Independent Fiduciary will irrevocably direct the Plan Trustee to pay Prudential [***] (the “Premium Amount”) on the Premium Due Date by paying an amount in Cash equal to the Premium Amount (such payment, the “Premium Due Date Transfer”). Notwithstanding anything to the contrary in this Commitment Agreement, Prudential, the Company and the Independent Fiduciary each agree and acknowledge that the Premium Amount will be paid entirely in Cash [***].
- a. **Schedule 2 Updates.** On the second Business Day after the Commitment Agreement Date, Prudential will deliver to the Company an updated Schedule 2 that reflects the [***] of each [***]. If the Company and Prudential cannot resolve any dispute with respect to any such information on or prior to the Premium Due Date, then [***] may immediately commence an arbitration dispute pursuant to Schedule 4 with respect to any such information. On the Premium Due Date, Prudential will, if needed, update Schedule 2 to reflect the removal of [***]. Prudential will, if needed, further update Schedule 2 to reflect the removal of [***] and is returned to the Plan Trust in accordance therewith.
 - b. [***]. On and as of the Business Day prior to the Premium Due Date, Prudential will provide to the Company [***] in the form of Schedule 5 [***]. Prior to the Premium Due Date, the Company will confirm to Prudential in writing that such information is accurate and complete or will provide any additions, deletions or corrections to such information. If the Company and Prudential have a dispute with respect to any such information and cannot resolve such dispute on or prior to the Business Day prior to the Premium Due Date, then [***] may immediately commence an arbitration dispute pursuant to Schedule 4 with respect to any such information.
 - c. [***]. By written notice to the other party on or before [***] following the Premium Due Date, the Company or Prudential may identify [***] and the parties will work in good faith [***] following the receipt of such notice to agree on which, if any, [***]. If the parties agree that an asset is [***] within [***] following the receipt of such notice, then, on or before the date that is [***] following such agreement, the Independent Fiduciary will irrevocably direct the Plan Trustee to promptly pay or cause to be paid to Prudential an amount, in Cash, equal to [***], and, simultaneously with receipt of such payment, Prudential will return [***] to the Plan Trust together with any [***].
 - d. **Additional Actions with respect to Assets.** The Independent Fiduciary will irrevocably direct the Plan Trustee to promptly give all notices that are required, under applicable law and the terms of [***], in connection with the sale, assignment, transfer and delivery of [***] on the Premium Due Date. The Independent Fiduciary will irrevocably direct the Plan Trustee to and Prudential will promptly execute, deliver, record or file or cause to be executed, delivered, recorded or filed any and all releases, affidavits,

waivers, notices or other documents that the Company or Prudential may reasonably request in order to implement the transfer of [***] to Prudential.

- e. [***]. [***].
- f. Available Assets. The Company will cause the Plan Trust to have sufficient Cash or other assets (whether by means of a Cash contribution or otherwise) to enable the Plan Trustee to pay all amounts that it is directed to pay to Prudential by the Independent Fiduciary pursuant to this Commitment Agreement.

4. Public Announcements.

- a. Press Releases. The Company and Prudential have the right to issue a transaction announcement or press release regarding the transactions contemplated by this Commitment Agreement, a copy of which will be provided to the other party for review no less than two Business Days prior to the issuance thereof, and the party issuing the transaction announcement or press release will consider in good faith any comments made by the other party; provided, however, that, if the Company has not issued a transaction announcement or press release, Prudential will not issue a transaction announcement or press release without the prior written consent of the Company; provided, further, that nothing contained in this paragraph 4.a. will prevent Prudential from communicating with Payees, including through communications posted to Prudential's website.
- b. SEC Filings. If the Company concludes that disclosure of this Commitment Agreement is required by the rules of the Securities and Exchange Commission ("SEC"), (i) the Company will, in good faith, consider whether to make an application with the SEC for confidential treatment of information that the Company concludes is competitively sensitive from the perspective of the Company and (ii) the Company will provide Prudential with a copy of any material correspondence (written or oral) with the SEC regarding any such application for confidential treatment, and the Company and Prudential will otherwise reasonably cooperate in connection with any such application.
- c. No Insurer Communications. From the Commitment Agreement Date until the issuance of any annuity certificate by Prudential to an annuitant, other than as provided for in this Commitment Agreement, without the Company's prior written consent, (i) Prudential will cause the employees of its retirement services business unit not to initiate any contact or communication with any participant or beneficiary of the Plan in connection with any transactions other than those transactions contemplated by this Commitment Agreement and (ii) Prudential will not, and will cause all of its affiliates not to, provide any of their respective insurance agents, wholesalers, retailers or other representatives with any contact information of such participants and beneficiaries of the Plan obtained from the Company or any of its representatives in connection with the transactions contemplated by this Commitment Agreement, except for those representatives of Prudential or any of their respective affiliates who need to know such information for purposes of the transactions contemplated by this Commitment Agreement and agree to comply with the requirements of this Commitment Agreement. However, this paragraph 4.c. will not restrict employees of Prudential's retirement services business unit from contacting any participant or

beneficiary of the Plan in connection with, or to facilitate, Prudential's performance of its obligations under the Contract, the annuity certificates or this Commitment Agreement. Until the issuance of an annuity certificate by Prudential to an annuitant, other than as provided for in this Commitment Agreement, if any participant or beneficiary of the Plan contacts an employee of Prudential's retirement services business unit, Prudential and the Company will cooperate to coordinate on a response to such participant or beneficiary of the Plan. [***]. [***].

5. **Welcome Kits and Annuity Certificates**

- a. **Welcome Kits**. Beginning on December 12, 2018, Prudential will mail a welcome kit to each annuitant under the Contract (the "**Welcome Kit**"). Prudential will send a preliminary draft of the Welcome Kit to the Company and the Independent Fiduciary as soon as practicable and Prudential will consider in good faith any comments made by the Company or the Independent Fiduciary on the "Frequently Asked Questions" section of the Welcome Kit on or before the fifth Business Day after it receives the preliminary draft of the Welcome Kit from Prudential.
- b. **Annuity Certificates**. Prudential will mail an annuity certificate to each applicable Payee on or before the later of (i) 20 Business Days after the Contract is issued and (ii) 120 Business Days after the date on which the Welcome Kit is mailed to Payees, in each case, subject to receiving regulatory approvals for any such annuity certificate, if needed. To the extent that any changes are made to the forms of annuity certificates or the related benefit terms after the Company, the Independent Fiduciary and Prudential have agreed on the forms of annuity certificates to be filed and the related benefit terms, the mailing of an annuity certificate to each applicable Payee shall be extended by the number of days elapsed since the Company, the Independent Fiduciary and Prudential had first agreed on the forms of such annuity certificates and the related benefit terms. Each annuity certificate will include a statement informing a Payee of his or her right to obtain a copy of the Contract (redacted to exclude information concerning other annuitants) and the right to enforce all provisions of the Contract. The rights of a Payee are not conditioned on the issuance of the annuity certificates, and any delay in issuing a certificate shall not have any effect on the date as of which the Payee has enforceable rights against Prudential.

6. **Administration and Transfer**

- a. **Administrative Transition**. The Company will provide or cause to be provided to Prudential the information needed to administer the payments under the Contract and will complete or cause to be completed all processes set forth in Schedule 7. The Company and Prudential will use commercially reasonable efforts to take or cause to be taken all actions and do or cause to be done all things necessary to coordinate the takeover by Prudential of all administration responsibilities necessary to effectively provide recordkeeping and administration services regarding payments under the Contract commencing on December 31, 2018. The Company will provide Prudential with final census data in good order on or before October 22, 2018 in order for Prudential to provide recordkeeping and administration

services regarding payments under the Contract commencing on December 31, 2018. The Company agrees to cooperate with Prudential in the takeover of such recordkeeping and administration services, including ensuring that any third-party service provider provides Prudential with any reasonably necessary information or records relating to the Plan benefits and the Payees in its possession. The Company will make subject matter experts available to promptly address any questions Prudential may have regarding the benefit provisions, including but not limited to forms of annuity, eligibility conditions, administrative practices and calculation methodology. Prudential shall perform all of its obligations contemplated under this Agreement and the Contract in compliance with all applicable laws.

- b. Call Center and Company Contact. Prudential will maintain, at its cost and expense, a toll-free phone number and/or a website (the “Call Center”) which will be available starting from December 12, 2018 for Payees to contact Prudential with questions related to the Contract and the annuity certificates. For a period of five years following the Premium Due Date, the Company will maintain, at its cost and expense, a point of contact (the “Company Contact”) to which Prudential may refer Payees who pose questions related to their Plan benefits. In the event that a Payee contacts the Company with questions related to the Contract and the annuity certificates, the Company may refer the Payee to the Call Center. In the event that a Payee contacts Prudential with questions related to their Plan benefits, Prudential may refer the Payee to the Company Contact.

7. **[***]; Termination.**

- a. [***]. In the event (1) the Independent Fiduciary breaches its obligation to irrevocably direct the Plan Trustee to pay the Premium Due Date Transfers in accordance with paragraph 3, (2) the Premium Due Date Transfers are not transferred to and received by Prudential in accordance with paragraph 3 (due to failure of the Plan Trustee to pay the Premium Due Date Transfers or otherwise) or (3) the condition to closing set forth in paragraph 9.b.ii is not satisfied, the Company will promptly pay Prudential [***]. [***].
- b. Termination. This Commitment Agreement (i) may be terminated at Prudential’s option if the Premium Due Date Transfers have not occurred in accordance with this Commitment Agreement on the Premium Due Date, or (ii) will be terminated upon the payment of [***]. If this Commitment Agreement is terminated pursuant to the preceding sentence, all rights and obligations of the parties under this Commitment Agreement will terminate and will become null and void except that this paragraph 7 ([***]; Termination), paragraph 10 (Definitions), Schedule 9 ([***]), and paragraph 12 (Miscellaneous) will survive any such termination and no party will otherwise have any liability to any other party under this Commitment Agreement. However, nothing in this paragraph 7 will relieve any party from liability for any fraud or willful and material breach of this Commitment Agreement.

8. **Representations and Warranties.**

- a. Prudential Representations and Warranties. Prudential hereby represents and warrants to the Company and the Independent Fiduciary as of the Commitment Agreement Date and as of the Premium Due Date that:

- i. Due Organization, Good Standing and Corporate Power. Prudential is a life insurance company, duly organized, validly existing and in good standing under the laws of the State of New Jersey. Prudential is duly qualified or licensed to do business and is in good standing in each jurisdiction in which its performance of its obligations in the Commitment Agreement and the Ancillary Agreements makes such qualification or licensing necessary, except in such jurisdictions where the failure to be in good standing or so qualified or licensed would not be material. Prudential has all requisite power and authority to enter into and carry out its obligations under this Commitment Agreement and the Ancillary Agreements and to consummate the transactions contemplated to be undertaken by Prudential in this Commitment Agreement and the Ancillary Agreements.
- ii. Authorization of Commitment Agreement and Enforceability. Prudential has received all necessary corporate approvals and no other action on the part of Prudential is necessary to authorize the execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements, and the consummation of the transactions contemplated to be undertaken by Prudential in this Commitment Agreement and the Ancillary Agreements. This Commitment Agreement and the Ancillary Agreements have been (or will be) duly executed and delivered by Prudential, and each is (or when executed will be) a valid and binding obligation of Prudential, enforceable against Prudential in accordance with its terms, subject to the applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (“Enforceability Exceptions”).
- iii. No Conflict. The execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements by Prudential, and the consummation by Prudential of the transactions contemplated to be undertaken by Prudential in this Commitment Agreement do not (1) violate or conflict with any provision of its certificates or articles of incorporation, bylaws, code of regulations, or the comparable governing documents, (2) except for the filings and approvals of state insurance governmental authorities in the states listed on Schedule 11, violate or conflict with any law or order of any governmental authority applicable to Prudential, (3) require any governmental or governmental agency approval other than any filing made or approval received as of the Commitment Agreement Date and filings with and approvals of state insurance governmental authorities in the states listed on Schedule 11 or (4) require any consent of or other action by any person under, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, or cause or permit termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit under, any provision of any contract to which Prudential is a party, except where the occurrence of any of the foregoing would not have a material adverse effect on Prudential's ability to consummate the transactions and perform its obligations contemplated by this Commitment Agreement. No filing or approval is required to issue the annuity certificates in accordance with the Contract, other than any filing made or approval received as of the Commitment Agreement Date and filings with and approvals of state insurance governmental authorities in the states listed on Schedule 11.

- iv. Compliance with Laws. The business of insurance conducted by Prudential has been and is being conducted in material compliance with applicable laws, and none of the licenses, permits or governmental approvals required for the continued conduct of the business of Prudential as such business is currently being conducted will lapse, terminate, expire or otherwise be impaired as a result of the consummation of the transactions contemplated to be undertaken by Prudential in this Commitment Agreement, except as, in either case, would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of Prudential to perform its obligations under this Commitment Agreement.
- v. Accuracy of Information. To Prudential's Knowledge (x) all material information provided by Prudential to the Company or the Independent Fiduciary (other than any component incorporated into the calculation of the Premium Amount or the GAC Issuance True-Up Premium not calculated, determined or provided by Prudential, including the Base File, and any information provided by Prudential based on any such component) in connection with the transactions contemplated by this Commitment Agreement was, as of the date indicated on such information, true and correct in all material respects and (y) no change has occurred since the date indicated on such information that Prudential has not publicly disclosed or disclosed to the recipient of such information that would cause such information, taken as a whole, to be materially false or misleading.
- vi. Relationship to the Plan. Prudential is not (1) a trustee of the Plan (other than a non-discretionary trustee who does not render investment advice with respect to any assets of the Plan), (2) a Plan administrator (within the meaning of ERISA § 3(16)(A) and the Code § 414(g)) with respect to the Plan or (3) an employer any of whose employees are covered by the Plan. Schedule 6 sets forth a true and complete list of (x) Prudential and Prudential's affiliates that are investment managers within the meaning of ERISA § 3(38)(B) and (y) without duplication of clause (x), Prudential and Prudential's affiliates that are registered as investment advisers under the Investment Advisers Act of 1940; provided, however, that solely with respect to the representation and warranty as to Schedule 6 to be made by Prudential on and as of the Premium Due Date, Prudential may update Schedule 6 through the Premium Due Date by providing a written update to the Company so that the information included therein is current on and as of the Premium Due Date.
- vii. No Post-Closing Liability. Following receipt by Prudential of the Premium Due Date Transfers, the Plan, the Company and the Independent Fiduciary and their respective affiliates and representatives will not have any liability to pay any annuity payment under the Contract.
- viii. The Contract. The Contract, when executed, will be duly executed and delivered by Prudential and will be a valid and binding obligation of Prudential and enforceable against Prudential by the Company and each Payee in accordance with its terms, subject to the Enforceability Exceptions. At all times, the right to a benefit and all other provisions under the Contract, in accordance with the Contract's terms, will be enforceable by the sole choice of the Payee to whom such benefit is owed under the Contract, subject to the Enforceability Exceptions. In the event that the Company, as the contract holder, ceases to exist, notifies Prudential that it will

cease to perform its obligations under the Contract, or no longer has obligations under the Contract, the Contract will remain a valid and binding obligation of Prudential, irrevocable and in full force and effect, and enforceable against Prudential by each Payee in accordance with its terms, subject to the Enforceability Exceptions.

- ix. Litigation. As of the Commitment Agreement Date, there is no action pending or, to Prudential's Knowledge, threatened against Prudential that in any manner challenges or seeks to prevent, enjoin or materially alter or delay the transactions contemplated by this Commitment Agreement or that could reasonably be expected to materially impair or restrict Prudential's ability to consummate the transactions contemplated by this Commitment Agreement and to perform its obligations hereunder.
- x. No Commissions. No fees, commissions or payments are or will be owed by Prudential to any individual or entity in connection with the transactions contemplated in this Commitment Agreement and the Ancillary Agreements for which any other party, or its respective affiliates or representatives, could be liable.
- xi. RBC Ratio. As of the Commitment Agreement Date, Prudential's most recent Projected RBC Ratio is [***] and, to Prudential's Knowledge, no event (including a change to financial market metrics) has occurred between the date of Prudential's most recent Projected RBC Ratio and the Commitment Agreement Date that would be expected to cause Prudential's Projected RBC Ratio, calculated as of part of its next scheduled forecast, to [***].
- xii. [***]. [***]. [***]. [***]. [***].

- b. Company Representations and Warranties. The Company hereby represents and warrants to Prudential and the Independent Fiduciary as of the Commitment Agreement Date and as of the Premium Due Date that:
 - i. Due Organization, Good Standing and Corporate Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York. The Company is duly qualified or licensed to do business and is in good standing in each jurisdiction in which its performance of its obligations in the Commitment Agreement and the Ancillary Agreements to which it is a party makes such qualification or licensing necessary, except in such jurisdictions where the failure to be in good standing or so qualified or licensed would not be material. The Company has all requisite power and authority to enter into and carry out its obligations under this Commitment Agreement and the Ancillary Agreements to which it is a party and to consummate the transactions contemplated to be undertaken by the Company in this Commitment Agreement and the Ancillary Agreements.
 - ii. Authorization of Commitment Agreement and Enforceability. The Company has received all necessary corporate approvals and no other action on the part of the Company is necessary to authorize the execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements to which it is a party, and the consummation of the transactions contemplated to be undertaken by the Company in this Commitment Agreement and the Ancillary Agreements to which

it is a party. This Commitment Agreement and the Ancillary Agreements to which it is a party have been (or will be) duly executed and delivered by the Company, and each is (or when executed will be) a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the Enforceability Exceptions.

- iii. No Conflict. The execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements to which it is a party by the Company, and the consummation by the Company of the transactions contemplated to be undertaken by the Company in this Commitment Agreement do not (1) violate or conflict with any provision of the Plan and any documents and instruments governing the Plan as contemplated under ERISA § 404(a)(1)(D) (the “ Plan Governing Documents ”), the certificates or articles of incorporation, bylaws, code of regulations, or the comparable governing documents of the Company, (2) violate or conflict with any law or order of any governmental authority applicable to the Company or the Plan Governing Documents, (3) require any governmental or governmental agency approval or (4) require any consent of or other action by any person under, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, or cause or permit termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit under, any provision of any contract to which the Company is a party, except where the occurrence of any of the foregoing would not have a material adverse effect on the Company’s ability to consummate the transactions and perform its obligations contemplated by this Commitment Agreement.
- iv. Accuracy of Information. Notwithstanding anything to the contrary in the Company NDA, to the Company’s Knowledge, (1) the mortality experience data file provided by or on behalf of the Company to Prudential identified on Schedule 10 did not contain any misstatements or omissions that were, in the aggregate, material, and (2) the data in respect of benefit amounts, forms of annuities, date of birth, date of death, state of residence, gender and status (beneficiary in pay or participant), in each case, with respect to the Payees that was furnished by or on behalf of the Company to Prudential, was not generated using any materially incorrect systematic assumptions or material omissions.
- v. Compliance with ERISA. The Plan and Plan Trust are maintained under and subject to ERISA and, to the Company’s Knowledge, are in compliance with ERISA in all material respects. To the Company’s Knowledge, no event has occurred that is reasonably likely to result in the Plan losing its status as qualified by the Code for preferential tax treatment under Code §§ 401(a) and 501(a). All Plan amendments necessary to effect the transactions contemplated by this Commitment Agreement and the Ancillary Agreements have been duly executed and, to the extent that they require authorization by the Company, have been, or will be by the Premium Due Date, duly authorized and made by the Company.
- vi. Plan Investments. Neither Prudential nor any of Prudential’s affiliates is a fiduciary of the Plan who either (A) has or exercises any discretionary authority or control with respect to the investment of Plan Assets that are or will be involved in the transactions contemplated by the Commitment Agreement or the Ancillary Agreements or (B) renders investment advice (within the

meaning of ERISA § 3(21)(A)(ii) or Code § 4975(e)(3)(B)) with respect to such assets. There are no commingled investment vehicles that hold Plan Assets, the units of which are or will be Plan Assets involved in the transactions contemplated by this Commitment Agreement or the Ancillary Agreements. No Plan Assets that are or will be involved in the transactions contemplated by this Commitment Agreement or the Ancillary Agreements are or will be managed by any investment manager listed on Schedule 6, and no investment advisor listed on Schedule 6 renders or will render investment advice (within the meaning of ERISA § 3(21)(A)(ii)) with respect to those assets.

- vii. Independent Fiduciary. The Independent Fiduciary has been duly appointed as independent fiduciary of the Plan with respect to the purchase of one or more group annuity contracts to (1) be the sole fiduciary responsible for selecting one or more insurers to provide annuities in accordance and compliance with the ERISA Requirements, (2) determine whether the transactions contemplated by this Commitment Agreement and the Ancillary Agreements satisfy ERISA, (3) represent the interests of the Plan and its participants and beneficiaries in connection with the negotiation of a commitment agreement and, to the extent set forth in the IF Engagement Letter, the terms of any agreements with Prudential, including the Contract and the annuity certificates, (4) direct the Plan Trustee on behalf of the Plan to transfer the Premium Due Date Transfers in connection with the consummation of the transactions contemplated by this Commitment Agreement and any amounts required pursuant to paragraphs 1.d.iv. and 3.c. and (5) take all other actions on behalf of the Plan necessary to effectuate the foregoing to the extent set forth in the IF Engagement Letter.
- viii. Plan Trustee is Directed Trustee. The Plan Trustee has been duly appointed as the directed trustee of the Plan Trust and is obligated to follow the Independent Fiduciary's directions to effectuate and consummate the transactions contemplated by this Commitment Agreement and the IF Engagement Letter.
- ix. Litigation. There is no action pending or, to the Company's Knowledge, threatened against the Company, the Plan or the Independent Fiduciary that in any manner challenges or seeks to prevent, enjoin or materially alter or delay the transactions contemplated by this Commitment Agreement or that could reasonably be expected to materially impair or restrict such party's ability to consummate the transactions contemplated by this Commitment Agreement and to perform its obligations hereunder.
- x. No Commissions. No fees, commissions or payments are or will be owed by the Company to any individual or entity in connection with the transactions contemplated in this Commitment Agreement and the Ancillary Agreements for which any other party, or its respective affiliates or representatives, could be liable.
- c. Independent Fiduciary Representations and Warranties. The Independent Fiduciary hereby represents and warrants to the Company and Prudential as of the Commitment Agreement Date and as of the Premium Due Date and, with respect to paragraph 8.c.v.4 only, as of any other date on which the Plan Trustee pays Cash or assets to Prudential in connection with the transactions contemplated by this Commitment Agreement or the Contract, that:

- i. Due Organization, Good Standing and Corporate Power. The Independent Fiduciary is a trust company, duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts. The Independent Fiduciary is duly qualified or licensed to do business and is in good standing in each jurisdiction in which its performance of its obligations in the Commitment Agreement and the Ancillary Agreements to which it is a party makes such qualification or licensing necessary, except in such jurisdictions where the failure to be in good standing or so qualified or licensed would not be material. The Independent Fiduciary has all requisite power and authority to enter into and carry out its obligations under this Commitment Agreement and the Ancillary Agreements to which it is a party and to consummate the transactions contemplated to be undertaken by the Independent Fiduciary in this Commitment Agreement and the Ancillary Agreements.
- ii. Authorization of Commitment Agreement and Enforceability. The Independent Fiduciary has received all necessary corporate approvals and no other action on the part of the Independent Fiduciary is necessary to authorize the execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements to which it is a party, and the consummation of the transactions contemplated to be undertaken by the Independent Fiduciary in this Commitment Agreement and the Ancillary Agreements to which it is a party. This Commitment Agreement and the Ancillary Agreements to which it is a party have been duly executed and delivered by the Independent Fiduciary and each is (or when executed will be) a valid and binding obligation of the Independent Fiduciary, enforceable against the Independent Fiduciary, in accordance with its terms, subject to the Enforceability Exceptions.
- iii. No Conflict. The execution, delivery and performance of this Commitment Agreement and the Ancillary Agreements to which it is a party by the Independent Fiduciary, and the consummation by the Independent Fiduciary of the transactions contemplated to be undertaken by the Independent Fiduciary in this Commitment Agreement do not (1) violate or conflict with any provision of its certificates or articles of incorporation, bylaws, code of regulations, or the comparable governing documents, (2) violate or conflict with any law or order of any governmental authority applicable to the Independent Fiduciary, (3) require any governmental or governmental agency approval, (4) violate or conflict with any law or order of any governmental authority applicable to any provision of the Plan Governing Documents or (5) require any consent of or other action by any person under, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, or cause or permit termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit under, any provision of any contract to which the Independent Fiduciary is a party, except where the occurrence of any of the foregoing would not have a material adverse effect on the Independent Fiduciary's ability to consummate the transactions and perform its obligations contemplated by this Commitment Agreement.
- iv. Independent Fiduciary Compliance with ERISA.

1. The Independent Fiduciary meets the requirements of, and in the transactions contemplated by this Commitment Agreement and the Ancillary Agreements is acting as, an “investment manager” under ERISA § 3(38), and further constitutes a “qualified professional asset manager” under the U.S. Department of Labor Prohibited Transaction Class Exemption 84-14 solely with respect to the transfer of assets to Prudential in connection with the transactions contemplated by this Commitment Agreement and the Ancillary Agreements (but not the selection of such assets or the management of such assets prior to the transfer).
2. The Independent Fiduciary has accepted, and has not rescinded or terminated, its designation as the sole fiduciary of the Plan with authority to select one or more insurers to issue one or more group annuity contracts in the IF Engagement Letter (a true and correct copy of which has been provided to Prudential, except that the fees to be paid to the Independent Fiduciary and indemnification provisions have been redacted), and the Independent Fiduciary reaffirms its fiduciary status as set forth in the IF Engagement Letter.
3. The Independent Fiduciary has accepted, and has not rescinded or terminated, appointment as independent fiduciary of the Plan with respect to the purchase of one or more group annuity contracts to (a) be the designated fiduciary responsible for selecting one or more insurers to provide annuities in accordance and compliance with the ERISA Requirements, (b) determine whether the transactions contemplated by this Commitment Agreement and the Ancillary Agreements satisfy ERISA, (c) represent the interests of the Plan and its participants and beneficiaries in connection with the negotiation of a commitment agreement and, to the extent set forth in the IF Engagement Letter, the terms of any agreements with Prudential, including the Contract and the annuity certificates, (d) direct the Plan Trustee on behalf of the Plan to transfer the Premium Due Date Transfers in connection with the consummation of the transactions contemplated by this Commitment Agreement and any amounts required pursuant to paragraphs 1.d.iv. and 3.c. and (e) take all other actions on behalf of the Plan necessary to effectuate the foregoing to the extent set forth in the IF Engagement Letter.
4. The Independent Fiduciary is fully qualified and has the requisite expertise together with its reliance on its consultant, Mercer Health and Benefits LLC, and its counsel, K&L Gates LLP, to serve as an independent fiduciary in connection with the transactions contemplated by this Commitment Agreement and the Ancillary Agreements, and it is independent of the Company and Prudential within the meaning of 29 C.F.R. § 2570.31(j). The Independent Fiduciary has ensured that it has established commercially reasonable ethical walls between its personnel working on the transactions contemplated in the Commitment Agreement and the Ancillary Agreements and its personnel working on other matters involving the Company, Prudential or any of their respective affiliates.

v. ERISA Related Determinations.

1. The Independent Fiduciary has selected Prudential to issue the Contract as set forth in this Commitment Agreement and such selection, the transactions contemplated by this Commitment Agreement, the Plan’s use of assets for the purchase of the Contract as contemplated by this

Commitment Agreement and the Contract (including its terms) each satisfies the ERISA Requirements. The Independent Fiduciary has delivered a certification confirming the foregoing, executed by a duly authorized officer of the Independent Fiduciary, to the Fiduciary Review Committee of the Retirement Plan of International Paper Company.

2. The transactions contemplated by this Commitment Agreement and the purchase of the Contract do not result in a Non-Exempt Prohibited Transaction, provided that the representations in paragraphs 8.a.vi and 8.b.vi are true and correct in all material respects as of the Premium Due Date.
3. The Plan Trust (I) will receive no less than “adequate consideration” for the Transferred Assets and (II) will pay no more than “adequate consideration” for the Contract, in each case within the meaning of “adequate consideration” under ERISA § 408(b)(17)(B) and Code § 4975(f)(10).
4. The Independent Fiduciary is responsible for exercising independent judgment in evaluating any transactions that the Plan engages in with Prudential (including purchase of the Contract). The Independent Fiduciary understands that Prudential did not undertake and is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with any transactions that the Plan engages in with Prudential.
5. The Independent Fiduciary has provided and will continue to provide the services described in Section 2 of the IF Engagement Letter prudently and for the exclusive benefit and in the sole interest of the Plan and its participants and beneficiaries.

vi. **No Commissions.** No fees, commissions or payments are or will be owed by the Independent Fiduciary to any individual or entity in connection with the transactions contemplated in this Commitment Agreement and the Ancillary Agreements for which any other party, or its respective affiliates or representatives, could be liable.

9. **Conditions to Closing.** The parties’ obligations to consummate the transactions contemplated by this Commitment Agreement in connection with the Premium Due Date Transfers, including the Independent Fiduciary’s obligation to direct the Plan Trustee to consummate the transactions contemplated by this Commitment Agreement, are subject to the conditions that:

- a. the Independent Fiduciary will have confirmed that the transactions contemplated by this Commitment Agreement continue to satisfy the ERISA Requirements because an Independent Fiduciary MAC has not occurred or, if an Independent Fiduciary MAC has occurred, it is not continuing on the Premium Due Date; and
- b. no court or government agency has taken any action after the Commitment Agreement Date that would (i) cause the consummation of the transactions contemplated by this Commitment Agreement to violate the law or (ii) cause the Plan to fail to remain qualified under Code Section 401(a); provided that, if the condition to closing set forth in this paragraph 9.b.ii is not satisfied, the [***] shall be payable in accordance with paragraph 7.

10. Definitions. For purposes of this Commitment Agreement, the following defined terms will have the following meanings:

- a. “AAA” is defined in Schedule 4.
- b. “Ancillary Agreements” means, collectively, the Contract and the Plan Trustee Agreement.
- c. “Annuity Start Date” means December 31, 2018.
- d. “Annual Benefit” is defined in Schedule 8.
- e. “Approved Firm” is defined in Schedule 4.
- f. [***].
- g. [***].
- h. “Authorized Persons” is defined in paragraph 12.d.
- i. [***].
- j. “Base File” means the data file titled [***], provided by the Company to Prudential posted to Willis Towers Watson OnePlace secure website at 3:24 p.m. eastern time on August 28, 2018.
- k. “Business Day” means any day other than a Saturday, a Sunday or a day on which banks located in New York, New York are authorized or required by law to close.
- l. “Call Center” is defined in paragraph 6.b.
- m. “Cash” means a wire transfer, through the Federal Reserve System, of currency of the United States of America.
- n. “Check Register” is defined in Schedule 7.
- o. “Code” means the Internal Revenue Code of 1986 and the applicable Treasury Regulations issued thereunder.
- p. “Commitment Agreement” is defined in the preamble.
- q. “Commitment Agreement Date” is defined in the preamble.
- r. “Company” is defined in the preamble.
- s. “Company Contact” is defined in paragraph 6.b.
- t. “Company Indemnified Party” is defined in paragraph 11.
- u. “Company NDA” is defined in paragraph 12.c.
- v. “Confidential Information” has the meaning ascribed to such term in the Company NDA.
- w. “Contract” is defined in the preamble.
- x. “Corridor Breach” is defined in Schedule 8.
- y. “Cut-Off Time” means 1:00 p.m. eastern time on the Premium Due Date.
- z. “Data Corrections” is defined in Schedule 8.
- aa. “Data Correction Adjustment” is defined in Schedule 8.
- bb. “Data Load File” is defined in Schedule 7.
- cc. “Data Load File Sign-Off” is defined in Schedule 7.
- dd. “Deleted Lives” is defined in Schedule 8.
- ee. “Deleted Lives Percentage” is defined in Schedule 8.
- ff. [***].

- gg. “ Enforceability Exceptions ” is defined in paragraph 8.a.ii.
- hh. “ ERISA ” means Employee Retirement Income Security Act of 1974, as amended, and any federal agency regulations promulgated thereunder that are currently in effect and applicable.
- ii. “ ERISA Requirements ” means all of the applicable requirements of ERISA and applicable guidance promulgated thereunder, including Interpretive Bulletin 95-1.
- jj. [***]. [***].
- [***]
- kk. “ Final Annuity Quote Sheet ” is defined in paragraph 1.b.
- ll. “ Final Production Data File ” is defined in Schedule 7.
- mm. “ GAC Issuance Data ” is defined in paragraph 1.d.i.
- nn. “ GAC Issuance Data Notice Date ” is defined in paragraph 1.d.i.
- oo. “ GAC Issuance True-Up Premium ” is defined in Schedule 8.
- pp. [***].
- qq. [***].
- rr. “ IF Engagement Letter ” means the engagement agreement between the Fiduciary Review Committee of the Retirement Plan of International Paper Company and the Independent Fiduciary dated August 3, 2018.
- ss. “ IFID NDA ” is defined in paragraph 12.c.
- tt. “ Independent Fiduciary ” is defined in the preamble.
- uu. “ Independent Fiduciary MAC ” means (i) the occurrence of a material adverse change, as determined in the Independent Fiduciary’s sole discretion, in or directly affecting Prudential after the Commitment Agreement Date that would cause the selection of Prudential and the purchase of the Contract to fail to satisfy the ERISA Requirements, or (ii) the occurrence of a change in ERISA Requirements after the Commitment Agreement Date that would cause the selection of Prudential and the Plan’s purchase of the Contract to fail to satisfy ERISA Requirements.
- vv. [***]
- ww. [***]. [***].
- xx. “ Knowledge ” means actual knowledge after making appropriate inquiry.
- yy. “ Liability Baseline Value ” is defined in Schedule 8.
- zz. [***].
- [[. [***].
- aaa. [***].
- bbb. “ Modified GAC Deadline Date ” is defined in paragraph 2.a.
- ccc. “ Modified GAC Form ” is defined in paragraph 2.
- ddd. “ Mortalities ” is defined in Schedule 8.
- eee. “ Mortality Corrections ” is defined in Schedule 8.
- fff. “ NAIC ” is defined in Schedule 12.

- ggg. “ NDA ” is defined in paragraph 12.c.
- hhh. “ New Lives ” is defined in Schedule 8.
- iii. “ New Lives Percentage ” is defined in Schedule 8.
- jjj. “ Non-Exempt Prohibited Transaction ” means a transaction prohibited by ERISA § 406 or Code § 4975, for which no statutory exemption or U.S. Department of Labor class exemption is available.
- kkk. “ Payee ” means any payee under the Contract, including annuitants, contingent annuitants, alternate payees and beneficiaries, as applicable.
- lll. [***].
- mmm. “ Plan ” is defined in the preamble.
- nnn. “ Plan Asset ” means an asset of the Plan within the meaning of ERISA.
- ooo. “ Plan Governing Documents ” is defined in paragraph 8.b.iii.
- ppp. “ Plan Trust ” means International Paper Company Retirement Plans Master Trust.
- qqq. “ Plan Trustee ” means State Street Bank and Trust Company.
- rrr. “ Plan Trustee Agreement ” means the agreement, dated as of the date hereof, among Prudential, the Plan Trustee and the Independent Fiduciary.
- sss. “ Preliminary Production Data File ” is defined in Schedule 7.
- ttt. “ Premium Amount ” is defined in paragraph 3.
- uuu. “ Premium Due Date ” means five Business Days following the Commitment Agreement Date.
- vvv. “ Premium Due Date Transfers ” is defined in paragraph 3.
- www. “ Projected RBC Ratio ” means the projection of the RBC Ratio as of [***], as calculated under the method set forth on Schedule 12.
- xxx. “ Proposal ” is defined in paragraph 1.b.
- yyy. “ Prudential ” is defined in the preamble.
- zzz. “ RBC Ratio ” means the company action level risk-based capital ratio of Prudential [***].
- [[[. [***] .
- aaaa. [***].
- bbbb. “ Relevant Percentage ” is defined in Schedule 8.
- cccc. “ Removed Lives ” is defined in Schedule 8.
- dddd. [***] .
- eeee. “ Scaled GAAP PBO ” is defined in Schedule 8.
- ffff. [***].
- gggg. “ Scheduled GAC Issuance Date ” means on or before April 18, 2019 or, if applicable, and, if later, by the date that is five Business Days following the final resolution of any arbitration disputes in accordance with Schedule 4.
- hhhh. “ SEC ” is defined in paragraph 4.b.
- iiii. “ Specimen GAC Form ” is defined in paragraph 1.a.
- jjjj. [***]. [***].
- kkkk.[***].
- llll. [***].

mmmm. “Update File” is defined in Schedule 7.

nmmn. “Welcome Kit” is defined in paragraph 5.a.

11. Indemnification.

Prudential will indemnify, defend and hold the Company, the Plan, the Independent Fiduciary and their respective affiliates, officers, directors, stockholders, employees, Plan fiduciaries, agents and other representatives (each, a “Company Indemnified Party”) harmless from and against any and all actual, but not potential or contingent, losses, damages, costs and expenses (in each case, including reasonable out-of-pocket expenses and reasonable fees and expenses of counsel) to the extent arising out of or relating to the portion of any action, lawsuit, proceeding, investigation, demand or other claim against such Company Indemnified Party by a third party that is threatened or brought against or that involves a Company Indemnified Party and that arises out of or relates to any failure by Prudential to make, or cause to be made, any payments required to be made to a Payee pursuant to the Contract. Prudential will have the right at any time to assume the defense with counsel of its choice reasonably satisfactory to the Company Indemnified Party and to control the defense of such Company Indemnified Party, provided, however, that Prudential will not consent to the entry of any judgment or enter into any settlement without prior written consent of the Company Indemnified Party unless the judgment or proposed settlement involves only the payment of money by Prudential and does not admit liability on the part of a Company Indemnified Party. The prior written consent of a Company Indemnified Party with respect to such defense, including but not limited to, consenting to choice of counsel and entry into judgments or settlements shall be provided in a timely manner and shall not be unreasonably withheld, conditioned or delayed.

12. Miscellaneous.

- a. This Commitment Agreement, together with the Schedules to this Commitment Agreement, which are incorporated by reference and made a part of this Commitment Agreement as if fully set forth herein, constitutes the sole and entire agreement of the parties to this Commitment Agreement with respect to the subject matter contained herein and therein. The parties each hereby acknowledge that they jointly and equally participated in the drafting of this Commitment Agreement and all other agreements contemplated hereby, and no presumption will be made that any provision of this Commitment Agreement will be construed against any party by reason of such role in the drafting of this Commitment Agreement or any other agreement contemplated hereby. No amendment of any of the provisions hereof shall be effective unless set forth in writing and signed by each party hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No failure to exercise, or delay in exercising, any right, remedy, power, or privilege arising from this Commitment Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege. Except to the extent expressly provided in this Commitment Agreement, nothing in this Commitment Agreement shall confer any rights or remedies upon any person other than the parties hereto.
- b. This Commitment Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to any choice or conflict of law provision or rule (whether of the State of New York or any other jurisdiction). Any legal suit, action, or proceeding arising out of or relating

to this Commitment Agreement or the transactions contemplated hereby may be instituted in the courts of the State of New York in each case located in the city of New York and County of New York, and each party hereby irrevocably submits to the non-exclusive jurisdiction of such courts in any suit, action, or proceeding. The parties agree that irreparable damage would occur if any provisions of this Commitment Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to equitable relief, including injunctive relief or specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity. To the fullest extent permitted by law, none of the parties will be liable to any other party for any punitive or exemplary damages of any nature in respect of matters arising out of this Commitment Agreement.

- c. Notwithstanding anything to the contrary in the Mutual Non-Disclosure Agreement, dated as of April 26, 2018, between the Company and Prudential (the “Company NDA”), and the Non-Disclosure Agreement, dated as of August 14, 2018, between Prudential and the Independent Fiduciary (the “IFID NDA” and, together with the Company NDA, the “NDAs” and each an “NDA”), each NDA shall continue in full force and effect except that, if the Premium Due Date Transfers are transferred to and received by Prudential, (a) each NDA shall continue indefinitely and shall not be terminated without the mutual written agreement of (i) the Company and Prudential in the case of the Company NDA and (ii) Prudential and the Independent Fiduciary in the case of the IFID NDA, and (b) with respect to the Company NDA, Prudential will not be required to return or destroy any Confidential Information and will not be restricted in its use or disclosure of any Confidential Information related to Payees, annuity payments under the Contract or the pricing or underwriting of the Contract, received from another party, provided, that Prudential will use such Confidential Information only in compliance with all applicable laws relating to privacy of personally identifying information.
- d. Prudential will comply, and will ensure that all of its affiliates, agents, and subcontractors comply, with all applicable laws and regulations governing the Confidential Information of all Payees, including those laws relating to privacy, data security and protection and the safeguarding of such information, and its maintenance, disclosure and use. Prudential will maintain administrative, technical and physical safeguards to protect the privacy and security of the confidential information related to Payees. Prudential will comply in all material respects with any internal written policies relating to the confidential information of any Payee as in effect from time to time. Prudential acknowledges that it is solely responsible from and after the Commitment Agreement Date for any Data Breach. For purposes of this paragraph 12.d., “Data Breach” means any act or omission by Prudential or its agents, subcontractors or service providers (“Authorized Persons”) that compromises either the security, confidentiality or integrity of Payee data or the physical, technical, administrative or organizational safeguards put in place by Prudential (or any Authorized Persons) that relate to the protection of the security, confidentiality or integrity of any personally identifying information of any Payee.
- e. Prudential, the Company and the Independent Fiduciary shall not assign or transfer this Commitment Agreement or any of its rights or obligations hereunder without the prior written consent of the other parties. Any assignment or transfer in violation of this paragraph 12.e. will be null and void from the outset, without any effect whatsoever.

f. This Commitment Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the Company, Prudential, and the Independent Fiduciary have executed this Commitment Agreement as of the date first written above.

INTERNATIONAL PAPER COMPANY

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /S/ ERROL HARRIS

By: /S/ MARGARET G. MCDONALD

Print Name: Errol Harris

Print Name: Margaret G. McDonald

Title: Vice President & Treasurer

Title: AVP

***STATE STREET GLOBAL ADVISORS TRUST
COMPANY, acting solely in its capacity as Independent
Fiduciary of the Plan***

By: /S/ DENISE SISK

Print Name: Denise Sisk

Title: Managing Director

**Schedule 1
to
Commitment Agreement**

SPECIMEN GAC FORM

ATTACHED

Schedule 1 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

SAMPLE BUY-OUT CONTRACT ([*)**



The Prudential Insurance Company of America
Newark, New Jersey

Contract-Holder: NAME OF CONTRACT-HOLDER	Plan: NAME OF RETIREMENT PLAN
	Employer: NAME OF EMPLOYER
[***) [***)	Jurisdiction: STATE OF JURISDICTION
Effective Date: MM DD, YYYY Amendment Date: MM DD, YYYY	Contribution Amount as of Effective Date: \$XXX,XXX Contribution Adjustment Amount: None, as of MM DD, YYYY Total Contribution Amount as of MM, DD, YYYY: \$XXX,XXX
Pages Attached: 1-XX, Cash and Transferred Assets Exhibit, Cash and Transferred Assets Exhibit Supplement, Annuity Exhibits	

NAME OF CONTRACT-HOLDER

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA
30 Scranton Office Park
Scranton, PA 18507-1789

By: SAMPLE
Title:

SAMPLE
Chairman and Chief Executive Officer

Date:

SAMPLE
Secretary
Attest: _____
Date:

Initially a Buy-Out Contract supported by a Dedicated Separate Account 1

Schedule 1 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

Single-Premium Non-Participating Group Annuity Contract supported by a Separate Account providing for Annuity Payments, subject to the provisions of this Contract. The Annuity Payments hereunder do not vary based on any gains or losses of the assets held in the Separate Account.

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CASH AND TRANSFERRED ASSETS EXHIBIT

ANNUITY EXHIBITS

[***] A.B.C. Company

ANNUITY EXHIBIT
 Immediate Covered Lives – Retired

Annuity Commencement Date

Annuity Form is Life Payment Certain Form of Annuity

<u>Covered Life</u>	<u>Social Security Number</u>	<u>Sex</u>	<u>Date of Birth</u>	<u>Covered Life Amount</u>	<u>Guaranteed Number of Payments</u>	<u>Lump Sum Death Benefit</u>
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Schedule 1 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

Schedule 1 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

**Schedule 2
to
Commitment Agreement**

[***]

A	B	C	D	E	F	G	H	I	J
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

N/A

Schedule 2 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

[***]

[***] :

1. [***].
2. [***]. [***] :
 - a. [***],
 - b. [***],
 - c. [***], or
 - d. [***].
3. [***].
4. [***].
5. [***].
6. [***].
7. [***].
8. [***].

ARBITRATION DISPUTE RESOLUTION

1. **Rules and Procedures**. Any dispute between the parties referenced herein shall be resolved by arbitration conducted by one arbitrator, in accordance with Commercial Arbitration Rules and Expedited Procedures for Large, Complex Commercial Disputes of the American Arbitration Association (“AAA”), as such rules and procedures are in effect at the time of the arbitration, except as they may be modified herein or by mutual agreement of the Company, Prudential, and, if a party to such dispute, the Independent Fiduciary.
2. **Location**. The seat of the arbitration shall be New York City, New York, at a mutually agreed upon location, or in the absence of agreement at the New York City offices of the AAA.
3. **Arbitrator**. The Company, Prudential and, if a party to the dispute, the Independent Fiduciary shall jointly engage a mutually agreed upon firm (such firm, the “Approved Firm”), within five Business Days after a dispute notice is delivered by either party to the other party to resolve any arbitration dispute. If the Company, Prudential and, if a party to such dispute, the Independent Fiduciary are unable to engage an Approved Firm within such time period on such terms, then the AAA shall appoint an arbitrator within three Business Days thereafter.
4. **Damages**. The arbitrator shall resolve any arbitration dispute within the range of difference between (a) any amounts or values as calculated or determined by Prudential and (b) any amounts or values as calculated or determined by the Company or, if a party to the dispute, any amounts or values as calculated or determined by the Independent Fiduciary. The arbitrator will have no authority to award any other damages other than as provided for herein.
5. **Judgment**. Any arbitration award shall be final and binding on the Company, Prudential and, if a party to the dispute, the Independent Fiduciary. The Company, Prudential and, if a party to such dispute, the Independent Fiduciary undertake to carry out any award without delay and waive their respective rights to any form of recourse based on grounds other than personal conflict of interest of the arbitrator that was undisclosed at the time of the arbitrator’s appointment. Judgment upon the award may be entered by any court having jurisdiction thereof or having jurisdiction over the Company, Prudential or, if a party to such dispute, the Independent Fiduciary, as applicable, or their respective assets.
6. **Costs**. The Company and Prudential shall share the fees and disbursements of the arbitrator equally (i.e., on a 50%/50% basis). The Company, Prudential and, if a party to the dispute, the Independent Fiduciary shall each bear their own costs and expenses incurred in connection with prosecuting and/or defending any arbitration dispute.
7. ***. ***.

8. **Amended Schedules.** If applicable, the Company, Prudential and the Independent Fiduciary will promptly amend the schedules hereto to reflect any arbitration decision.

Schedule 4 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

**Schedule 5
to
Commitment Agreement**

[***]

[***] [***]	[***]	[***]	[***] [***]	[***] [***]
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Schedule 5 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

INVESTMENT MANAGERS AND INVESTMENT ADVISERS

1. Jennison Associates LLC
 - Doing Business As:*
 - Jennison
 - Jennison Associates
2. Quantitative Management Associates LLC
 - Doing Business As :*
 - QMA
3. PGIM, Inc.
 - Doing Business As :*
 - Prudential Investments
 - PGIM Investments
 - Prudential Capital Group
 - PGIM
 - PGIM Fixed Income
 - Prudential Fixed Income
 - PGIM Institutional Advisory & Solutions
 - PGIM Real Estate
 - PGIM Global Partners
 - Prudential Financial, Inc.
 - PREI
 - PGIM Real Estate Finance
 - Prudential Real Estate Investors
 - Pramerica Real Estate Investors
 - Prudential Real Estate Fixed Income Investors
 - PRICOA Capital Group
 - Prudential Capital Partners
 - Pramerica Capital Partners
 - Pramerica Investment Management – Fixed Income
 - PCG
 - PRICOA Capital Group Limited
 - PRICOA Capital Partners

- Prudential Capital Energy Partners
 - PRICOA Capital Energy Partners
 - Pramerica Capital Energy Partners
4. The Prudential Insurance Company of America
 - Doing Business As :*
 - Prudential Financial, Inc.
 5. Prudential Trust Company
 6. Prudential Retirement Insurance and Annuity Company
 7. PGIM Limited
 - Doing Business As :*
 - PGIM Fixed Income
 - PGIM Real Estate
 - PGIM Real Estate Finance
 - PRICOA Capital Group
 8. PGIM Fund Management Limited
 - Doing Business As :*
 - PGIM Real Estate
 9. Global Portfolio Strategies, Inc.
 10. PGIM Investments LLC
 - Formerly Known As :*
 - Prudential Investments LLC
 11. Prudential Private Placement Investors, L.P.
 12. AST Investment Services, Inc.
 13. Prudential International Investment Advisers, LLC
 - Doing Business As:*
 - PGIM Global Partners
 14. Pruco Securities LLC
 - Doing Business As:*
 - Prudential Financial Planning Services
 15. PGIM Real Estate Finance, LLC
 - Doing Business As:*
 - PGIM Real Estate Finance
 - Prudential Agricultural Investments
 - Formerly Known As :*
 - PRICOA Mortgage Capital Company
 - Prudential Mortgage Capital Company
 16. PGIM Real Estate Luxembourg S.A.
 17. Prudential Customer Solutions LLC

Schedule 6 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

ADMINISTRATION AND TRANSFER

This Schedule 7 sets forth the actions that the Company and Prudential will take or cause to be taken at the times identified in the table below. All Delivery Dates after the first Delivery Date assume the prior delivery, to a party responsible for a subsequent deliverable, of relevant materials needed from other parties, on or prior to the required Delivery Dates set forth below, including cooperation of other parties in resolving any open issues.

Defined Terms

“Check Register” means an electronic file showing gross amounts, net amounts and deductions with respect to payments to each Payee. Dates shown for the Check Register can be changed if mutually agreed upon.

“Data Load File” means the file as extracted from Prudential’s recordkeeping systems and reflected in a report provided to the Plan and Company.

“Data Load File Sign-Off” means the written confirmation by the Plan that the Data Load File accurately reflects the data provided.

“Final Production Data File” means the complete updated Preliminary Production Data File, reflecting all corrections since the Preliminary Production Data File and any addendums thereto.

“Preliminary Production Data File” means the preliminary production data file, as populated based on information from the recordkeeper’s internal system.

“Update File” means an itemized list of updates that should be made to the file that was last delivered.

Deliverable	Delivery Date	Action by the Company/Plan	Action by Prudential
Preliminary Production Data File	September 27, 2018	Deliver Preliminary Production Data File	Receive and reconcile Preliminary Production Data File to begin data cleanse and data mapping
Final Production Data File	October 22, 2018	Deliver Final Production Data File	Receive Final Production Data File
Check Register October 31, 2018 and November 1, 2018	October 22, 2018	Deliver Check Register	Receive Check Register
Update File	November 14, 2018	Deliver Update File	Receive Update File
Data Load File (related to Final Production Data File)	November 26, 2018	Receive Data Load File	Deliver Data Load File
Data Load File Sign-Off (related to Final Production Data File)	December 3, 2018	Approve Data Load File	Receive Data Load File Sign-Off
Update File	December 3, 2018	Deliver Update File	Receive Update File

**Schedule 8
to
Commitment Agreement**

GAC ISSUANCE TRUE-UP PREMIUM

This Schedule provides a description of the methodologies and procedures by which Prudential will calculate the GAC Issuance True-Up Premium.

[***].

[***]. [***]. [***].

[***]. [***]. [***].

[***]. [***]. [***].

[***].

[***].

1. [***].

[***]:

- a. [***],
- b. [***],
- c. [***],
- d. [***],
- e. [***],
- f. [***],
- g. [***],
- h. [***],
- i. [***],
- j. [***], or
- k. [***],

[***]. [***]. [***].

[***].

[***]. [***]. [***].

2. [*].**

[***]. [***].

[***]. [***]. [***].

3. [*].**

- a. [***]

[***]. [***].

- b. [***]

[***]. [***].

- c. [***]

[***]. [***].

4. [*].**

[***]:

[***]

Where

- (4A) [***];
- (4B) [***];
- (4C) [***].
- (4D) [***].

5. [***].

[***].

[***]

Where

- (5A) [***];
- (5B) [***];
- (5C) [***].
- (5D) [***]. [***].
- (5E) [***].
- (5F) [***]. [***].
- (5G) [***]:
 - (i) [***].
 - (ii) [***].

[***].

6. [***].

[***]. [***].

7. [***].

[***]. [***].

8. [***].

[***]. [***].

9. [***].

[***] . [***];

- a. [***] .
- b. [***] .
- c. [***] .
- d. [***] .

[***] . [***] .

**Schedule 9
to
Commitment Agreement**

[***]

[***] .

[***]

(x) [***] ,

[***]

(y) [***] .

where:

[***] .

[***] .

[***] . [***] .

HISTORICAL MORTALITY DATA

Historical mortality data was provided by the Company to Prudential in the file titled “[***]” posted to Willis Towers Watson OnePlace secure website on May 23, 2018.

Schedule 10 to Commitment Agreement, dated September 25, 2018

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STATE INSURANCE GOVERNMENTAL AUTHORITIES

1. Arkansas
2. Florida
3. Idaho
4. Iowa
5. Louisiana
6. Minnesota
7. Mississippi
8. Montana
9. New Hampshire
10. North Dakota
11. Ohio
12. Oklahoma
13. Puerto Rico
14. South Dakota
15. Tennessee
16. Texas
17. Vermont
18. Washington
19. West Virginia

Schedule 11 to Commitment Agreement, dated September 25, 2018

CONFIDENTIAL

RBC RATIO CALCULATION

Prudential's normal-course RBC Ratio preparation is completed in a reasonable manner, using reasonable assumptions and in accordance with prevailing regulatory standards. [***]. [***].

Such Projected RBC Ratios are completed in accordance with methodologies prescribed by the National Association of Insurance Commissioners ("NAIC") for the calculation of company action level risk-based capital and total adjusted capital. The NAIC publishes detailed instructions annually for calculating year-end reported company action level risk-based capital ratios using company action level risk-based capital and total adjusted capital (NAIC Life Risk-Based Capital Report Including Overview and Instructions for Companies). Prudential's Projected RBC Ratio utilizes the same formula as these instructions, [***]. Such projections also incorporate NAIC changes to the extent Prudential expects that these changes are expected to be adopted by the NAIC and effective for the forecasted period.

INTERNATIONAL PAPER COMPANY
STATEMENT OF COMPUTATION OF PER SHARE EARNINGS (1)
(Unaudited)
(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Earnings (loss) from continuing operations	\$ 562	\$ 366	\$ 1,351	\$ 642
Discontinued operations	—	29	345	42
Net earnings (loss)	562	395	1,696	684
Effect of dilutive securities	—	—	—	—
Net earnings - assuming dilution	\$ 562	\$ 395	\$ 1,696	\$ 684
Average common shares outstanding	407.4	412.9	411.4	412.6
Effect of dilutive securities				
Restricted stock performance share plan	4.0	4.5	4.9	4.8
Average common shares outstanding - assuming dilution	411.4	417.4	416.3	417.4
Earnings (loss) per common share from continuing operations	\$ 1.38	\$ 0.89	\$ 3.28	\$ 1.55
Discontinued operations	—	0.07	0.84	0.10
Net earnings (loss) per common share	\$ 1.38	\$ 0.96	\$ 4.12	\$ 1.65
Earnings (loss) per common share from continuing operations - assuming dilution	\$ 1.37	\$ 0.88	\$ 3.25	\$ 1.54
Discontinued operations	—	0.07	0.83	0.10
Net earnings (loss) per common share - assuming dilution	\$ 1.37	\$ 0.95	\$ 4.08	\$ 1.64

Note: If an amount does not appear in the above table, the security was antidilutive for the periods presented.

(1) Attributable to International Paper Company common shareholders.

INTERNATIONAL PAPER COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollar amounts in millions)

TITLE		Nine Months Ended						
		September 30,						
		2013	2014	2015	2016	2017	2017	2018
(A)	Earnings (loss) from continuing operations before income taxes and equity earnings	\$ 1,092.0	\$ 734.0	\$ 1,132.0	\$ 795.0	\$ 848.0	\$ 651.0	\$ 1,399.0
(B)	Noncontrolling interests, net of taxes	17.0	19.0	21.0	2.0	—	—	(3.0)
(C)	Fixed charges excluding capitalized interest	701.1	691.0	695.9	744.5	810.2	626.2	605.7
(D)	Amortization of previously capitalized interest	20.4	19.3	16.0	14.7	15.2	11.2	9.7
(E)	Distributed income of equity investees	—	56.1	35.0	59.7	136.5	131.4	130.9
(F)	Earnings (loss) from continuing operations before income taxes and fixed charges	\$ 1,830.5	\$ 1,519.4	\$ 1,899.9	\$ 1,615.9	\$ 1,809.9	\$ 1,419.8	\$ 2,142.3
Fixed Charges								
(G)	Interest and amortization of debt expense	\$ 648.3	\$ 643.1	\$ 643.5	\$ 694.5	\$ 757.9	\$ 571.2	\$ 546.9
(H)	Interest factor attributable to rentals	52.8	47.9	52.4	50.0	52.3	55.0	58.8
(I)	Preferred dividends of subsidiaries	1.1	—	—	—	—	—	—
(J)	Capitalized interest	17.0	23.0	24.8	28.2	24.8	18.0	25.5
(K)	Total fixed charges	\$ 719.2	\$ 714.0	\$ 720.7	\$ 772.7	\$ 835.0	\$ 644.2	\$ 631.2
(L)	Ratio of earnings to fixed charges	2.55	2.13	2.64	2.09	2.17	2.20	3.39

NOTE: Dividends on International Paper's preferred stock are insignificant. As a result, for all periods presented, the ratios of earnings to fixed charges and preferred stock dividends are the same as the ratios of earnings to fixed charges.

CERTIFICATION

I, Mark S. Sutton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Paper Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2018

/s/ Mark S. Sutton

Mark S. Sutton

Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Tim S. Nicholls, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Paper Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 2, 2018

/s/ Tim S. Nicholls

Tim S. Nicholls

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with the Quarterly Report of International Paper Company (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2018 for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code. Mark S. Sutton, Chief Executive Officer of the Company, and Tim S. Nicholls, Chief Financial Officer of the Company, each certify that, to the best of his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark S. Sutton

Mark S. Sutton

Chairman of the Board and Chief Executive Officer

November 2, 2018

/s/ Tim S. Nicholls

Tim S. Nicholls

Senior Vice President and Chief Financial Officer

November 2, 2018