MONROE CAPITAL Corp
Form DEF 14A
May 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement.

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**

x Definitive Proxy Statement.

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

Monroe Capital Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

(312) 258-8300

May 22, 2013

Dear Stockholder:

You are cordially invited to attend Monroe Capital Corporation s 2013 Annual Meeting of Stockholders to be held on June 26, 2013 at 3:00 p.m. Eastern Time, at 311 South Wacker Drive, 10th Floor Conference Center, Chicago, Illinois 60606.

The Notice of Annual Meeting and proxy statement accompanying this letter provide an outline of the business to be conducted at the meeting. I will also report on the progress of the Company during the past year and answer stockholders questions.

It is important that your shares be represented at the Annual Meeting. If you are unable to attend the meeting in person, I urge you to vote your shares by completing, dating and signing the enclosed proxy card and promptly returning it in the envelope provided or, alternatively, by calling the toll-free telephone number or using the internet as described on the proxy card. If a broker or other nominee holds your shares in street name, your broker has enclosed a voting instruction form, which you should use to vote those shares. The voting instruction form indicates whether you have the option to vote those shares by telephone or by using the internet. Your vote is important regardless of the number of shares you own. We urge you to fill out, sign, date and mail the enclosed proxy card or authorize your proxy by telephone or through the internet as soon as possible even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the meeting.

On behalf of your board of directors, thank you for your continued interest and support.

Sincerely yours,

Theodore L. Koenig
Chairman & Chief Executive Officer

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MONROE CAPITAL CORPORATION

311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

(312) 258-8300

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 26, 2013

To the Stockholders of Monroe Capital Corporation:

The 2013 Annual Meeting of Stockholders of Monroe Capital Corporation (the Company) will be held at 311 South Wacker Drive, 10th Floor Conference Center, Chicago, Illinois 60606, on June 26, 2013, at 3:00 p.m. (Eastern Time) for the following purposes:

1. To elect two Class I directors to serve until their respective successors have been duly elected and qualified (**Proposal No. 1**);

2. To ratify the selection of McGladrey LLP to serve as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2013 (**Proposal No. 2**);

3. To approve a proposal to authorize flexibility for the Company, subject to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company s then-current net asset value per share, subject to certain conditions as set forth in this proxy statement (**Proposal No. 3**);

4. To transact such other business as may properly come before the meeting, or any adjournments or postponements thereof.

You have the right to receive notice of and to vote at the meeting if you were a stockholder of record at the close of business on May 7, 2013. Whether or not you expect to be present in person at the meeting, please vote by signing the enclosed proxy card and returning it promptly in the self-addressed envelope provided or, alternatively, by calling the toll-free telephone number or using the internet as described on the proxy card. If a broker or other nominee holds your shares in street name, your broker has enclosed a voting instruction form, which you should use to vote those shares. The voting instruction form indicates whether you have the option to vote those shares by telephone or by using the internet. In the event there are not sufficient votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned in order to permit further solicitation of the proxies by the Company.

By order of the Board of Directors,

Aaron D. Peck
Chief Financial Officer, Chief Investment Officer, Chief Compliance Officer and Corporate Secretary

Chicago, Illinois

May 22, 2013

This is an important meeting. To ensure proper representation at the meeting, please indicate your vote as to the matters to be acted on at the meeting by following the instructions provided in the enclosed proxy card or voting instruction form. Even if you vote your shares prior to the meeting, you still may attend the meeting and vote your shares in person.

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MONROE CAPITAL CORPORATION

311 South Wacker Drive, Suite 6400

Chicago, Illinois 60606

(312) 258-8300

PROXY STATEMENT

2013 Annual Meeting of Stockholders

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Monroe Capital Corporation (the Company, we, us or our) for use at our 2013 Annual Meeting of Stockholders to be held on June 26, 2013, at 3:00 p.m. (Eastern Time) at 311 South Wacker Drive, 10th Floor Conference Center, Chicago, Illinois 60606, and at any adjournments thereof (the Annual Meeting). The Notice of Annual Meeting, this proxy statement, the accompanying proxy card and our Annual Report for the fiscal year ended December 31, 2012 are first being sent to stockholders on or about May 22, 2013.

We encourage you to vote your shares, either by voting in person at the meeting or by granting a proxy (i.e., authorizing someone to vote your shares). If you vote by mail, internet or telephone as described in the instructions on the proxy card or voting instruction form, and we receive your vote in time for the meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. **If you give no instructions on the proxy card, the shares covered by the proxy card will be voted FOR the election of the nominee as director and FOR the other matters listed in the accompanying Notice of Annual Meeting of Stockholders.**

Your vote is important. Whether or not you plan to attend the meeting, please promptly vote your shares either by mail or by telephone.

Important notice regarding the availability of proxy materials for the annual stockholder meeting to be held on June 26, 2013:

The Notice of Annual Meeting, proxy statement, proxy card and our Annual Report for the fiscal year ended December 31, 2012 are available at the following internet address: *www.monroebdc.com*.

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INFORMATION ABOUT THE MEETING

When is the Annual Meeting?

The Annual Meeting will be held on June 26, 2013, at 3:00 p.m. (Eastern Time).

Where will the Annual Meeting be held?

The Annual Meeting will be held at 311 South Wacker Drive, 10^{th} Floor Conference Center, Chicago, Illinois 60606.

What items will be voted on at the Annual Meeting?

There are three matters scheduled for a vote:

1. To elect two Class I directors to serve until their respective successors have been duly elected and qualified (**Proposal No. 1**);

2. To ratify the selection of McGladrey LLP to serve as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2013 (**Proposal No. 2**);

3. To approve a proposal to authorize flexibility for the Company, subject to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company s then-current net asset value per share, subject to certain conditions as set forth in this proxy statement (**Proposal No. 3**);

4. To transact such other business as may properly come before the meeting, or any adjournments or postponements thereof.

As of the date of this proxy statement, we are not aware of any other matters that will be presented for consideration at the Annual Meeting.

What are the Board of Directors recommendations?

Our Board of Directors recommends that you vote:

FOR the election of the two Class I director nominees named herein to serve on the Board of Directors;

FOR the ratification of the selection of McGladrey LLP to serve as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2013; and

FOR the proposal to authorize flexibility for the Company, subject to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company s then-current net asset value per share, subject to certain conditions as set forth in this proxy statement.

Will the Company s directors be in attendance at the Annual Meeting?

The Company encourages, but does not require, its directors to attend annual meetings of stockholders. However, the Company anticipates that all of its directors will attend the 2013 Annual Meeting.

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INFORMATION ABOUT VOTING

Who is entitled to vote at the Annual Meeting?

Only stockholders of record at the close of business on the record date, May 7, 2013, are entitled to receive notice of the Annual Meeting and to vote the shares for which they are stockholders of record on that date at the Annual Meeting, or any postponement or adjournment of the Annual Meeting. As of the close of business on May 7, 2013, we had 5,764,393 shares of common stock outstanding.

How do I vote?

With respect to Proposal No. 1, you may either vote FOR each of the Class I nominees to the Board of Directors, or you may vote WITHHOLD AUTHORITY for the nominees. For each of the other proposals to be voted on, you may vote FOR or AGAINST, or abstain from voting altogether. The procedures for voting are fairly simple:

Stockholders of Record: Shares Registered in Your Name. If on May 7, 2013, your shares were registered directly in your name with the Company s transfer agent, American Stock Transfer & Trust Company, LLC, then you are a stockholder of record. If you are a stockholder of record, you may vote in person at the Annual Meeting or vote by giving us your proxy. You may give us your proxy by completing the enclosed proxy card and returning it in the enclosed postage-prepaid envelope, or by calling a toll-free telephone number or using the internet as further described below and on the enclosed proxy card. **Whether or not you plan to attend the Annual Meeting, we urge you to fill out and return the enclosed proxy card or to otherwise give your proxy authorization by telephone or internet, as specified on the proxy card, to ensure your vote is counted.** You may still attend the Annual Meeting and vote in person if you have already voted by proxy or have otherwise given your proxy authorization.

IN PERSON: To vote in person, come to the Annual Meeting, and we will give you a ballot when you arrive.

BY MAIL: To vote using the enclosed proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the postage paid envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

BY INTERNET: To vote by internet, go to www.voteproxy.com and use the internet to transmit your voting instructions and for the electronic delivery of information **until** 11:59 p.m. Eastern Time on June 25, 2013. Have your proxy card available when you access the website and then follow the instructions.

BY TELEPHONE: To vote by telephone, call 1-800-PROXIES (1-800-776-9437) and use any touch-tone telephone to transmit your voting instructions **until** 11:59 p.m. Eastern Time on June 25, 2013. Have your proxy card available when you call the phone number above and then follow the instructions.

Beneficial Owners: Shares Registered in the Name of a Broker or Bank. If on May 7, 2013, your shares were held in an account at a brokerage firm, bank, dealer or other similar organization, then you are the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by that organization. If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from the Company. Simply complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may be able to vote by telephone or over the internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy card.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock for which you are the stockholder of record as of May 7, 2013.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please provide a response (by telephone, internet or mail) for each proxy card you receive to ensure that all of your shares are voted.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted: FOR the election of the two Class I director nominees named herein to serve on the Board of Directors; FOR the ratification of the selection of McGladrey LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2013; and FOR the proposal to authorize flexibility for the Company, subject to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company s then-current net asset value per share, subject to certain conditions as set forth in this proxy statement.

If any other matter is properly presented at the meeting, your proxy (one of the individuals named on your proxy card) will vote your shares as recommended by the Board of Directors or, if no recommendation is given, will vote your shares using his or her discretion.

Can I change my vote after submitting my proxy card?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the stockholder of record of your shares, you may revoke your proxy in any one of three ways:

- You may change your vote using the same method that you first used to vote your shares (by telephone, internet or mail);
- You may send a written notice that you are revoking your proxy to Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Attention: Aaron D. Peck, Corporate Secretary; or
- You may attend the Annual Meeting and notify the election officials at the Annual Meeting that you wish to revoke your proxy and vote in person. Simply attending the Annual Meeting, however, will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count FOR and WITHHOLD AUTHORITY votes for Proposal No. 1, and with respect to Proposal Nos. 2 and 3 FOR, AGAINST and ABSTAIN. A broker non-vote occurs when a nominee, such as a brokerage firm, bank, dealer or other similar organization, holding shares for a beneficial owner, does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner. In the event that a broker, bank, custodian, nominee or other record holder of our common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular proposal, then those shares will be treated as broker non-votes with respect to that proposal. Accordingly, if you own shares through a nominee, such as a brokerage firm, bank, dealer or other similar organization, please be sure to instruct your nominee how to vote to ensure that your vote is counted on each of the proposals.

If your shares are held by your broker as your nominee (that is, in street name), you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. **Under applicable Nasdaq Marketplace Rules, each of Proposal Nos. 1 (election of directors) and 3 (selling shares below net asset value) is a non-routine proposal. Since these proposals to be voted on at the Annual Meeting are not routine matters, the broker or nominee that holds your shares will need to obtain your authorization to vote those shares and will enclose a voting instruction form with this proxy statement. The broker or nominee will vote your shares as you direct on their voting instruction form so it is important that you include voting instructions.**

Abstentions will be treated as shares present for the purpose of determining the presence of a quorum for the transaction of business at the Annual Meeting.

How many votes are needed to approve each proposal?

For Proposal No. 1, the two nominees receiving the most FOR votes, among votes properly cast in person or by proxy, will be elected. If you vote WITHHOLD AUTHORITY with respect to a nominee, your shares will not be included in determining the number of votes cast and, as a result, will have no effect on this proposal.

To be approved, Proposal No. 2 must receive FOR votes from a majority of all votes cast at the Annual Meeting, whether in person or by proxy. For purposes of the vote on this proposal, abstentions will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for the purpose of determining the presence of a quorum.

To be approved, Proposal No. 3 must receive FOR votes from (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting that are not held by affiliated persons of the Company. With respect to Proposal No. 3 only, Section 2(a)(42) of the Investment Company Act of 1940, or the 1940 Act, defines a majority of the outstanding shares as the lesser of: (1) 67% or more of the common stock of the Company present or represented by proxy at the Annual Meeting, if the holders of more than 50% of the Company s common stock are present or represented by proxy; or (2) more than 50% of the outstanding common stock of the Company. For purposes of the vote on this proposal, abstentions will have the effect of votes against the proposal, although they will be considered present for purposes of determining the presence of a quorum.

How many shares must be present to constitute a quorum for the Annual Meeting?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares entitled to vote are represented by stockholders present at the Annual Meeting or by proxy. On May 7, 2013, the record date, there were 5,764,393 shares outstanding and entitled to vote. Thus, 2,882,197 shares must be represented by stockholders present at the Annual Meeting or by proxy to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy by mail, internet or telephone (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the Annual Meeting. Abstentions will be counted towards the quorum requirement.

If a quorum is not present at the Annual Meeting, or if a quorum is present but there are not enough votes to approve one or more of the proposals, the person named as chairman of the Annual Meeting may adjourn the meeting to permit further solicitation of proxies. A stockholder vote may be taken on one or more of the proposals in this proxy statement prior to any such adjournment if there are sufficient votes for approval on such proposal(s).

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How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting and filed on Form 8-K within four business days of the Annual Meeting. Final results will be published on an amended Form 8-K within four days after the final voting results are established.

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ADDITIONAL INFORMATION

How and when may I submit a stockholder proposal for the Company s 2014 Annual Meeting?

We will consider for inclusion in our proxy materials for the 2014 Annual Meeting of Stockholders, stockholder proposals that are received at our executive offices, in writing, and no later than 5:00 p.m. (Eastern Time) on January 22, 2014, and that comply with our bylaws and all applicable requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Proposals must be sent to our Corporate Secretary at Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606.

On March 15, 2011, our Board of Directors approved and adopted the bylaws of the Company. Pursuant to our bylaws, stockholders wishing to nominate persons for election as directors or to introduce an item of business at an annual meeting that are not to be included in our proxy materials must have given timely notice thereof in writing to our Corporate Secretary. To be timely for the 2014 Annual Meeting of Stockholders, you must notify our Corporate Secretary, in writing, no earlier than November 23, 2013, and no later than 5:00 p.m. (Eastern Time) on January 22, 2014. We also advise you to review our bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations, including the different notice submission date requirements in the event that our 2014 Annual Meeting of Stockholders is held more than 30 days before or after the first anniversary of the date the notice for the 2013 annual meeting is mailed. In accordance with our bylaws, the chairman of the 2014 Annual Meeting of Stockholders may determine, if the facts warrant, that a matter has not been properly brought before the meeting and, therefore, may not be considered at the meeting.

Pursuant to the Company s bylaws, among other things, a stockholder s notice shall set forth as to each individual whom the stockholder proposes to nominate for election or reelection as a director:

- the name, age, business address and residence address of such individual;
- the class, series and number of any shares of stock of the Company that are beneficially owned by such individual;
- the date such shares were acquired and the investment intent of such acquisition;
- whether such stockholder believes any such individual is, or is not, an interested person of the Company, as defined in the 1940 Act and information regarding such individual that is sufficient, in the discretion of the Board or any committee thereof or any authorized officer of the Company, to make either such determination; and
- all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such individual s written consent to being named in the proxy statement as a nominee and to serving as a director if elected).

All nominees properly submitted to the Company (or which the nominating and corporate governance committee otherwise elects to consider) will be evaluated and considered by the members of the nominating and corporate governance committee using the same criteria as nominees identified by the nominating and corporate governance committee itself.

How can I obtain the Company s Annual Report on Form 10-K?

A copy of our 2012 Annual Report on Form 10-K for the fiscal year ended December 31, 2012 is being mailed along with this proxy statement. Our 2012 Annual Report is not incorporated into this proxy statement and shall not be considered proxy solicitation material.

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We will also mail to you without charge, upon written request, a copy of any specifically requested exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Requests should be sent to: Corporate Secretary, Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606. A copy of our Annual Report on Form 10-K has also been filed with the Securities and Exchange Commission, or the SEC, and may be accessed from the SEC s homepage (http://www.sec.gov).

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. If we retain a solicitor, we estimate that we would pay our proxy solicitor a fee of approximately $15,000 for such services, plus reimbursement for out-of-pocket expenses, though the costs of the proxy solicitation process could be lower or higher than our estimate. If the Company engages a solicitor, you could be contacted by telephone on behalf of the Company and urged to vote. The solicitor will not attempt to influence how you vote your shares, but only ask that you take the time to cast a vote. You may also be asked if you would like to vote over the telephone and to have your vote transmitted to our proxy tabulation firm.

In addition to these written proxy materials, directors, officers and employees of Monroe Capital BDC Advisors, LLC, the Company s investment adviser, or our Investment Advisor, may also solicit proxies in person, by telephone or by other means of communication; however, our directors, officers and employees of our Investment Advisor will not be paid any additional compensation for soliciting proxies. In addition to the solicitation of proxies by the use of the mail, proxies may be solicited in person and/or by telephone or facsimile transmission by our proxy solicitor, directors, officers or employees of our Investment Advisor. Our Investment Advisor is located at 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606.

We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

How many copies should I receive if I share an address with another stockholder?

The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies.

Brokers may be householding our proxy materials by delivering a single proxy statement and Annual Report to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If at any time you no longer wish to participate in householding and would prefer to receive a separate proxy statement and Annual Report, or if you are receiving multiple copies of the proxy statement and Annual Report and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you are a stockholder of record. You can notify us by sending a written request to: Aaron D. Peck, Corporate Secretary, Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, or by calling (312) 258-8300. In addition, the Company will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the Annual Report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

Whom should I contact if I have any questions?

If you have any questions about the Annual Meeting, these proxy materials or your ownership of our common stock, please contact Aaron D. Peck c/o Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606, Telephone (312) 258-8300, or Fax: (312) 258-8350.

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PROPOSAL NO. 1

ELECTION OF CLASS I DIRECTORS

The Board of Directors presently has seven members. Our Board of Directors is divided into three classes. Class I directors hold office for a term expiring at the Annual Meeting of Stockholders to be held in 2013, Class II directors hold office for a term expiring at the Annual Meeting of Stockholders to be held in 2014 and Class III directors hold office for a term expiring at the Annual Meeting of Stockholders to be held in 2015. Upon completion of the initial terms ending in 2013, 2014 and 2015, each class of directors will serve for three year terms. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualified. Vacancies on the Board of Directors may be filled by persons elected by a majority of the remaining directors. A director elected by the Board of Directors to fill a vacancy in a class, including any vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director s successor is duly elected and qualified. Messrs. Thomas J. Allison and Robert S. Rubin are Class I directors, Messrs. Jorde M. Nathan, Aaron D. Peck and Jeffrey A. Golman are Class II directors, and Messrs. Theodore L. Koenig and Jeffrey D. Steele are Class III directors.

The Board of Directors has nominated two directors (upon the recommendation by the nominating and corporate governance committee), Messrs. Allison and Rubin, for election as Class I directors. If elected at the Annual Meeting, each of Messrs. Allison and Rubin would serve until the 2016 Annual Meeting of Stockholders and until his successor is elected and has qualified, or, if sooner, until his death, resignation or removal. Neither Mr. Allison nor Mr. Rubin is being nominated as a director for election pursuant to any agreement or understanding between such person and the Company. Each of Messrs. Allison and Rubin have indicated his willingness to continue to serve if elected and has consented to be named as a nominee. Neither Mr. Allison nor Mr. Rubin is an interested director of the Company as defined under the 1940 Act. It is our policy to encourage directors and nominees for director to attend the Annual Meeting.

The directors will be elected by a plurality of the votes cast at the meeting, which means that the two nominees receiving the highest number of votes will be elected. Any shares not voted, whether by withheld authority, abstention or otherwise, will have no effect on the outcome of the election of directors. There are no cumulative voting rights with respect to the election of directors.

The Board of Directors recommends a vote **FOR** the election of all of the nominees whose names are set forth on the following pages. A stockholder can vote for or withhold his or her vote from each nominee. **In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy for the election of the nominees named below. If a nominee should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person who is nominated as a replacement. The Board of Directors has no reason to believe that the Class I director nominees named will be unable or unwilling to serve.**

Certain of our directors who are also officers of the Company may serve as directors of, or on the boards of managers of, certain of our portfolio companies. The business address of each nominee and director listed below is 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606.

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The following is a brief biography of the Class I director nominees.

Nominees for Class I Director

Independent Director

Name	Age	Background Information
Thomas J. Allison	61	Mr. Allison has served on our Board of Directors and as our Audit Committee Chairperson since April 29, 2013. From 2006 until his retirement in 2012, Mr. Allison served as Executive Vice President and Senior Managing Director of Mesirow Financial Consulting, LLC, a full-service financial and operational advisory consulting firm headquartered in Chicago. At Mesirow, Mr. Allison managed complex turnaround situations and advised on major reorganizations and insolvencies. He also served as CEO, CFO or CRO for several clients. From 2002 to 2006, Mr. Allison served as National Practice Leader of the restructuring practice of Huron Consulting Group. From 1988 to 2002, he served in a variety of roles at Arthur Andersen, LLC, including Partner-in-Charge, Central Region Restructuring Practice. Earlier in his career, Mr. Allison served in various capacities at Coopers & Lybrand, First National Bank of Chicago and the Chicago Police Department. Mr. Allison has previously served as Chairman of the Association for Certified Turnaround Professionals, Chairman and Director of the Turnaround Management Association, is a Fellow in the American College of Bankruptcy and has taught as a guest lecturer at Northwestern University and DePaul University. Mr. Allison received his bachelor of science in commerce and his master of business administration from DePaul University.

Independent Director

Name	Age	Background Information
Robert S. Rubin	57	Mr. Rubin has served on our Board of Directors since our initial public offering in October 2012 and is a member of our audit committee and nominating and corporate governance committee. Mr. Rubin is currently managing principal of the Diamond Group, an investment group that operates various companies and partnerships engaged in asset management and real estate investments. Mr. Rubin has been Managing Principal of the Diamond Group since 1999, and has acted as President of the various operating companies and special purpose investment vehicles that comprise the Diamond Group, including serving as a member of the board of Diamond Bancorp, Inc. and Diamond Bank, FSB (formerly North Federal Savings Bank) in Chicago since 2004. From 1997 to 1998, Mr. Rubin founded and ran a boutique derivatives advisory firm called Prospect Park Capital Advisors, and from 1991 to 1997 co-founded and ran Horizon Advisors, a hedge fund and commodity trading advisor. From 1986 to 1991, Mr. Rubin worked at Nomura Securities in the Global Syndicate and New Products Department, where he co-founded and

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Name	Age	Background Information
		served on the board of Nomura Capital Services Inc., the first Japanese dealer in derivative products. From 1983 to 1986, Mr. Rubin worked at First National Bank of Chicago (now a part of JPMorgan Chase Bank, N.A.). Mr. Rubin currently serves on the boards of the Parsons Water Fund and the Aleh Foundation, which supports facilities for developmentally disabled children and adults in Israel. Mr. Rubin received his bachelor of arts from Harvard College in 1978 and his master of business administration from the University of Chicago in 1986.

The Board of Directors recommends a vote for each of the Class I director nominees named above.

The following is a brief biography of each Class II and Class III director.

Class II Directors

Interested Director

Name	Age	Background Information
Aaron D. Peck	42	Mr. Peck has served as our director and as a member of our Investment Advisor s investment committee since our initial public offering in October 2012. Additionally, Mr. Peck serves as our Chief Financial Officer, Chief Investment Officer and Chief Compliance Officer. Mr. Peck has been a managing director of Monroe Capital since September 2012, where he is responsible for portfolio management and strategic initiatives. From 2002 to 2003 and from 2004 to June 2011, Mr. Peck worked in various capacities at Deerfield Capital Management LLC, including serving as its Co-Chief Investment Officer and as Managing Director of its Middle Market Lending Group. He also helped establish and served as chief portfolio manager for Deerfield Capital Corp. (fka Deerfield Triarc Capital Corp.), a publicly-traded externally-managed specialty finance hybrid mortgage REIT. For Deerfield Capital Corp., Mr. Peck was the primary point of contact for institutional and retail investors, equity research analysts, investment bankers and lenders. Mr. Peck also served as a member of Deerfield Capital s Executive Committee, Investment Committee and Risk Management Committee. From 2003 to 2004, Mr. Peck served as Senior Director of AEG Investors LLC and led the company s efforts in acquiring distressed middle market loans. From 2001 to 2002, Mr. Peck was a senior research analyst at Black Diamond Capital Management LLC. Prior to that, Mr. Peck worked in leveraged credit at several investment firms including Salomon Smith Barney, Merrill Lynch, ESL Investments and Lehman Brothers. Mr. Peck received his bachelor of science in commerce from the University of Virginia, McIntire School of Commerce and received a master of business administration with honors from The University of Chicago, Graduate School of Business.

Independent Director

Name	**Age**	**Background Information**
Jeffrey A. Golman	57	Mr. Golman has served on our Board of Directors since our initial public offering in October 2012 and serves as chairman of our nominating and corporate governance committee and a member on our audit committee. Since 2001, Mr. Golman has served as Vice Chairman and head of Investment Banking of Mesirow Financial, Inc., a diversified financial services firm headquartered in Chicago. Prior to his time with Mesirow Financial, Mr. Golman co-founded GGW Management Partners, LLC, a management-oriented investment group formed in partnership with Madison Dearborn Partners, Willis Stein & Partners and The Pritzker Organization, and was Managing Director with Lazard Frères & Co., LLC from 1989 to 1999. From 1981 to 1988, Mr. Golman worked with Salomon Brothers Chicago Banking Group, rising to the level of Vice President. Prior to that time, Mr. Golman practiced corporate and tax law in Chicago. Mr. Golman is a director of the Cystic Fibrosis Foundation Leadership Council s Greater Illinois Chapter. Mr. Golman is also a member of The Economic Club of Chicago, a member of the University of Illinois Foundation and a member of the Development Council of B.U.I.L.D., Inc. (Broader Urban Involvement and Leadership Development), a non-profit organization which helps at-risk youth realize their potential and contributes to the stability, safety and well-being of our communities. Mr. Golman also serves on the Advisory Board of DHR International, Inc. in an advisory position and as a member of the Law Board of Northwestern University School of Law. Mr. Golman received his bachelor of science in accounting from the University of Illinois in Champaign-Urbana and received his juris doctor from Northwestern University.

Independent Director

Name	**Age**	**Background Information**
Jorde M. Nathan	50	Mr. Nathan has served on our Board of Directors and as a member of our nominating and corporate governance committee since April 29, 2013. Mr. Nathan was a Managing Director of Barclays Bank, a major global financial services provider, from 2008 until his retirement in 2012. From 1993 until 2008, Mr. Nathan was employed by Lehman Brothers Inc., and served as a Managing Director of distressed, high yield and leverage loan sales and trading. From 1985 to 1993, Mr. Nathan served in various capacities as a First Scholar at The First National Bank of Chicago, ultimately serving as head of trading for bank loans. Mr. Nathan graduated Phi Beta Kappa with an AB degree in Chinese Language and Economics from Amherst College and earned his master of business administration from the University of Chicago. Mr. Nathan is a member of the national board and serves as chairman of the central region of the Friends of Israel Defense Forces.

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Class III Directors

Interested Director

Name	Age	Background Information
Theodore L. Koenig	54	Mr. Koenig has served as our chairman of the board and chief executive officer since our formation in February 2011 and as chairman of our Investment Advisor s investment committee since our initial public offering in October 2012. Additionally, Mr. Koenig is the chief executive officer and a manager of our Investment Advisor. Since founding Monroe Capital in 2004, Mr. Koenig has served continuously as its President and Chief Executive Officer. Prior to founding Monroe Capital, Mr. Koenig served as the President and Chief Executive Officer of Hilco Capital LP from 1999 to 2004, where he invested in distressed debt, junior secured debt and unsecured subordinated debt transactions. From 1986 to 1999, Mr. Koenig was a partner with the Chicago-based corporate law firm, Holleb & Coff. Mr. Koenig is a past President of the Indiana University Kelley School of Business Alumni Club of Chicago. He currently serves as director of the Commercial Finance Association and is a member of the Turnaround Management Association, the Association for Corporate Growth and the American Bankruptcy Institute. Mr. Koenig also serves on the Dean s Advisory Council, Kelley School of Business; Board of Overseers, Chicago-Kent School of Law; and as Vice Chairman of the Board of Trustees of Allendale School, a non-profit residential and educational facility for emotionally troubled children in the greater Chicago area. He is also a Certified Public Accountant. Mr. Koenig received a bachelor of science in accounting, with high honors, from Indiana University and earned a juris doctor, with honors, from Chicago Kent College of Law.

Interested Director

Name	Age	Background Information
Jeffrey D. Steele	53	Mr. Steele has served on our Board of Directors since our initial public offering in October 2012. Since 2007, Mr. Steele has served as Executive Vice President and Managing Director of The Private Bank, a commercial bank headquartered in Chicago. Mr. Steele was a founding member of The Private Bank s Transitional Management Team, and is currently a member on the bank s Executive Committee and Loan Committee, where his responsibilities include operations, compliance, bank-wide performance and credit approval. From 1992 to 2007, Mr. Steele worked in various capacities at LaSalle Bank, N.A., including serving as Group Senior Vice President from 2001 to 2007. From 1982 to 1992, he served in a variety of roles at National Boulevard Bank of Chicago, including Vice President and Co-Head of Commercial Banking. Mr. Steele has previously served as a board member of the Better Government Association in Chicago and has taught as a guest lecturer at Indiana University Kelley School for Business and the University of Iowa Tippie College of Business. Mr. Steele received his bachelor of science in finance from Indiana University and completed a graduate program in banking management at the Stonier Graduate School of Banking.

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Qualifications of Directors

When considering whether our directors have the experience, qualifications, attributes and skills, taken as a whole, to enable our Board of Directors to satisfy its oversight responsibilities effectively in light of our operational and organizational structure, the nominating and corporate governance committee and the Board of Directors focused primarily on the information discussed in each of the director s individual biographies set forth above and on the following particular attributes:

Interested Directors

Mr. Koenig: The nominating and corporate governance committee and the Board of Directors considered his substantial experience utilizing Monroe Capital s investment strategy and investing in a variety of debt transactions, as well as his legal background, which provides our Board of Directors with valuable experience, insight and perspective.

Mr. Peck: The nominating and corporate governance committee and the Board of Directors considered his experience in public company management, capital markets, risk management and financial services, which provides our Board of Directors with valuable industry knowledge, expertise and insight.

Mr. Steele: The nominating and corporate governance committee and the Board of Directors considered his extensive middle-market commercial banking and corporate finance experience, which provide our Board of Directors with insight, perspective and industry knowledge.

Independent Directors

Mr. Allison: The nominating and corporate governance committee and the Board of Directors considered his extensive turnaround and restructuring experience, significant financial leadership and extensive corporate finance experience, which provide our Board of Directors with industry knowledge and practical insight.

Mr. Golman: The nominating and corporate governance committee and the Board of Directors considered his extensive capital markets and middle-market investment banking experience as well as his legal background, which provide our Board of Directors with valuable industry knowledge and analytical perspective.

Mr. Nathan: The nominating and corporate governance committee and the Board of Directors considered his significant capital markets and leveraged loan experience, which provides our Board of Directors with industry knowledge and practical insight.

Mr. Rubin: The nominating and corporate governance committee and the Board of Directors considered his extensive capital markets, risk management and business operating experience, which provide our Board of Directors with practical knowledge and valuable insight and perspective.

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CORPORATE GOVERNANCE

Director Independence

The Board of Directors has a majority of directors who are independent under the listing standards of the Nasdaq Global Select Market, or Nasdaq. The Nasdaq Marketplace Rules provide that a director of a business development company shall be considered to be independent if he or she is not an interested person of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an interested person to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company.

The Board of Directors has determined that the following directors are independent: Messrs. Allison (Nominee), Golman, Nathan and Rubin (Nominee). Messrs. Koenig and Peck are interested persons due to their positions with the Company and/or our Investment Advisor, as discussed in their respective biographies. Mr. Steele is an interested person because his employer is a participating lender in the Company s credit facility. Based upon independently verified information obtained from each director and the Class I director nominees concerning their background, employment and affiliations, the Board of Directors has affirmatively determined that none of the independent directors or the Class I director nominees has a material business or professional relationship with the Company, other than in his capacity as a member of the Board of Directors or any committee thereof.

Organization of the Board of Directors

The Board of Directors has established an audit committee and a nominating and corporate governance committee. The Company does not have a compensation committee because its executive officers do not receive any direct compensation from the Company. The Board of Directors held one meeting in 2012 and the Board of Director s standing committees did not hold a meeting in 2012. The Company encourages, but does not require, the directors to attend the Company s annual meeting of its stockholders. Since they have joined the Board of Directors, each of our current directors has attended at least 75% of the aggregate number of meetings of the Board of Directors and of the respective committees on which he served that has been held during the director s period of service. The Company did not hold an annual meeting of stockholders in 2012 because it did not become a public reporting company until October 2012.

Board Leadership Structure

The Board of Directors monitors and performs an oversight role with respect to the business and affairs of the Company. Among other things, the Board of Directors approves the appointment of our Investment Advisor, administrator and officers, reviews and monitors the services and activities performed by our Investment Advisor, administrator and officers and approves the engagement, and reviews the performance of, the Company s independent registered public accounting firm.

Under the bylaws, the Board of Directors may designate a chairman to preside over the meetings of the Board of Directors and meetings of the stockholders and to perform such other duties as may be assigned to him by the Board of Directors. The Company does not have a fixed policy as to whether the chairman of the Board of Directors should be an independent director and believes that its flexibility to select its chairman and reorganize its leadership structure from time to time is in the best interests of the Company and its stockholders.

Presently, Mr. Koenig serves as the chairman of the Board of Directors. Mr. Koenig is an interested director because he is the Chief Executive Officer of the Company, serves on our Investment Advisor s investment committee and is a manager of our Investment Advisor. The Company believes that Mr. Koenig s history with the Company, familiarity with the Monroe Capital investment platform and extensive experience investing in and managing private equity and debt investments qualifies him to serve as chairman of the Board of Directors.

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Moreover, our Board of Directors believes that it is in the best interests of our stockholders for Mr. Koenig to lead our Board of Directors because of his broad experience with the Monroe Capital platform, day-to-day management and operation of other investment funds and his significant background in the financial services industry, as described above.

Our Board of Directors does not have a lead independent director. However, Mr. Allison, the chairman of the audit committee, is an independent director and acts as a liaison between the independent directors and management between meetings of our Board of Directors and is involved in the preparation of agendas for board and committee meetings. Our Board of Directors believes that its leadership structure is appropriate in light of the Company s characteristics and circumstances because the structure allocates areas of responsibility among the individual directors and the committees in a manner that encourages effective oversight. The members of our Board of Directors also believe that its small size creates a highly efficient governance structure that provides ample opportunity for direct communication and interaction between both the members of management and our Investment Advisor and our Board of Directors.

Board Role in Risk Oversight

The Board of Directors performs its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Company s Chief Compliance Officer in accordance with its compliance policies and procedures.

As described below in more detail under Audit Committee and Nominating and Corporate Governance Committee, the audit committee and the nominating and corporate governance committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The audit committee s risk oversight responsibilities include overseeing the Company s accounting and financial reporting processes, the Company s systems of internal controls regarding finance and accounting and audits of the Company s financial statements and discussing with management the Company s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company s risk assessment and risk management policies. The nominating and corporate governance committee s risk oversight responsibilities include selecting, researching and nominating directors for election by the Company s stockholders, developing and recommending to the Board of Directors a set of corporate governance principles and overseeing the evaluation of the Board of Directors and its committees. Both the audit committee and the nominating and corporate governance committee consist solely of independent directors.

The Board of Directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. The Company s Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Company and certain of its service providers. The Chief Compliance Officer s report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Company and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer s annual review; and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee the Company s compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors periodically, but in no event less than once each year.

The Company believes that the Board of Directors role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a business development company. Specifically, as a business development company, the Company must comply with certain regulatory requirements that control the levels of risk in its business and operations. For example, the Company s ability to incur indebtedness is limited

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such that its asset coverage must equal at least 200% immediately after each time it incurs indebtedness and the Company generally has to invest at least 70% of its total assets in qualifying assets. In addition, the Company intends to elect to be treated as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code. As a RIC the Company must, among other things, meet certain income source and asset diversification requirements.

The Company believes that the Board of Directors existing role in risk oversight is appropriate. However, the Company re-examines the manners in which the Board of Directors administers its oversight function on an ongoing basis to ensure that it continues to meet the Company s needs.

Audit Committee

Thomas J. Allison, Jeffrey A. Golman and Robert S. Rubin serve as members of our audit committee. The members of the audit committee are independent directors, each of whom meets the independence standards established by the SEC and The Nasdaq Stock Market for audit committees and is independent for purposes of the 1940 Act. Mr. Allison serves as chairman of the audit committee. Our Board of Directors has determined that each of the members of our audit committee is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Exchange Act. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our Board of Directors in fair value pricing debt and equity securities that are not publicly traded or for which current market values are not readily available. The Board of Directors and audit committee will utilize the services of independent valuation firms to help them determine the fair value of these securities. The audit committee charter is available on our corporate website.

Nominating and Corporate Governance Committee

The members of the nominating and corporate governance committee are Jorde M. Nathan, Jeffrey A. Golman and Robert S. Rubin, each of whom is independent for purposes of the 1940 Act and the Nasdaq corporate governance regulations. Mr. Golman serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board or a committee of the board, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the board and our management. The nominating and corporate governance committee charter is available on our corporate website.

The nominating and corporate governance committee considers nominees to the Board of Directors recommended by a stockholder, if such stockholder complies with the advance notice provisions of our bylaws. Our bylaws provide that a stockholder who wishes to nominate a person for election as a director at a meeting of stockholders must deliver written notice to our corporate secretary. This notice must contain, as to each nominee, all of the information relating to such person as would be required to be disclosed in a proxy statement meeting the requirements of Regulation 14A under the Exchange Act, and certain other information set forth in the bylaws. In order to be eligible to be a nominee for election as a director by a stockholder, such potential nominee must deliver to our corporate secretary a written questionnaire providing the requested information about the background and qualifications of such person and a written representation and agreement that such person is not and will not become a party to any voting agreements, any agreement or understanding with any person with respect to any compensation or indemnification in connection with service on the Board of Directors, and would be in compliance with all of our publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines.

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Compensation Committee

The Company does not have a compensation committee because its executive officers do not receive any direct compensation from the Company. Our executive officers are paid by our Investment Advisor. However, the investment advisory and management agreement, or the Investment Advisory Agreement, which provides for the compensation payable to the Investment Advisor, is separately approved by a majority of the independent directors in accordance with Nasdaq Marketplace Rule 5605(d) and Section 15(c) of the 1940 Act.

Communications Between Stockholders and the Board of Directors

Stockholders with questions about Monroe Capital Corporation are encouraged to contact Aaron D. Peck at Monroe Capital Corporation, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606. However, if stockholders feel their questions have not been addressed, they may communicate with our Board of Directors by sending their communications to: Monroe Capital Corporation, Board of Directors, c/o Aaron D. Peck at the address listed above. All stockholder communications received by the Company through one of the means described will be delivered to one or more members of the Board of Directors.

Code of Business Conduct

The Company has adopted a code of ethics, or our Code of Business Conduct, that all officers, directors and employees of the Company and its Investment Advisor are expected to observe. The Company s Code of Business Conduct can be accessed via the Company s website. The Company intends to disclose any amendments to or waivers of required provisions of the Code of Business Conduct on the Company s website. We will provide any person, without charge, upon request, a copy of our Code of Business Conduct. To receive a copy, please provide a written request to: Monroe Capital Corporation, Attn: Chief Compliance Officer, 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606.

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COMPENSATION DISCUSSION AND ANALYSIS

Our executive officers do not receive any direct compensation from us. We do not currently have any employees and do not expect to have any employees. Our day-to-day investment operations are managed by our Investment Advisor. Services necessary for our business are provided by individuals who are employees of an affiliate of our Investment Advisor, pursuant to the terms of our Investment Advisory Agreement and our administration agreement. Each of our executive officers is an employee of an affiliate of our Investment Advisor. We reimburse MC Management, as administrator, for its allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including its allocable portion of the cost of our officers and their respective staffs, and we reimburse our Investment Advisor for certain expenses under the Investment Advisory Agreement.

Under the Investment Advisory Agreement, our Investment Advisor earned approximately $317,834 in fees for the year ended December 31, 2012. Even though no capital gains incentive fee was payable to our Investment Advisor for the year ended December 31, 2012, we accrued a capital gains incentive fee of $6,503 in our financial statements for the year ended December 31, 2012, in accordance with United States generally accepted accounting principles, or GAAP. In addition, during 2012, we have accrued $132,329 of expenses to be reimbursed to MC Management under our administration agreement. We reimbursed these accrued expenses to MC Management in the first fiscal quarter of 2013.

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2012 DIRECTOR COMPENSATION TABLE

The following table shows information regarding the compensation received by our directors, none of whom is an employee of the Company, for the fiscal year ended December 31, 2012. No compensation is paid by us to interested directors, other than to Mr. Steele, who is not an employee of us or our Investment Advisor. There are no executive officers of the Company who are not directors.

Name	Fees Earned or Paid in Cash(1)	Total
Independent Directors		
Thomas J. Allison(2)	None	None
Jeffrey A. Golman	$ 5,635	$ 5,635
Jorde M. Nathan(2)	None	None
Robert S. Rubin	$ 4,708	$ 4,708
Interested Directors		
Jeffrey D. Steele	$ 7,490	$ 7,490
Theodore L. Koenig	None	None
Aaron D. Peck	None	None

(1) For a discussion of compensation paid to directors, see below.
(2) Thomas J. Allison and Jorde M. Nathan became directors on April 29, 2013, and therefore did not receive any compensation in 2012.

Each independent director and each interested director who is not an employee of our Investment Advisor or any of its affiliates, receives an annual retainer of $20,000 for serving on the Board of Directors and a $1,000 fee for each meeting attended. The chair of our audit committee receives a $15,000 annual retainer and the chair of our nominating and corporate governance committee receives a $5,000 annual retainer. Mr. Steele, who is not an employee of us, our Investment Advisor or its affiliates, is the only interested director that currently receives director compensation. Interested Directors that are employees of our Investment Advisor or its affiliates do not receive additional compensation for service as a member of our Board of Directors. We also reimburse each of the above directors for all reasonable and authorized business expenses in accordance with our policies as in effect from time-to-time.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We have entered into agreements with our Investment Advisor, or MC Advisors, in which our senior management and members of MC Advisors investment committee have ownership and financial interests. Members of our senior management and members of the investment committee also serve as principals of other investment managers affiliated with MC Advisors that do, and may in the future, manage investment funds, accounts or other investment vehicles with investment objectives similar to ours. Our senior management team holds equity interests in MC Advisors. In addition, our executive officers and directors and the principals of MC Advisors and members of the investment committee serve or may serve as officers, directors or principals of entities that operate in the same, or related, line of business as we do or of investment funds, accounts or other investment vehicles managed by our affiliates. These investment funds, accounts or other investment vehicles may have investment objectives similar to our investment objectives.

We may compete with other entities managed by MC Advisors and its affiliates for capital and investment opportunities. As a result, we may not be given the opportunity to participate in certain investments made by investment funds, accounts or other investment vehicles managed by MC Advisors or its affiliates or by members of the investment committee. However, in order to fulfill its fiduciary duties to each of its clients, MC Advisors intends to allocate investment opportunities on an alternating basis in a manner that is fair and equitable over time and is consistent with MC Advisors allocation policy, investment objective and strategies so that we are not disadvantaged in relation to any other client. MC Advisors has agreed with our Board of Directors that allocations among us and other investment funds affiliated with MC Advisors will be made based on capital available for investment in the asset class being allocated. We expect that our available capital for investments will be determined based on the amount of cash on hand, existing commitments and reserves, if any, and the targeted leverage level and targeted asset mix and diversification requirements and other investment policies and restrictions set by our Board of Directors or as imposed by applicable laws, rules, regulations or interpretations.

Affiliates of MC Advisors manage other assets in a closed-end fund and a small business investment company that also have an investment strategy focused primarily on senior, unitranche and junior secured debt and to a lesser extent, unsecured subordinated debt to lower middle-market companies. In addition, although we are currently the only entity managed by MC Advisors, it may manage other entities in the future with an investment focus similar to ours. To the extent that we compete with entities managed by MC Advisors or any of its affiliates for a particular investment opportunity, MC Advisors will allocate investment opportunities across the entities for which such opportunities are appropriate, consistent with (a) its internal conflict of interest and allocation policies, (b) the requirements of the Investment Advisers Act of 1940, as amended, and (c) certain restrictions under the 1940 Act and rules thereunder regarding co-investments with affiliates. MC Advisors allocation policies are intended to ensure that we may generally share equitably with other investment funds or other investment vehicles managed by MC Advisors or its affiliates in investment opportunities, particularly those involving a security with limited supply or involving differing classes of securities of the same issuer which may be suitable for us and such other investment funds or other investment vehicles.

MC Advisors and/or its affiliates may in the future sponsor or manage investment vehicles with similar or overlapping investment strategies and will put in place a conflict-resolution policy that addresses the co-investment restrictions set forth under the 1940 Act. MC Advisors will seek to ensure an equitable allocation of investment opportunities when we are able to invest alongside other accounts managed by MC Advisors and its affiliates. When we invest alongside such other accounts as permitted, and in the absence of receiving exemptive relief from the SEC that would permit greater flexibility relating to co-investments, such investments will be made consistent with MC Advisors allocation policy. Under this allocation policy, a fixed percentage of each opportunity, which may vary based on asset class and from time to time, will be offered to us and similar eligible accounts, as periodically determined by MC Advisors and approved by our Board of Directors, including our independent directors. The allocation policy provides that allocations among us and other accounts will generally be made pro rata based on each account s capital available for investment, as determined, in our case, by our Board of Directors, including a majority of our independent directors. It is our policy to base our determinations

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as to the amount of capital available for investment on such factors as the amount of cash on hand, existing commitments and reserves, if any, the targeted leverage level, the targeted asset mix and diversification requirements and other investment policies and restrictions set by our Board of Directors, or imposed by applicable laws, rules, regulations or interpretations.

We expect that these determinations will be made similarly for other accounts. In situations where co-investment with other entities sponsored or managed by MC Advisors or its affiliates is not permitted or appropriate, such as when there is an opportunity to invest in different securities of the same issuer, MC Advisors will need to decide whether we or such other entity or entities will proceed with the investment. MC Advisors will make these determinations based on its policies and procedures which will generally require that such opportunities be offered to eligible accounts on a basis that will be fair and equitable over time, including, for example, through random or rotational methods.

We have in the past and expect in the future to co-invest on a concurrent basis with other affiliates, unless doing so is impermissible with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that we will obtain any such order. We and MC Advisors have submitted an exemptive application to the SEC to permit us to negotiate the terms of co-investments if our Board of Directors determines that it would be advantageous for us to co-invest with other funds managed by MC Advisors or its affiliates in a manner consistent with our investment objectives, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors.

Our senior management, members of MC Advisors investment committee and other investment professionals from MC Advisors may serve as directors of, or in a similar capacity with, companies in which we invest or in which we are considering making an investment. Through these and other relationships with a company, these individuals may obtain material non-public information that might restrict our ability to buy or sell the securities of such company under the policies of the company or applicable law.

We have entered into an Investment Advisory Agreement with MC Advisors and will pay MC Advisors a management fee and incentive fee. The incentive fee will be computed and paid on income that we may not have yet received in cash. This fee structure may create an incentive for MC Advisors to invest in certain types of securities that may have a high degree of risk. For the year ended December 31, 2012, we paid MC Advisors a base management fee of approximately $317,834. We also accrued capital gains incentive fees of $6,503, all of which were based on unrealized gains.

Additionally, we rely on investment professionals from MC Advisors to assist our board of directors with the valuation of our portfolio investments. MC Advisors management fee and incentive fee are based on the value of our investments and there may be a conflict of interest when personnel of MC Advisors are involved in the valuation process for our portfolio investments.

We have entered into an administration agreement, pursuant to which Monroe Capital Management Advisors, LLC, or MC Management, furnishes us with office facilities, equipment and clerical, bookkeeping, recordkeeping and other administrative services at such facilities. Under our administration agreement, MC Management performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. For the year ended December 31, 2012, we accrued $132,329 of expense to be reimbursed to MC Management under our administration agreement.

We have entered into a license agreement with Monroe Capital LLC under which Monroe Capital LLC has agreed to grant us a non-exclusive, royalty-free license to use the name Monroe Capital for specified purposes in our business. Under this agreement, we have a right to use the Monroe Capital name, subject to certain

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conditions, for so long as MC Advisors or one of its affiliates remains our investment advisor. Other than with respect to this limited license, we have no legal right to the Monroe Capital name.

Pursuant to its charter, our audit committee is responsible for reviewing with both management and the Company s independent accountants, as appropriate, all related party transactions or dealings with parties related to the Company.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of our common stock as of May 7, 2013, the record date, by each of our executive officers and independent directors and all of our directors and executive officers as a group. As of May 7, 2013, we are aware of no five percent beneficial owners of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. There is no common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of May 7, 2013. Percentage of beneficial ownership is based on 5,764,393 shares of common stock outstanding as of May 7, 2013. Unless otherwise stated, the business address of each person below is 311 South Wacker Drive, Suite 6400, Chicago, Illinois 60606. Except as otherwise described in the notes below, the following beneficial owners have sole voting power and sole investment power with respect to all shares of common stock set forth opposite their respective names.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percentage of Class	Dollar Range of Equity Securities Beneficially Owned by our Directors(2)(3)
Interested Directors			
Theodore L. Koenig	69,685	1.2%	over $100,000
Aaron D. Peck	3,554	*	$50,001-$100,000
Jeffrey D. Steele	9,000	*	over $100,000
Independent Directors:			
Thomas J. Allison	3,475	*	$50,001-$100,000
Jeffrey A. Golman	2,000	*	$10,001-$50,000
Jorde M. Nathan	0	N/A	none
Robert S. Rubin	17,247	*	over $100,000
All Directors and Executive Officers as a Group (7 Persons)	104,961	1.8%	over $100,000

* Less than 1.0%

(1) Beneficial ownership has been determined in accordance with Rule 13d-3 of the Exchange Act.

(2) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

(3) The dollar range of equity securities beneficially owned by our directors is based on a stock price of $15.14 per share as of May 7, 2013.

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act and the disclosure requirements of Item 405 of SEC Regulation S-K require that our directors and executive officers, and any persons holding more than 10% of any class of our equity securities report their ownership of such equity securities and any subsequent changes in that ownership to the SEC, Nasdaq and to us. Based solely on a review of the written statements and copies of such reports furnished to us by our executive officers, directors and greater than 10% beneficial owners, we believe that during fiscal year 2012 all Section 16(a) filing requirements applicable to the executive officers, directors and stockholders were timely satisfied.

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PROPOSAL NO. 2:

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

McGladrey LLP (McGladrey) has been nominated as the independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries at and during the Company s fiscal year ending December 31, 2013. McGladrey was nominated by the Audit Committee of the Company, and that selection is expected to be ratified by a majority of the Company s Board, including all of the independent directors, at an in-person meeting held within 30 days prior to the Annual Meeting, called for the purpose of selecting an independent auditor. The Company does not know of any direct or indirect financial interest of McGladrey in the Company. Representative(s) of McGladrey will attend the board meeting and the Annual Meeting, will have the opportunity to make a statement and will be available to answer questions.

McGladrey served as the independent auditors for the Company in the year ended December 31, 2012. Approximate fees paid to McGladrey were as follows:

Audit Fees: Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and services that are normally provided by McGladrey in connection with statutory and regulatory filings. Audit fees related to the fiscal years ended December 31, 2012 and 2011 billed to the Company were $214,380 and $0, respectively. Of the audit fees billed, no fees were billed to the Company related to Form N-2 Registration Statement and Prospectus filings during 2012 and 2011, respectively.

Audit-Related Fees: Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards. There were no audit related fees billed by McGladrey during the fiscal years ended December 31, 2012 and 2011.

Tax Fees: Tax fees consist of fees billed for professional services for tax compliance. These services include assistance regarding federal, state, and local tax compliance. There were no tax fees billed by McGladrey during the fiscal years ended December 31, 2012 and 2011.

All Other Fees: Other fees would include fees billed for products and services other than the services reported above. There were no other fees billed during the fiscal years ended December 31, 2012 and 2011.

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by McGladrey, the Company s independent auditor. The policy requires that the Audit Committee pre-approve the audit and permissible non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor s independence. While there were no audit-related fees, tax fees and other fees incurred in the fiscal year ended December 31, 2012, if any of these would have been incurred, they would have been approved by the Audit Committee.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

The Board, including each of the independent directors, unanimously recommends that you vote FOR ratification of McGladrey LLP as independent registered public accounting firm to the Company for the fiscal year ending December 31, 2013.

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AUDIT COMMITTEE REPORT[1]

The following is the report of the Audit Committee with respect to the Company s audited financial statements for the fiscal year ended December 31, 2012.

The Audit Committee has reviewed and discussed the Company s audited financial statements with management and McGladrey LLP, the Company s independent registered public accounting firm, with and without management present. The Audit Committee included in its review results of McGladrey s audit of the Company s financial statements, the Company s internal controls and the quality of the Company s financial reporting. The Audit Committee also reviewed the Company s procedures and internal control processes designed to ensure full, fair and adequate financial reporting and disclosures, including procedures for certifications by the Company s chief executive officer and chief financial officer that are required in periodic reports filed by the Company with the SEC. The Audit Committee is satisfied that the Company s internal control system is adequate and that the Company employs appropriate accounting and auditing procedures.

The Audit Committee also has discussed with McGladrey matters relating to McGladrey s judgments about the quality, as well as the acceptability, of the Company s accounting principles as applied in its financial reporting as required by Statement of Auditing Standards No. 16, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board. In addition, the Audit Committee has discussed with McGladrey their independence from management and the Company, as well as the matters in the written disclosures received from McGladrey and required by Public Company Accounting Oversight Board Rule 3526 (Communication with Audit Committee Concerning Independence). The Audit Committee received a letter from McGladrey confirming their independence and discussed it with them. The Audit Committee discussed and reviewed with McGladrey the Company s critical accounting policies and practices, internal controls, other material written communications to management, and the scope of McGladrey s audits and all fees paid to McGladrey during the fiscal year. The Audit Committee adopted guidelines requiring review and pre-approval by the Audit Committee of audit and non-audit services performed by McGladrey for the Company. The Audit Committee has reviewed and considered the compatibility of McGladrey s performance of non-audit services with the maintenance of McGladrey s independence as the Company s independent registered public accounting firm.

Based on the Audit Committee s review and discussions referred to above, the Audit Committee recommended to the Board (and the Board approved) that the Company s audited financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 for filing with the SEC. In addition, the Audit Committee has nominated McGladrey for the full Board s consideration to serve as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2013. The Company s Board of Directors, including all of the independent directors, is expected to select McGladrey at an in-person meeting held within 30 days prior to the Annual Meeting, called for the purpose of selecting an independent auditor. The Board s selection of McGladrey will be submitted to stockholders for ratification at the Annual Meeting of Stockholders.

March 6, 2013

The Audit Committee

Jeffrey D. Steele, *Chair*[2]

Jeffrey A. Golman

Robert S. Rubin

(1) The material in this report is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

(2) At a Special Meeting of the Board on April 29, 2013, the Board enlarged its membership by two. Two new directors, Thomas J. Allison and Jorde M. Nathan, were appointed to the Board, and Mr. Allison replaced Mr. Steele on the audit committee and was appointed audit committee chair. At the Special Meeting, the Board, including all of the non-interested directors, unanimously ratified the actions taken at the March 6, 2013 meeting, including the actions of the Audit Committee.

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PROPOSAL NO. 3:

APPROVAL TO SELL SHARES OF COMMON STOCK BELOW NET ASSET VALUE (BOOK VALUE)

The 1940 Act generally prohibits the Company, as a business development company, from offering and selling shares of its common stock at a price below its then-current net asset value (NAV) per share, unless the policy and practice of doing so is approved by the Company s stockholders within one year immediately prior to any such sales.

The Company is seeking stockholder approval now to sell its shares below NAV in order to provide flexibility for future sales, which typically are undertaken quickly in response to market conditions. The final terms of any such sales will be determined by the Company s Board of Directors at the time of sale. Also, because the Company has no immediate plans to sell any shares of its common stock below NAV, it is impracticable to describe the transaction or transactions in which such shares would be sold. Instead, any transaction where the Company would sell shares of its common stock, including the nature and amount of consideration that would be received by the Company at the time of sale and the use of any such consideration, will be reviewed and approved by the Company s Board of Directors at the time of sale. If this Proposal No. 3 is approved, the Company will not solicit further authorization from its stockholders prior to any such sale, and the authorization would be effective for shares sold during a period beginning on the date of stockholder approval and expiring twelve months from such approval.

In a common stock offering, investors are offered an ownership interest in a corporation. Stockholders typically are entitled to vote on the selection of corporate directors and other important matters, as well as to receive distributions on their holdings to the extent such distributions are declared.

Generally, common stock offerings by business development companies are priced based on the market price of the currently outstanding shares of common stock, less a small discount of approximately 5%. Accordingly, even when shares of the Company s common stock trade at a market price below NAV, this Proposal No. 3, if approved by the stockholders, would permit the Company to offer and sell shares of its common stock in accordance with pricing standards that market conditions generally require, not exceeding 25% dilution to current investors not participating in the offering. This Proxy Statement is not an offer to sell securities of the Company. Securities may not be offered or sold in the United States absent registration with the SEC or an applicable exemption from SEC registration requirements.

1940 Act Conditions for Sales below NAV

The Company s ability to issue shares of its common stock at a price below NAV is governed by the 1940 Act. Specifically, Section 63(2) of the 1940 Act provides that the Company may offer and sell shares of common stock at prices below the then-current NAV with stockholder approval, provided that:

- any such sales are approved by (1) a majority of the Company s independent directors and (2) a majority of the Company s directors who have no financial interest in the proposal as being in the best interests of us and our stockholders; and

- such a required majority of directors, in consultation with the underwriter of the offering, if it is underwritten, has determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of any firm commitment to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value for those securities, less any underwriting commission or discount.

Without the approval of our stockholders to offer and sell shares of common stock at prices below NAV, we would be prohibited from selling such shares to raise capital when the market price for our common stock is below NAV.

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Reasons to Offer Common Stock Below NAV

We believe that market conditions will continue to provide opportunities to invest new capital at potentially attractive returns. During 2008 and 2009, U.S. credit markets, including many lending institutions, experienced significant difficulties resulting in large part from the default in payments on sub-prime residential mortgages and concerns generally about the decline in the U.S. economy and signs of deteriorating sovereign debt conditions in Europe. This contributed to significant stock price volatility for capital providers, including business development companies, and has made access to capital more challenging for many smaller businesses. However, the change in credit market conditions also has had beneficial effects for capital providers like us because small businesses are sometimes selling for lower prices, in certain circumstances, willing to pay higher interest rates and generally are accepting more contractual terms that we believe will be favorable to us. Accordingly, for firms that continue to have access to capital, we believe that the current environment could provide investment opportunities on more favorable terms than have been available in recent periods. Our ability to take advantage of these opportunities, however, is dependent upon our access to equity capital.

As a business development company, and a company that intends to elect, for tax purposes, to be a regulated investment company (RIC), the Company is and will be dependent on its ability to raise capital through the issuance of common stock. RICs generally must distribute substantially all of their earnings to stockholders as dividends in order to achieve pass-through tax treatment, which prevents the Company from using those earnings to support new investments. Further, business development companies must maintain a debt to equity ratio of less than 1:1, which requires the Company to finance its investments with at least as much equity as debt, in the aggregate. To continue to build the Company s investment portfolio, and thereby support maintenance and growth of the Company s dividends, the Company endeavors to maintain consistent access to capital through the public and private equity markets enabling it to take advantage of investment opportunities as they arise.

Although the Company s common stock has had a limited trading history, it has traded both at a premium and at a discount in relation to its NAV, which is the equivalent of book value, rather than market or publicly-traded value. The possibilities that shares of our common stock will trade at a discount from NAV or at premiums that are unsustainable over the long term are separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether any shares of our common stock issued in the future will trade at, above, or below NAV. The following table, reflecting the entire public trading history of our common stock since our initial public offering in October 2012, lists the high and low sales prices for our common stock, and the sales prices as percentages of NAVs. On May 7, 2013, the record date, the last reported closing sale price of our common stock on the Nasdaq Global Market was $15.14.

	Net Asset Value(1)	Sales Price High	Sales Price Low	Premium of High Sales Price to Net Asset Value(2)	Discount of Low Sales Price to Net Asset Value(2)
Year ended December 31, 2013					
First Quarter	$ 14.78	$ 15.42	$ 14.55	104.3%	98.4%
Year ended December 31, 2012					
Fourth Quarter(3)	$ 14.54	$ 15.39	$ 14.29	105.8%	98.3%

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
(2) Calculated as the respective high or low sales price divided by net asset value.
(3) From October 25, 2012 (commencement of trading) to December 31, 2012.

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The unprecedented nature of the recent credit market dislocation and uncertainty surrounding the U.S. economy led to significant stock market volatility, particularly with respect to the stock of financial services companies. During times of increased price volatility, the Company s common stock may periodically trade below its NAV, which is not uncommon for business development companies like the Company. As noted above, however, the recent market uncertainties have created, and we believe will continue to create, favorable opportunities to invest, including opportunities that, all else being equal, may increase NAV over the longer-term, even if financed with the issuance of common stock below NAV, although there is no assurance that this will occur. The Company expects that it will be periodically presented with attractive opportunities that require the Company to make an investment commitment quickly. The Company may be unable to capitalize on investment opportunities presented to it unless it is able to quickly raise capital. Stockholder approval of the proposal to sell shares below NAV subject to the conditions detailed below will provide the Company with the flexibility to invest in such opportunities.

The Board of Directors believes that having the flexibility to issue its common stock below NAV is in the best interests of the Company s stockholders. If the Company were unable to access the capital markets as attractive investment opportunities arise, the Company s ability to grow over time and continue to pay steady or increasing dividends to stockholders could be adversely affected. It could also have the effect of forcing the Company to sell assets that the Company would not otherwise sell, and such sales could occur at times that are disadvantageous.

Conditions to Sales Below Net Asset Value

If this proposal is approved, the Company will only sell shares of its common stock or warrants, options or rights to acquire its common stock at a price below NAV per share if the following conditions are met:

- a majority of the Company s directors who have no financial interest in the sale and a majority of directors who are not interested persons of the Company have determined that any such sale would be in the best interests of the Company and its stockholders; and

- a majority of the Company s directors who have no financial interest in the sale and a majority of directors who are not interested persons of the Company, in consultation with the underwriter or underwriters of the offering if the offer is to be underwritten, have determined in good faith, and as of a time immediately prior to the first solicitation by or on behalf of the Company of firm commitments to purchase such securities or immediately prior to the issuance of such securities, that the price at which such securities are to be sold is not less than a price which closely approximates the market value of those securities, less any underwriting commission or discount.

Finally, in determining whether or not to sell additional shares of the Company s common stock at a price below the NAV per share, the Board of Directors will have duties to act in the best interests of the Company and its stockholders.

Key Stockholder Considerations

Before voting on this proposal or giving proxies with regard to this matter, stockholders should consider the dilutive effect of the issuance of shares of the Company s common stock at less than NAV per share on the NAV per outstanding share of common stock. Any sale of common stock at a price below NAV would result in an immediate dilution to existing stockholders. Since under this proposal shares of the Company s common stock could be issued at a price that is substantially below the NAV per share, the dilution could be substantial. This dilution would include reduction in the NAV per share as a result of the issuance of shares at a price below the NAV per share and a proportionately greater decrease in a stockholder s interest in the earnings and assets of the Company and voting interest in the Company than the increase in the assets of the Company resulting from such issuance. If this Proposal No. 3 is approved, the Board of Directors of the Company may, consistent with its fiduciary duties, approve the sale of the Company s common stock at any discount to its then-current NAV per

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share; however, the Board of Directors will consider the potential dilutive effect of the issuance of shares at a price below the NAV per share when considering whether to authorize any such issuance and will act in the best interests of the Company and its stockholders in doing so.

The 1940 Act establishes a connection between common share sale price and NAV because, when shares of common stock are sold at a sale price below NAV per share, the resulting increase in the number of outstanding shares is not accompanied by a proportionate increase in the net assets of the issuer. Further, if current stockholders of the Company do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then-current NAV, their voting power will be diluted. For an illustration of the potential dilutive effect of an offering of our common stock at a price below NAV, please see the table below under the heading *Examples of Dilutive Effect of the Issuance of Shares Below NAV.*

Finally, any sale of substantial amounts of our common stock in the open market may adversely affect the market price of our common stock and may adversely affect our ability to obtain future financing in the capital markets. In addition, future sales of our common stock to the public may create a potential market overhang, which is the existence of a large block of shares readily available for sale that could lead the market to discount the value of shares held by other investors. In the event we were to continue to sell our common stock at prices below NAV for sustained periods of time, such offerings may result in sustained discounts in the marketplace.

Examples of Dilutive Effect of the Issuance of Shares Below Net Asset Value

Impact on Existing Stockholders who do not Participate in the Offering

Existing stockholders of the Company who do not participate, or who are not given the opportunity to participate, in an offering below NAV per share by the Company or who do not buy additional shares of the Company in the secondary market at the same or lower price obtained by the Company in the offering (after expenses and any underwriting discounts and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often called dilution) in the NAV of the Company s shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in the Company s earnings and assets and voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares of the Company s common stock, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in four different hypothetical offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Although Example 4 below is theoretically possible, in practice such a transaction is highly unlikely to occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 common shares outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per share are thus $10,000,000 and $10.00. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at $9.50 per share after offering expenses and commission (a 5% discount from NAV), (2) an offering of 100,000 shares (10% of the outstanding shares) at $9.00 per share after offering expenses and commissions (a 10% discount from NAV), (3) an offering of 200,000 shares (20% of the outstanding shares) at $8.00 per share after offering expenses and commissions (a 20% discount from NAV) and (4) an offering of 33,000 shares (33% of the outstanding shares) at $0.01 per share after offering expenses and commissions (a 100% discount from NAV).

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	Prior to Sale Below NAV	Example 1 5% Offering At 5% Discount Following Sale	% Change	Example 2 10% Offering At 10% Discount Following Sale	% Change	Example 3 20% Offering At 20% Discount Following Sale	% Change	Example 4 33% Offering At 100% Discount Following Sale	% Change
Offering Price									
Price per Share to Public		$ 10.00		$ 9.47		$ 8.42		$ 0.01	
Net Proceeds per Share to Issuer		$ 9.50		$ 9.00		$ 8.00		$ 0.01	
Decrease to NAV									
Total Shares Outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%	1,330,000	33.00%
NAV per Share	$ 10.00	$ 9.98	(0.24)%	$ 9.91	(0.91)%	$ 9.67	(3.33)%	$ 7.52	(24.79)%
Dilution to Stockholder									
Shares Held by Stockholder A	10,000	10,000		10,000		10,000		10,000	
Percentage Held by Stockholder A	1.00%	0.95%	(4.76)%	0.91%	(9.09)%	0.83%	(16.67)%	0.75%	(24.79)%
Total Asset Values									
Total NAV Held by Stockholder A	$ 100,000	$ 99,762	(0.24)%	$ 99,091	(0.91)%	$ 96,667	(3.33)%	$ 75,213	(24.79)%
Total Investment by Stockholder A (Assumed to be $10.00 per Share)	$ 100,000	$ 100,000		$ 100,000		$ 100,000		$ 100,000	
Total Dilution to Stockholder A (Total NAV Less Total Investment)		$ (238)		$ (909)		$ (3,333)		$ (24,787)	
Per Share Amounts									
NAV per Share Held by Stockholder A		$ 9.98		$ 9.91		$ 9.67		$ 7.52	
Investment per Share Held by Stockholder A (Assumed to be $10.00 per Share on Shares Held Prior to Sale)	$ 10.00	$ 10.00		$ 10.00		$ 10.00		$ 10.00	
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)		$ (0.02)		$ (0.09)		$ (0.33)		$ (2.48)	
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)			(0.24)%		(0.91)%		(3.33)%		(24.79)%

Impact on Existing Stockholders who Participate in the Offering

An existing stockholder of the Company who participates in an offering by the Company below NAV per share or who buys additional shares of the Company in the secondary market at the same or lower price as obtain by the Company in the offering (after expenses and any underwriting discounts and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in the Company s common stock immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares of the Company s common stock that such stockholder purchases increases. Existing stockholders of the Company who buy more than such percentage will experience NAV dilution, but will, in contrast to existing stockholders of the Company who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in the Company s earnings and assets and their voting power than the Company s increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares of the Company s common stock that such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that the Company may make additional discounted offerings in which such stockholder does not participate, in which case such stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of a Company s offering and level of discount to NAV increases.

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The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per share are thus $10,000,000 and $10.00, respectively. The table below illustrates the dilutive and accretive effect in the hypothetical 20% discount offering from the prior chart for stockholder A that acquires shares equal to (1) 50% of their proportionate share of the offering (i.e., 1,000 shares, which is 0.50% of the offering of 200,000 shares rather than their 1.00% proportionate share) and (2) 150% of their proportionate share of the offering (i.e., 3,000 shares, which is 1.50% of the offering of 200,000 shares rather than their 1.00% proportionate share). The Company s prospectus or prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

		50% Participation		150% Participation	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per share to public		$ 8.47		$ 8.47	
Net proceeds per share to issuer		$ 8.00		$ 8.00	
Increases in Shares and Decrease to NAV					
Total shares outstanding	1,000,000	1,200,000	20.00%	1,200,000	20.00%
NAV per share	$ 10.00	$ 9.67	(3.30)%	$ 9.67	(3.30)%
(Dilution)/Accretion to Participating Stockholder A					
Shares held by stockholder A	10,000	11,000	10.00%	13,000	30.00%
Percentage held by stockholder A	1.00%	0.92%	(8.00)%	1.08%	8.00%
Total Asset Values					
Total NAV held by stockholder A	$ 100,000	$ 106,370	6.37%	$ 125,710	25.71%
Total investment by stockholder A (assumed to be $10.00 per share on shares held prior to sale)	$ 100,000	$ 108,470	8.47%	$ 125,410	25.41%
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,100)		$ 300	
Per Share Amounts					
NAV per share held by stockholder A		$ 9.67		$ 9.67	
Investment per share held by stockholder A (assumed to be $10.00 per share on shares held prior to sale)	$ 10.00	$ 9.86	(1.40)%	$ 9.65	(3.50)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		$ (0.19)		$ 0.02	
Percentage (dilution)/accretion to stockholder A (dilution/accretion per share divided by investment per share)			(1.93)%		0.21%

Impact on New Investors

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder in the Company in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

Investors who are not currently stockholders of the Company, but who participate in an offering by the Company below NAV and whose investment per share is greater than the resulting NAV per share due to expenses and any underwriting discounts and commissions paid by the Company will experience an immediate decrease, albeit small, in the NAV of their shares of the Company s common stock and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders of the Company and

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who participate in an offering by the Company below NAV per share and whose investment per share is also less than the resulting NAV per share due to expenses and any underwriting discounts and commissions paid by the Company being significantly less than the discount per share, will experience an immediate increase in the NAV of their shares of the Company s common stock and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in the Company s earnings and assets and their voting power than the Company s increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that the Company may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in such subsequent offerings by the Company. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. The decrease could be more pronounced as the size of the offering and level of discounts increases.

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder who purchases the same percentage (1.00%) of the shares in the three different hypothetical offerings of common stock of different sizes and levels of discount from NAV per share. The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, $15,000,000 in total assets and $5,000,000 in total liabilities. The current NAV and NAV per share are thus $10,000,000 and $10.00, respectively. The table below illustrates the dilutive and accretive effects on stockholder A at (1) an offering of 50,000 shares (5% of the outstanding shares) at $9.50 per share after offering expenses and any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at $9.00 per share after offering expenses and any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 200,000 shares (20% of the outstanding shares) at $8.00 per share after offering expenses and any underwriting discounts and commissions (a 20% discount from NAV).

		Example 1 5% Offering at 5% Discount		Example 2 10% Offering at 10% Discount		Example 3 20% Offering at 20% Discount	
	Prior to Sale Below NAV	**Following Sale**	**% Change**	**Following Sale**	**% Change**	**Following Sale**	**% Change**
Offering Price							
Price per share to public		$ 10.05		$ 9.52		$ 8.47	
Net offering proceeds per share to issuer		$ 9.50		$ 9.00		$ 8.00	
Decrease to NAV							
Total shares outstanding		1,050,000	5.00%	1,100,000	10.00%	1,200,000	20.00%
NAV per share		$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.67	(3.30)%
Dilution to Stockholder A							
Shares held by stockholder A		500		1,000		2,000	
Percentage held by stockholder A							
Total Asset Values							
Total NAV held by stockholder A		$ 4,990		$ 9,910		$ 19,340	
Total investment by stockholder A		$ 5,025		$ 9,952		$ 16,940	
Total dilution to stockholder A (total NAV less total investment)		$ (35)		$ 390		$ 2,400	
Per Share Amounts							
NAV per share held by stockholder A		$ 9.98		$ 9.91		$ 9.67	
Investment per share held by stockholder A		$ 10.05		$ 9.52		$ 8.47	
Dilution per share held by stockholder A (NAV per share less investment per share)		$ (0.07)		$ 0.39		$ 1.20	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.70)%		4.10%		14.17%

The discount to NAV is a result of market perception that moves the share price and thus NAV is only one determinant of market value.

The Company expects the market price of shares of its common stock will incorporate a discount or premium factor based on the market assessment of future earnings and the likelihood of those earnings supporting growth in our dividend yield.

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Notwithstanding the dilutive effect of any equity financing on the Company s NAV, the Board of Directors has considered the Company s need to obtain additional capital for investment and other factors discussed in this Proxy Statement. With more capital to invest, the Board of Directors believes that the Company would be able to make investments with more significant earnings and growth potential. The Board of Directors further believes that over time the value of the incremental assets available for investment, taken together with the other factors previously discussed, may be reflected positively in the market price of the Company s shares and that such increases may exceed the initial dilutive effects that the Company is likely to experience in its NAV due to offerings of shares of common stock in accordance with this Proposal No. 3. In our view, the secondary market price of our common stock is an important gauge of the true economic impact on stockholders of any equity offering.

Other Considerations

In reaching its recommendation to stockholders to approve this Proposal No. 3, the Board of Directors considered a possible source of conflict of interest due to the fact that, once invested, proceeds from the issuance of additional shares of the Company s common stock will increase the management fees that the Company pays to the Investment Advisor as such fees are partially based on the amount of the Company s gross assets, excluding cash. The Board of Directors, including the independent directors, concluded that the benefits to the Company s stockholders from increasing the Company s capital base outweighed any detriment from increased management fees, especially considering that the management fees would increase regardless of whether the Company offers shares of common stock below NAV or above NAV. The Board of Directors also considered the effect of the following factors:

- the costs and benefits of a common stock offering below NAV compared to other possible means for raising capital or concluding not to raise capital;
- the size of a common stock offering in relation to the number of shares outstanding;
- the general conditions of the securities markets; and
- any impact on operating expenses associated with an increase in capital.

Potential Investors

The Company has not solicited any potential buyers of the shares that it may elect to issue in any future offering to comply with the federal securities laws. No shares are earmarked for management or other affiliated persons of the Company. However, members of our management and other affiliated persons may participate in a common stock offering by the Company on the same terms as others.

Required Vote

Approval of this proposal requires the affirmative vote of (1) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting; and (2) a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting which are not held by affiliated persons of the Company.

For purposes of this proposal, the 1940 Act defines a majority of the outstanding shares as: (1) 67% or more of the voting securities present at the Annual Meeting if the holders of more than 50% of the outstanding voting securities of such company are present or represented by proxy; or (2) 50% of the outstanding voting securities of such company, whichever is less. Abstentions and broker non-votes will have the effect of a vote against this proposal.

The Board of Directors recommends a vote FOR the proposal to authorize the Company, pursuant to approval of the Board of Directors of the Company, to sell shares of its common stock during the next twelve months at a price below the Company s then-current net asset value per share, subject to certain conditions as set forth in this proxy statement.

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OTHER BUSINESS

The Board of Directors knows of no other business to be presented for action at the 2013 Annual Meeting of Stockholders. If any matters do come before the meeting on which action can properly be taken, it is intended that the proxies shall vote in accordance with the judgment of the person or persons exercising the authority conferred by the proxy at the meeting. The submission of a proposal does not guarantee its inclusion in our proxy statement or presentation at the meeting unless certain securities law requirements are met.

You are cordially invited to attend the 2013 Annual Meeting of Stockholders in person. Whether or not you plan to attend the meeting, you are requested to indicate your vote as to the matters to be acted on at the meeting by following the instructions provided in the enclosed proxy card or voting instruction form.

By Order of the Board of Directors

Aaron D. Peck
Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

Chicago, Illinois

May 22, 2013

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ANNUAL MEETING OF STOCKHOLDERS OF

MONROE CAPITAL CORPORATION

June 26, 2013

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL STOCKHOLDER MEETING TO BE HELD ON JUNE 26, 2013:

The Notice of Annual Meeting, proxy statement, proxy card and annual report for the

fiscal year ended December 31, 2012 are available at http://www.monroebdc.com

Please sign, date and mail

your vote authorization

form in the envelope

provided as soon as

possible.

Please detach along perforated line and mail in the envelope provided.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE LISTED PROPOSALS.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

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Legal settlement	9		7
Litigation settlement recovery	(5	)	(4)
	9		7

Environmental remediation reserve adjustment		
EMEA Packaging optimization	47	34
Abandoned property removal	32	24
Riverdale mill conversion costs	9	7
Brazil Packaging impairment	122	81
Debt extinguishment costs	10	7
Gain on sale of investment in Liaison Technologies	(31)	(23)
Total special items	$ 214	$149
Non-operating pension expense	494	371
Total	$ 708	$520

(c) Includes the following charges (gains):

In millions	2018 Before Tax	After Tax
North American Consumer Packaging transaction costs	25	19
North American Consumer Packaging gain on transfer	(488)	(364)
Total	$(463)	$(345)

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

In millions	2018
State income tax legislative changes	$9
Tax benefit of Tax Cuts and Jobs Act	(36)
International investment restructuring	19
Foreign tax audits	25
Total	$17

2017:

(e) Includes the following charges (gains):

In millions	2017

	Before Tax	After Tax
Gain on sale of investment in ArborGen	$(14)	$(9)
Costs associated with the pulp business acquired in 2016	33	20
Amortization of Weyerhaeuser inventory fair value step-up	14	8
Holmen bargain purchase gain	(6)	(6)
Abandoned property removal	20	13
Kleen Products settlement	354	219
Asia Foodservice sale	9	4
Brazil Packaging wood supply accelerated amortization	10	7
Debt extinguishment costs	83	51
Interest income on income tax refund claims	(5)	(3)
Other items	(2)	(2)
Total special items	$496	$302
Non-operating pension expense	484	298
Total	$980	$600

(f) Includes the operating earnings of the North American Consumer Packaging business for the full year. Also includes the following charges (gains):

In millions	2017 Before Tax	2017 After Tax
North American Consumer Packaging transaction costs	$17	$ 10
Non-operating pension expense	45	28
Total	$62	$ 38

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

In millions	2017
International legal entity restructuring	$34
Income tax refund claims	(113)
Cash pension contribution	38
International tax law change	9
Tax benefit of Tax Cuts and Jobs Act	(1,222)
Total	$(1,254)

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2016:

(h) Includes the following charges (gains):

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

(i) Includes the operating earnings of the North American Consumer Packaging business for the full year. Also includes the following charges (gains):

In millions	2016 Before Tax	2016 After Tax
xpedx legal settlement	$8	$ 5
Total	$8	$ 5

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

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

2015:

(k) Includes the following charges (gains):

In millions	2015 Before Tax	2015 After Tax
Riegelwood mill conversion costs, net of proceeds from sale of the Carolina Coated Bristols brand	$8	$4
Timber monetization restructuring	16	10
Early debt extinguishment costs	207	133
IP-Sun JV impairment	174	180
Legal reserve adjustment	15	9
Refund and state tax credits	(4)	(2)
Impairment of Orsa goodwill and trade name intangible	137	137

Other items	6	5
Total special items	$559	$476
Non-operating pension expense	258	157
Total	$817	$633

(l) Includes the operating earnings of the North American Consumer Packaging business for the full year .

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

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

2014:

(n) Includes the following charges (gains):

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

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(o) Includes the operating earnings of the North American Consumer Packaging business and the xpedx business prior to the spin-off, and the following charges (gains):

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

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

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

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

EXECUTIVE SUMMARY

Full-year 2018 net earnings were $2.0 billion ($4.85 per diluted share) compared with net earnings of $2.1 billion ($5.13 per diluted share) for full-year 2017. Full-year 2017 net earnings included a provisional net tax benefit of $1.2 billion ($2.93 per diluted share) related to the U.S. enactment of the Tax Cuts and Jobs Act of 2017 reported as a special item.

International Paper delivered strong earnings, returns and cash generation in 2018, driven by solid commercial and operational performance across our three businesses. Business segment operating profit improved by approximately $800 million to $2.9 billion in 2018, driven primarily by price and mix improvements, with revenue growth of 7.2%. We continued to grow value for our shareholders with a return which was significantly above our cost of capital and marks our ninth consecutive year with value-creating returns. The Company made strategic investments to strengthen our businesses. Among these, we completed the final phase of our multi-year North American containerboard mill system optimization projects, which gives us the added flexibility we need around capacity, products and geographies. We also invested in our North American corrugated packaging system to enhance our capabilities and strengthen our position with the fastest growing segments. In our EMEA Packaging business, we completed the conversion of the Madrid, Spain mill and started production of high-performance, lightweight recycled containerboard to capture the integrated margin with our EMEA box system. International Paper continued to deliver strong cash generation in 2018, which we used to strengthen our balance sheet and return cash to shareholders. We decreased balance sheet debt by about $500 million, and we returned $1.5 billion to shareholders through dividends of about $800 million and share repurchases of about $700 million. The Company increased its dividend for the seventh consecutive year and reduced shares outstanding by 3%.

The Company's 2018 results include significant price and mix improvements driven by price realization across our three business segments. Improved mix contributed to the Company's strong performance, particularly in our Global Cellulose Fibers business where we continued to grow fluff pulp volume. Weather events in North America and startup costs associated with the Madrid, Spain mill negatively impacted operations, and planned maintenance outages were higher. Input costs increased in 2018, driven by higher wood fiber, chemicals, distribution and energy costs, and were partially offset by lower recovered fiber costs. Equity earnings increased

by $159 million to $336 million in 2018, driven by excellent commercial and operational performance in our Ilim joint venture and first-year equity earnings from Graphic Packaging International Partners, LLC (GPIP). In total, our equity investments provided $153 million in cash dividends to International Paper in 2018.

Looking ahead to the first quarter 2019, domestic industry conditions remain healthy. We anticipate lower seasonal demand in North America Industrial Packaging and Brazil Papers, as well as lower export volume in Industrial Packaging, as customer destocking continues. In Global Cellulose Fibers we anticipate lower volume due to slower growth in developing markets and customer destocking, as well as a temporary setback in fluff pulp volume resulting from poor execution of a mix improvement plan. Consequently, we expect downward pressure on export price and mix in Industrial Packaging and Global Cellulose Fibers during the first quarter. Operating costs are expected to increase in our three business segments due to lower volume, higher seasonal energy consumption and timing of spending. In addition, planned maintenance outage expense is expected to increase significantly as we move from a low-outage fourth quarter to a heavy-outage first quarter, with first-half 2019 representing nearly 80% of total planned maintenance outage expense in 2019. Input costs are expected to be stable in Industrial Packaging and Global Cellulose Fibers and increase modestly in Printing Papers, mainly due to higher wood costs in North America. Lastly, we expect equity earnings for our Ilim joint venture to remain stable in the first quarter.

Looking to full-year 2019, we remain focused on maximizing value creation for our shareholders. We anticipate meaningful growth in cash generation driven by commercial and operational excellence, lower capital expenditures and higher dividends from our equity investments. We continue to see healthy box demand in North America Industrial Packaging and expect solid demand growth for fluff pulp used in absorbent hygiene products. In Global Cellulose Fibers we expect our fluff pulp volume to recover as we execute on our mix improvement initiatives. In Printing Papers, the business is performing very well and we have good momentum as we move into 2019, with expected price realization from recent price increases. In Europe, the benefits of the Madrid, Spain mill will accelerate through the year. We expect lower planned maintenance outage expense and capital investments of $1.4 billion, which is about $200 million lower than 2018. Our Ilim joint venture is well positioned to thrive through near-term destocking in softwood market pulp in China and we expect to receive about $200 million in cash dividends from the joint venture in 2019. All in, we expect strong cash generation, which we will use to maximize value for our shareholders by strengthening our balance sheet and returning cash to shareholders. We are committed to a strong and

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competitive dividend and have a $2.2 billion share repurchase authority remaining.

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 directly 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.

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

	2018	2017	2016
Earnings (Loss) Attributable to Shareholders	$2,012	$2,144	$904
Less - Discontinued operations (gain) loss	(345)	(34)	(102)
Earnings (Loss) from Continuing Operations	1,667	2,110	802
Add back - Non-operating pension expense (income)	494	484	610
Add back - Net special items expense (income)	214	496	182
Income tax effect - Non-operating pension and special items expense	(171)	(1,634)	(309)
Adjusted Operating Earnings (Loss) Attributable to Shareholders	$2,204	$1,456	$1,285

	2018	2017	2016
Diluted Earnings (Loss) Per Share Attributable to Shareholders	$4.85	$5.13	$2.18
Less - Discontinued operations (gain) loss per share	(0.83)	(0.08)	(0.25)
Diluted Earnings (Loss) Per Share from Continuing Operations	4.02	5.05	1.93
Add back - Non-operating pension expense (income) per share	1.19	1.16	1.47
Add back - Net special items expense (income) per share	0.52	1.19	0.44
Income tax effect per share - Non-operating pension and special items expense	(0.41)	(3.91)	(0.75)
Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders	$5.32	$3.49	$3.09

	Three Months Ended December 31, 2018	Three Months Ended September 30, 2018	Three Months Ended December 31, 2017
Earnings (Loss) Attributable to Shareholders	$ 316	$ 562	$ 1,460
Less - Discontinued operations (gain) loss	—	—	8
Earnings (Loss) from Continuing Operations	316	562	1,468
Add back - Non-operating pension expense (income)	429	25	386
Add back - Net special items expense (income)	(15)	142	106
Income tax effect - Non-operating pension and special items expense	(60)	(88)	(1,430)
Adjusted Operating Earnings (Loss) Attributable to Shareholders	$ 670	$ 641	$ 530

	Three Months Ended	Three Months Ended	Three Months Ended

	December 31, 2018	September 30, 2018	December 31, 2017
Diluted Earnings (Loss) Per Share Attributable to Shareholders	$ 0.78	$ 1.37	$ 3.50
Less - Discontinued operations (gain) loss per share	—	—	0.02
Diluted Earnings (Loss) Per Share from Continuing Operations	0.78	1.37	3.52
Add back - Non-operating pension expense (income) per share	1.05	0.06	0.92
Add back - Net special items expense (income) per share	(0.04)	0.34	0.25
Income tax effect per share - Non-operating pension and special items expense	(0.14)	(0.21)	(3.42)
Adjusted Operating Earnings (Loss) Per Share Attributable to Shareholders	$ 1.65	$ 1.56	$ 1.27

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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 Company generated Free Cash Flow of approximately $1.7 billion, $2.0 billion and $1.9 billion in 2018, 2017 and 2016, respectively. The following are reconciliations of free cash flow to cash provided by operations:

In millions	2018	2017	2016
Cash provided by operations	$3,226	$1,757	$2,478
Adjustments:			
Cash invested in capital projects	(1,572)	(1,391)	(1,348)
Cash contribution to pension plan	—	1,250	750
Cash payment for Kleen Settlement	—	354	—
Free Cash Flow	$1,654	$1,970	$1,880

In millions	Three Months Ended December 31, 2018	Three Months Ended September 30, 2018	Three Months Ended December 31, 2017
Cash provided by operations	$ 821	$ 941	$ 1,188
Adjustments:			
Cash invested in capital projects	(286)	(357)	(456)
Free Cash Flow	$ 535	$ 584	$ 732

Results of Operations

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 year. 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 interest expense, net, corporate items, net, corporate special items, net, and non-operating pension expense. Business Segment Operating Profits are defined by the Securities and Exchange Commission as a non-GAAP financial measure, and are not GAAP alternatives to net income or any other operating measure prescribed by accounting principles generally accepted in the United States.

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

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

In millions	2018	2017	2016
Net Earnings (Loss) From Continuing Operations Attributable to International Paper Company	$1,667	$2,110	$802
Add back (deduct)			
Income tax provision (benefit)	445	(1,085)	193
Equity (earnings) loss, net of taxes	(336)	(177)	(198)
Noncontrolling interests, net of taxes	5	—	(2)

Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	1,781	848	795
Interest expense, net	536	572	520
Noncontrolling interests/equity earnings included in operations	(10)	(2)	1
Corporate items, net	67	91	121
Corporate special items, net (income) expense	9	76	55
Non-operating pension expense	494	484	610
	$2,877	$2,069	$2,102
Business Segment Operating Profit			
Industrial Packaging	$2,093	$1,547	$1,741
Global Cellulose Fibers	251	65	(179)
Printing Papers	533	457	540
Business Segment Operating Profit	$2,877	$2,069	$2,102

Business Segment Operating Profits in 2018 included a net loss from special items of $205 million compared with $425 million in 2017 and $127 million in 2016. Operationally, compared with 2017, the benefits from higher average sales price realizations and mix ($1.3 billion) and higher sales volumes ($13 million) were partially offset by higher input costs ($180 million), higher maintenance outage costs ($122 million) and higher operating costs ($472 million). Corporate items, net, includes operating profits (losses) of previously divested businesses of $0 million in both 2018 and 2017 and $(2) million in 2016.

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

- Industrial Packaging's profits of $2.1 billion were $546 million higher than in 2017 as the benefits of higher average sales price realizations, net of mix, higher sales volumes and lower input costs were partially offset by higher operating costs and higher maintenance outage costs. In addition, operating profits in 2018 included a charge of $122 million related to the impairment of fixed assets and an intangible asset in our Brazil Packaging business, charges of $47 million related to the optimization of our EMEA Packaging business, charges of $20 million for the removal of abandoned property at our mills and income of $5 million related to a litigation settlement recovery. In 2017, operating profits included a charge of $354 million related to the settlement of the Kleen Products anti-trust class action lawsuit, charges of $14 million for the removal of abandoned property at our mills, a charge of $10 million for the accelerated amortization of an intangible asset in Brazil and a gain of $6 million for a net bargain purchase gain associated with the 2016 acquisition of Holmen Paper's newsprint mill in Madrid, Spain.
- Global Cellulose Fibers' operating profit of $251 million was $186 million favorable versus 2017 as the benefits of higher average sales price realizations and improved mix were partially offset by lower sales volumes, higher input costs, higher maintenance outage costs and higher operating costs. Operating profits in 2018 included a charge of $11 million for the removal of abandoned property at our mills. In 2017, operating earnings included $33 million of costs associated with the acquisition and integration of the pulp business acquired in late 2016 from Weyerhaeuser, a charge of $14 million for the amortization of the remaining inventory fair value adjustment associated with that acquisition and a charge of $4 million for the removal of abandoned property at our mills.
- Printing Papers' profits of $533 million represented a $76 million increase in operating profits from 2017. The benefits from higher average sales price realizations, net of mix, were partially offset by lower sales volumes, higher input costs, higher maintenance outage costs and higher operating costs. Operating profits in 2018 included charges of $9 million associated with the announced conversion of a paper machine at our Riverdale mill to containerboard production and a charge of $1 million for the removal of abandoned property at our mills. Operating profits in 2017 included charges of $2 million for the removal of abandoned property at our mills.

Liquidity and Capital Resources

For the year ended December 31, 2018, International Paper generated $3.2 billion of cash flow from operations compared with $1.8 billion in 2017 and $2.5 billion in 2016. Cash flow from operations included $1.25 billion and $750 million of cash pension contributions in 2017 and 2016, respectively. Capital spending for 2018 totaled $1.6 billion, or 118% of depreciation and amortization expense. Our liquidity position remains strong, supported by approximately $2.1 billion of credit facilities that we believe are adequate to meet future liquidity requirements. Maintaining an investment-grade credit rating for our long-term debt continues to be an important element in our overall financial strategy.

We expect another strong year of cash generation in 2019, which we will use to maximize shareholder value by strengthening our balance sheet, returning meaningful cash to shareholders through dividends and share repurchases and investing organically to grow future cash generation.

Capital spending for 2019 is planned at $1.4 billion, or about 104% of depreciation and amortization, including approximately $400 million of strategic investments.

RESULTS OF OPERATIONS

While the operating results for International Paper's various business segments are driven by a number of business-specific factors, changes in International Paper's operating results are closely tied to changes in general economic conditions in North America, Europe, Russia, Latin America, India, North Africa and the Middle East. Factors that impact the demand for our products include industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels, and movements in currency exchange rates.

Product prices are affected by general economic trends, inventory levels, currency exchange rate movements and worldwide capacity utilization. In addition to these

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revenue-related factors, net earnings are impacted by various cost drivers, the more significant of which include changes in raw material costs, principally wood, recycled fiber and chemical costs; energy costs; freight costs; mill outage costs; salary and benefits costs, including pensions; and manufacturing conversion costs.

The following is a discussion of International Paper's results of operations for the year ended December 31, 2018, and the major factors affecting these results compared to 2017 and 2016.

For the year ended December 31, 2018, International Paper reported net sales of $23.3 billion, compared with $21.7 billion in 2017 and $19.5 billion in 2016. International net sales (including U.S. exports) totaled $8.8 billion or 38% of total sales in 2018. This compares with international net sales of $8.4 billion in 2017 and $6.9 billion in 2016.

Full year 2018 net earnings attributable to International Paper Company totaled $2.0 billion ($4.85 per diluted share), compared with net earnings of $2.1 billion ($5.13 per diluted share) in 2017 and $904 million ($2.18 per diluted share) in 2016. Amounts in all periods include the results of discontinued operations.

Earnings from continuing operations attributable to International Paper Company after taxes in 2018, 2017 and 2016 were as follows:

In millions	2018	2017	2016
Earnings from continuing operations attributable to International Paper Company	$1,667 (a)	$2,110 (b)	$802 (c)

(a) Includes $166 million of net special items charges and $371 million of non-operating pension expense which included a pre-tax charge of $424 million ($318 million after taxes) for a settlement accounting charge associated with an annuity purchase and transfer of pension obligations for approximately 23,000 retirees.

(b) Includes $952 million of net special items income which included a provisional net tax benefit of $1.2 billion related to the enactment of the Tax Cut and Jobs Act and $298 million of non-operating pension expense which included a pre-tax charge of $376 million ($232 million after taxes) for a settlement accounting charge associated with an annuity purchase and transfer of pension obligations for approximately 45,000 retirees.

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

Compared with 2017, the benefits from higher sales volumes, higher average sales price realizations, net of mix, lower corporate and other costs, lower net interest expense and lower tax expense, were partially offset by higher operating costs, higher input costs and higher maintenance outage costs. In addition, 2018 results

included higher equity earnings, net of taxes, relating to the Company's investments in Ilim and GPIP.

See Business Segment Results on pages 24 through 28 for a discussion of the impact of these factors by segment.

Discontinued Operations

2018:

In 2018, discontinued operations included an after-tax gain of $364 million on the transfer of the North American Consumer Packaging business and after-tax charges of $19 million for costs associated with the transfer.

2017:

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. International Paper received a 20.5% ownership interest in GPIP, a subsidiary of Graphic Packaging Holding Company, that holds the assets of the combined business. As a result of this transfer, all prior year amounts have been adjusted to reflect the North American Consumer Packaging business as a discontinued operation. See Note 8 Divestitures and Impairments on pages 54 and 55 of Item 8. Financial Statements and Supplementary Data for further discussion.

Included in discontinued operations were the operating earnings of the North American Consumer Packaging business, an after-tax charge of $10 million for costs associated with the transfer and an after-tax charge of $28 million for non-operating pension expenses related to curtailment charges and termination benefits in connection with

this same transaction.
2016:
In 2016, discontinued operations included the operating earnings of the North American Consumer Packaging business and an after-tax charge of $5 million expense associated with a legal settlement related to the xpedx business.

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Income Taxes

A net income tax provision of $445 million was recorded for 2018, including a tax benefit of $36 million to revise our 2017 estimated tax related to the enactment of the Tax Cuts and Jobs Act, tax expense of $25 million related to foreign tax audits, tax expense of $19 million related to an international investment restructuring and tax expense of $9 million related to state income tax legislative changes. Excluding these items, a $65 million net tax benefit for other special items and a $123 million tax benefit related to non-operating pension expense, the tax provision was $616 million, or 25% of pre-tax earnings before equity earnings.

A net income tax benefit of $1.1 billion was recorded for 2017, including a provisional net tax benefit of $1.2 billion related to the enactment of the Tax Cuts and Jobs Act, tax benefits of $113 million related to income tax refund claims, tax expense of $9 million related to an international tax law change, tax expense of $34 million related to international investment restructuring and tax expense of $38 million associated with a cash pension contribution. Excluding these items, a $194 million net tax benefit for other special items and a $186 million tax benefit related to non-operating pension expense, the tax provision was $549 million, or 30% of pre-tax earnings before equity earnings.

A net income tax provision of $193 million was recorded for 2016, including tax benefits of $63 million related to legal entity restructurings, tax expense of $31 million associated with a tax rate change in Luxembourg, tax expense of $23 million associated with a $750 million cash pension contribution, and a tax benefit of $14 million related to the closure of a federal tax audit. Excluding these items, a $51 million net tax benefit for other special items and a $235 million tax benefit related to non-operating pension expense, the tax provision was $502 million, or 32% of pre-tax earnings before equity earnings.

Equity Earnings, Net of Taxes

Equity earnings, net of taxes, consisted principally of the Company's share of earnings from its 50% investment in Ilim of $290 million, $183 million and $199 million in 2018, 2017 and 2016, respectively, and from its 20.5% ownership interest in GPIP of $46 million in 2018 (see pages 27 and 28).

Interest Expense and Noncontrolling Interest

Net corporate interest expense totaled $536 million in 2018, $572 million in 2017 and $520 million in 2016. Net interest expense in 2017 includes $5 million of interest

income associated with income tax refund claims. The decrease in 2018 compared with 2017 was due to lower average outstanding debt. The increase in 2017 compared with 2016 was due to higher average outstanding debt.

Net earnings attributable to noncontrolling interests were $5 million in 2018, compared with $0 million in 2017 and a loss of $2 million in 2016. The increase in 2018 was primarily due to improved earnings in our India Papers business.

Special Items

Restructuring and Other Charges, Net

International Paper continually evaluates its operations for improvement opportunities targeted to (a) focus our portfolio on our core businesses, (b) realign capacity to operate fewer facilities with the same revenue capability and close high cost facilities, and (c) reduce costs.

During 2018, 2017 and 2016, pre-tax restructuring and other charges, net totaling $29 million, $67 million and $54 million were recorded. Details of these charges were as follows:

Restructuring and Other, Net

In millions	2018		2017	2016	
Business Segments					
EMEA Packaging optimization	$47	(a)	$—	$—	
Riverdale mill paper machine conversion severance reserve	3	(b)	—	—	
Turkey mill closure	—		—	7	(a)
	50		—	7	
Corporate					
Early debt extinguishment costs (see Note 15)	$10		$83	$29	
Gain on sale of investment in Liaison Technologies	(31)		—	—	

Gain on sale of investment in ArborGen	—	(14)	—
India Packaging business evaluation write-off	—	—	17
Gain on sale of investment in Arizona Chemical	—	—	(8)
Riegelwood mill conversion costs net of proceeds from the sale of Carolina Coated Bristols brand	—	—	9
Other Items	—	(2)	—
	(21)	67	47
Total	$29	$67	$54

(a) Recorded in the Industrial Packaging business segment.
(b) Recorded in the Printing Papers business segment.

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Other Corporate Special Items

In addition, other pre-tax corporate special items totaling $30 million, $0 million and $8 million were recorded in 2018, 2017 and 2016, respectively. Details of these charges were as follows:

Other Corporate Items

In millions	2018	2017	2016
Smurfit-Kappa acquisition proposal costs	$ 12	$ —	$ —
Environmental remediation reserve adjustment	9	—	—
Legal settlement	9	—	—
Write-off of certain regulatory pre-engineering costs	—	—	8
Total	$ 30	$ —	$ 8

Impairments of Goodwill

No goodwill impairment charges were recorded in 2018, 2017 or 2016.

Net Losses on Sales and Impairments of Businesses

Net losses on sales and impairments of businesses included in special items totaled a pre-tax loss of $122 million in 2018 related to the impairment of an intangible asset and fixed assets in the Brazil Packaging business, a pre-tax loss of $9 million in 2017 related to the write down of the long-lived assets of the Company's Asia foodservice business to fair value and a pre-tax loss of $70 million related to severance and the impairment of the IP Asia Packaging business in 2016. See Note 8 Divestitures and Impairments on pages 54 and 55 of Item 8. Financial Statements and Supplementary Data for further discussion.

DESCRIPTION OF BUSINESS SEGMENTS

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

Industrial Packaging

International Paper is the largest manufacturer of containerboard in the United States. Our U.S. production capacity is over 13 million tons annually. Our products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. About 80% of our production is converted into corrugated boxes and other packaging by our 179 North American container plants. Additionally, we recycle approximately

one million tons of OCC and mixed and white paper through our 18 recycling plants. Our container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives. In EMEA, our operations include one recycled fiber containerboard mill in Morocco, a recycled containerboard mill in Spain and 26 container plants in France, Italy, Spain, Morocco and Turkey. In Brazil, our operations include three containerboard mills and four box plants.

International Paper also produces high quality coated paperboard for a variety of packaging end uses with 428,000 tons of annual capacity at our mills in Poland and Russia.

Global Cellulose Fibers

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

Printing Papers

International Paper is one of the world's largest producers of printing and writing papers. The primary product in this segment is uncoated papers. This business produces papers for use in copiers, desktop and laser printers and digital imaging. End-use applications include advertising and promotional materials such as brochures, pamphlets, greeting cards, books, annual reports and direct mail. Uncoated papers also produces a variety of grades that are converted by our customers into envelopes, tablets, business forms and file folders. Uncoated papers are sold under private label and International Paper brand names that include Hammermill, Springhill, Williamsburg, Postmark, Accent, Great White, Chamex, Ballet, Rey, Pol, and Svetocopy. The mills producing uncoated papers are located in the United States, France, Poland, Russia, Brazil and India. The mills have uncoated paper production capacity of over 4 million tons annually. Brazilian operations function through International Paper do Brasil, Ltda, which owns or manages approximately 329,000 acres of forestlands in Brazil.

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Ilim

In October 2007, International Paper and Ilim completed a 50:50 joint venture to operate a pulp and paper business located in Russia. Ilim's facilities include three paper mills located in Bratsk, Ust-Ilimsk, and Koryazhma, Russia, with combined total pulp and paper capacity of over 3.4 million metric tons. Ilim has exclusive harvesting rights on timberland and forest areas exceeding 18.9 million acres (7.66 million hectares).

GPIP

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 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.

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

BUSINESS SEGMENT RESULTS

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

Industrial Packaging

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

Industrial Packaging

In millions	2018	2017	2016
Net Sales	$15,900	$15,077	$14,226
Operating Profit (Loss)	$2,093	$1,547	$1,741
Brazil Packaging impairment	122	—	—
EMEA Packaging optimization	47	—	—
Litigation settlement recovery	(5)	—	—
Abandoned property removal	20	14	—
Kleen Products anti-trust settlement	—	354	—
Holmen mill bargain purchase gain	—	(6)	—
Brazil Packaging wood supply accelerated amortization	—	10	—
Turkey mill closure	—	—	7
Asia Packaging restructuring and impairment	—	—	70
Operating Profit Before Special Items	$2,277	$1,919	$1,818

Industrial Packaging net sales for 2018 increased 5% to $15.9 billion compared with $15.1 billion in 2017, and 12% compared with $14.2 billion in 2016. Operating profits before special items in 2018 were 19% higher than in 2017 and 25% higher than in 2016. Comparing 2018 with 2017, benefits from higher average sales price realizations, net of mix ($712 million), higher sales volumes ($33 million) and lower input costs ($2 million) were partially offset by higher operating costs ($333 million) and higher maintenance outage costs ($56 million).

North American Industrial Packaging

In millions	2018	2017	2016

Net Sales (a)	$14,187	$13,329	$12,450
Operating Profit (Loss)	$2,292	$1,504	$1,757
Litigation settlement recovery	(5)	—	—
Abandoned property removal	20	14	—
Kleen Products anti-trust settlement	—	354	—
Operating Profit Before Special Items	$2,307	$1,872	$1,757

(a) Includes intra-segment sales of $233 million for 2018, $172 million for 2017 and $143 million for 2016.

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North American Industrial Packaging's sales volumes increased in 2018 compared with 2017 reflecting higher box shipments, partially offset by lower shipments of containerboard to both the domestic and export markets. In 2018, the business took about 518,000 tons of maintenance downtime compared with about 416,000 tons of total downtime in 2017, of which about 35,000 were non-maintenance downtime and 381,000 were maintenance downtime. Average sales prices were significantly higher for boxes and for containerboard in export markets. Substantially lower input costs for recycled fiber were partially offset by higher costs for wood, energy, chemicals and freight. Planned maintenance downtime costs were $50 million higher in 2018, than in 2017. Operating costs increased due to inflation, distribution costs and weather-related production constraints in early 2018.
Looking ahead to the first quarter of 2019, compared with the fourth quarter of 2018, sales volumes for boxes are expected to be seasonally lower despite two more shipping days. Shipments of containerboard to export markets are also expected to decline, reflecting slowing market demand in China and EMEA. Based on pricing to date in the current quarter, average sales prices for boxes are expected to be flat, while average sales prices for export containerboard are expected to be lower. Input costs, primarily for wood and energy, are expected to be higher. Planned maintenance downtime spending should be about $102 million higher. Manufacturing operating costs will be negatively impacted by lower volume and inflation, while distribution costs are also expected to increase.

EMEA Industrial Packaging

In millions	2018	2017	2016
Net Sales	$1,355	$1,334	$1,227
Operating Profit (Loss)	$(120)	$6	$15
EMEA Packaging optimization	47	—	—
Holmen mill net bargain purchase gain	—	(6)	—
Turkey mill closure	—	—	7
Operating Profit Before Special Items	$(73)	$—	$22

EMEA Industrial Packaging's sales volumes in 2018 were lower than in 2017, reflecting weaker market demand for fruit and vegetable boxes in the Euro-zone and slowing economic conditions in Turkey. Average sales margins decreased slightly, as higher containerboard costs were only partially offset by higher sales prices for boxes. Input costs for energy were flat. Operating costs rose due to inflation and higher costs associated with the new plant in Tangier, Morocco. Earnings were also negatively impacted by the conversion and ramp-up of the Madrid mill.
Entering the first quarter of 2019, compared with the fourth quarter of 2018, sales volumes are expected to be seasonally higher. Average sales margins are expected

to reflect the full realization of box price increases and further board cost reductions. Operating costs will benefit from the continued integration of our Madrid mill. Earnings are expected to be favorably impacted by the increased production volumes of recycled containerboard at the Madrid mill.

Brazilian Industrial Packaging

In millions	2018	2017	2016
Net Sales	$232	$251	$232
Operating Profit (Loss)	$(151)	$(35)	$(43)
Brazil Packaging impairment	122	—	—
Brazil Packaging wood supply accelerated amortization	—	10	—
Operating Profit Before Special Items	$(29)	$(25)	$(43)

Brazilian Industrial Packaging's sales volumes in 2018 increased, compared with 2017 for boxes, but this was offset by decreased containerboard shipments. Average sales margins improved reflecting higher sales prices, partially offset by an unfavorable mix. Input costs increased, primarily for recycled fiber, utilities and chemicals. Operating costs were negatively impacted by inflation, but benefited from lower overhead costs. Planned maintenance downtime costs were $1 million lower in 2018, compared with 2017. In addition, a nationwide truckers' strike during the second quarter negatively impacted operating profit by approximately $3 million.
Looking ahead to the first quarter of 2019, compared with the fourth quarter of 2018, sales volumes are expected to be higher, primarily for containerboard. Based on pricing to date in the current quarter, average sales margins are

expected to improve. Input costs are expected to be lower for recycled fiber and freight, and operating costs will also be lower. In late 2018, the Company announced that it was exploring strategic options for its Brazil Packaging business.

European Coated Paperboard

In millions	2018	2017	2016
Net Sales	$359	$335	$327
Operating Profit (Loss)	$72	$72	$93

European Coated Paperboard's sales volumes in 2018 compared with 2017, decreased in Europe, but were partially offset by an increase in Russia. Average sales margins were higher in both Russia and Europe, reflecting higher average sales prices and a more favorable mix. Input costs were higher mainly for wood and energy in both regions. Planned maintenance downtime costs were $6 million higher in 2018 than in 2017, primarily at the Kwidzyn mill. Looking forward to the first quarter of 2019, compared with the fourth quarter of 2018, sales volumes are expected to be stable in both Europe and Russia.

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Average sales margins are expected to be higher in Europe due to a more favorable mix. In Russia, average sales margins should be stable. Input costs are expected to be lower for purchased pulp, wood and energy. Maintenance outage costs should be flat due to no outages in the fourth quarter and no planned outages in the first quarter.

Asian Industrial Packaging

In millions	2018	2017	2016
Net Sales	$ —	$ —	$ 133
Operating Profit (Loss)	$ —	$ —	$ (81)
Asia Packaging restructuring and impairment	—	—	70
Operating Profit Before Special Items	$ —	$ —	$ (11)

On June 30, 2016, the Company completed the sale of its corrugated packaging business in China and Southeast Asia to Xiamen Bridge Hexing Equity Investment Partnership Enterprise. See Note 8 Divestitures and Impairments on pages 54 and 55 of Item 8. Financial Statements and Supplementary Data for further discussion of the sale of this business.

Global Cellulose Fibers

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

Global Cellulose Fibers

In millions	2018	2017	2016
Net Sales	$ 2,819	$ 2,551	$ 1,092
Operating Profit (Loss)	$ 251	$ 65	$ (179)
Acquisition and integration costs	—	33	31
Abandoned property removal	11	4	—
Inventory fair value step-up amortization	—	14	19
Operating Profit Before Special Items	$ 262	$ 116	$ (129)

Global Cellulose Fibers results include the net sales and operating profit associated with the pulp business acquired from Weyerhaeuser, from the date of acquisition on December 1, 2016. See Note 7 Acquisitions and Joint Ventures on pages 52 through 54 of Item 8. Financial Statements and Supplementary Data for additional information about the acquisition.

Net sales for 2018 increased to $2.8 billion, compared with $2.6 billion in 2017 and $1.1 billion in 2016. Operating profits before special items in 2018 were significantly higher than in both 2017 and 2016. Comparing 2018 with 2017, benefits from higher average sales price realizations and mix ($328 million) were

partially offset by lower sales volumes ($3 million), higher input costs ($41 million), higher planned maintenance downtime costs ($41 million) and higher operating costs ($97 million).

Sales volumes in 2018 were about flat with 2017. Sales prices increased across all product lines. Average sales margins also benefited from a favorable product mix reflecting an increase in sales of absorbent pulp. Input costs were higher, primarily for wood and chemicals. Planned maintenance downtime costs were $31 million higher in 2018. Operating costs increased due to higher distribution and inventory valuation costs. Hurricane Florence negatively impacted earnings by $38 million, net of insurance proceeds. In Europe and Russia, average sales prices increased significantly. Input costs were higher for wood, energy and chemicals. Planned maintenance downtime costs were $10 million higher in 2018 than in 2017, primarily at the Saillat mill.

Entering the first quarter of 2019, sales volumes will be lower due to production constraints resulting from planned maintenance outages, softer market demand in developing markets and customer destocking, as well as a temporary setback in fluff pulp volume resulting from poor execution of a mix improvement plan. Based on pricing to date in the current quarter, average sales prices are expected to decrease particularly fo softwood pulp in China. Input costs are expected to decrease for chemicals. Planned maintenance downtime costs should be $20 million higher than in the fourth quarter of 2018. Manufacturing operating costs are expected to rise due to lower volume, seasonality and inflation. In Europe and Russia, sales volumes are expected to be lower, while sales margins should be stable.

Printing Papers

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

Printing Papers

In millions	2018	2017	2016
Net Sales	$4,375	$4,157	$4,058
Operating Profit (Loss)	$533	$457	$540
Riverdale mill conversion	9	—	—
Abandoned property removal	1	2	—
Operating Profit Before Special Items	$543	$459	$540

Printing Papers net sales for 2018 of $4.4 billion increased 5%, compared with $4.2 billion in 2017, and 8%, compared with $4.1 billion in 2016. Operating profits before special items in 2018 were 18% higher than in

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2017 and 1% higher than in 2016. Comparing 2018 with 2017, benefits from higher average sales price realizations, net of mix ($309 million), were partially offset by lower sales volumes ($17 million), higher input costs ($141 million), higher planned maintenance downtime costs ($25 million) and higher operating costs ($42 million).

North American Printing Papers

In millions	2018	2017	2016
Net Sales	$1,956	$1,833	$1,890
Operating Profit (Loss)	$160	$132	$236
Riverdale mill conversion	9	—	—
Abandoned property removal	1	2	—
Operating Profit Before Special Items	$170	$134	$236

North American Printing Papers' sales volumes for 2018 were lower than in 2017, primarily due to lower sales to export markets. Average sales margins improved due to sales price increases for both cutsize paper and rolls, net of an unfavorable mix. Input costs were higher for wood and chemicals. Planned maintenance downtime costs were $1 million higher in 2018. Operating costs were higher primarily due to inflation and distribution costs, and included $5 million, net of insurance recoveries, related to Hurricane Florence.

Entering the first quarter of 2019, sales volumes are expected to be lower due to capacity constraints resulting from planned maintenance outages. Average sales margins should be steady, reflecting the full-quarter impact of late-2018 sales price increases. Operating costs are expected to be higher due to seasonality and inflation. Input costs should be higher, primarily for wood and chemicals. Planned maintenance downtime costs will increase by about $3 million in the 2019 first quarter.

Brazilian Papers

In millions	2018	2017	2016
Net Sales (a)	$978	$972	$897
Operating Profit (Loss)	$227	$194	$173

(a) Includes intra-segment sales of $13 million for 2018, $24 million for 2017 and $5 million for 2016.

Brazilian Papers' sales volumes for uncoated freesheet paper in 2018, were lower compared with 2017 in both the domestic and export markets. Average domestic and export sales prices were higher due to the realization of multiple price increases implemented in 2018. Raw material costs increased for pulp, chemicals and energy. Operating costs were negatively impacted by inflation and a nationwide truckers' strike in the second quarter. Planned maintenance downtime costs were $4 million higher in 2018.

Looking ahead to 2019, compared with the fourth quarter of 2018, sales volumes for uncoated freesheet paper in the first quarter are expected to be seasonally weaker in

the domestic market. Average sales margins are expected to decrease as price pressures in the Latin American export markets and an unfavorable mix more than offset the partial realization of announced domestic sales price increases. Input costs are expected to be stable. Maintenance outage costs should be flat due to no outages in the fourth quarter and no planned outages in the first quarter.

European Papers

In millions	2018	2017	2016
Net Sales	$1,252	$1,187	$1,109
Operating Profit (Loss)	$129	$136	$142

European Papers' sales volumes for uncoated freesheet paper in 2018 were higher in Russia, but lower in Europe compared with 2017. Average sales prices increased for uncoated freesheet paper in both regions following price increases implemented in late 2017, and throughout 2018. Input costs were higher for wood, energy, purchased pulp and chemicals. Planned maintenance downtime costs were $20 million higher in 2018, than in 2017, primarily at the Saillat mill.

Entering 2019, sales volumes for uncoated freesheet paper in the first quarter are expected to increase in Europe, but decrease in Russia. Average sales prices are expected to be higher in Europe due to the continued realization of a fourth-quarter 2018 price increase, and higher in Russia. Input costs should be lower in Europe, mainly for wood and energy, but higher in Russia, primarily for wood and chemicals. Maintenance outage costs should be flat due to no outages in the fourth quarter and no planned outages in the first quarter.

Indian Papers

In millions	2018	2017	2016
Net Sales	$202	$189	$167
Operating Profit (Loss)	$17	$(5)	$(11)

Indian Papers' sales volumes in 2018 were higher than in 2017 due to improved paper machine productivity. Average sales prices also increased. Input costs were higher for chemicals and recycled fiber, but were partially offset by lower wood costs. Operating costs were lower in 2018, reflecting improved mill performance efficiencies, while planned maintenance downtime costs were flat compared with 2017.

Looking ahead to the first quarter of 2019, sales volumes are expected to be slightly higher than in the 2018 fourth quarter. Based on pricing to date in the current quarter, average sales prices are expected to be stable.

Equity Earnings, Net of Taxes – Ilim

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

The Company recorded equity earnings, net of taxes, related to Ilim of $290 million in 2018, compared with earnings of $183 million in 2017, and $199 million in 2016. Operating results recorded in 2018 included an after-tax non-cash foreign exchange loss of $82 million, compared with an after-tax foreign exchange gain of $15 million in 2017 and an after-tax foreign exchange gain of $25 million in 2016, primarily on the remeasurement of Ilim's U.S. dollar denominated net debt.

Ilim delivered outstanding performance in 2018, driven largely by higher price realization and strong demand. Sales volumes for the joint venture increased year over year for shipments to China of softwood pulp and linerboard, but were offset by decreased sales of hardwood pulp to China. Sales volumes in the Russian market increased for softwood pulp and hardwood pulp, but decreased for linerboard. Average sales price realizations were significantly higher in 2018 for sales of softwood pulp, hardwood pulp and linerboard to China and other export markets. Average sales price realizations in Russian markets increased year over year for all products. Input costs were higher in 2018, primarily for wood, fuel and chemicals. Distribution costs were negatively impacted by tariffs and inflation. The Company received cash dividends from the joint venture of $128 million in 2018, $133 million in 2017 and $58 million in 2016.

Entering the first quarter of 2019, sales volumes are expected to be lower than in the fourth quarter of 2018, due to the seasonal slowdown in China and fewer trading days. Based on pricing to date in the current quarter, average sales prices are expected to decrease for hardwood pulp, softwood pulp and linerboard to China. Input costs are projected to be relatively flat, while distribution costs are expected to increase.

Equity Earnings - GPIP

International Paper recorded equity earnings of $46 million on its 20.5% ownership position in GPIP in 2018. The Company received cash dividends from the investment of $25 million in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Overview

A major factor in International Paper’s liquidity and capital resource planning is its generation of operating cash flow, which is highly sensitive to changes in the pricing and demand for our major products. While changes in key cash operating costs, such as energy, raw material, mill outage and transportation costs, do have an effect on operating cash generation, we believe that our focus on pricing and cost controls has improved our cash flow generation over an operating cycle.

Cash uses during 2018 were primarily focused on working capital requirements, capital spending, debt reductions and returning cash to shareholders through dividends and share repurchases under the Company's share repurchase program.

Cash Provided by Operating Activities

Cash provided by operations, including discontinued operations, totaled $3.2 billion in 2018, compared with $1.8 billion for 2017, and $2.5 billion for 2016. Cash used by working capital components (accounts receivable, contract assets and inventory less accounts payable and accrued liabilities, interest payable and other) totaled $439 million in 2018, compared with cash used by working capital components of $402 million in 2017, and cash provided by working capital components of $71 million in 2016.

Investment Activities

Including discontinued operations, investment activities in 2018 increased from 2017, as 2018 included higher capital spending. In 2016, investment activity included the purchase of Weyerhaeuser's pulp business for $2.2 billion in cash, the purchase of the Holmen business for $57 million in cash, net of cash acquired, and proceeds from the sale of the Asia Packaging business of $108 million, net of cash divested. The Company maintains an average capital spending target around depreciation and amortization levels, or modestly above, due to strategic plans over the course of an economic cycle. Capital spending was $1.6 billion in 2018, or 118% of depreciation and amortization, compared with $1.4 billion in 2017, or 98% of depreciation and amortization, and $1.3 billion, or 110% of depreciation and amortization in 2016. Across our segments, capital spending as a percentage of depreciation and amortization ranged from 69.8% to 132.1% in 2018.

The following table shows capital spending for operations by business segment for the years ended December 31, 2018, 2017 and 2016, excluding amounts related to discontinued operations of $111 million in 2017 and $107 million in 2016.

In millions	2018	2017	2016
Industrial Packaging	$1,061	$836	$832
Global Cellulose Fibers	183	188	174
Printing Papers	303	235	215
Subtotal	1,547	1,259	1,221
Corporate and other	25	21	20
Capital Spending	$1,572	$1,280	$1,241

Capital expenditures in 2019 are currently expected to be about $1.4 billion, or 104% of depreciation and amortization, including approximately $400 million of strategic investments.

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Acquisitions and Joint Ventures

See Note 7 Acquisitions and Joint Ventures on pages 52 through 54 of Item 8. Financial Statements and Supplementary Data for a discussion of the Company's acquisitions.

Financing Activities

Amounts related to early debt extinguishment during the years ended December 31, 2018, 2017 and 2016 were as follows:

In millions	2018	2017	2016
Debt reductions (a)	$780	$993	$266
Pre-tax early debt extinguishment costs (b)	10	83	29

(a) Reductions related to notes with interest rates ranging from 1.57% to 9.38% with original maturities from 2018 to 2032 for the years ended December 31, 2018, 2017 and 2016.

(b) Amounts are included in Restructuring and other charges in the accompanying consolidated statements of operations.

2018: Financing activities during 2018 included debt issuances of $490 million and retirements of $1.0 billion for a net decrease of $518 million.

International Paper utilizes interest rate swaps to change the mix of fixed and variable rate debt and manage interest expense. At December 31, 2018, International Paper had interest rate swaps with a notional amount of $700 million and maturities ranging from 2024 to 2026 (see Note 16 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data). During 2018, the inclusion of the offsetting interest income from short-term investments reduced the effective interest rate from 4.8% to 4.6%.

In June 2018, the borrowing capacity of the commercial paper program was increased from $750 million to $1.0 billion. Under the terms of the program, individual maturities on borrowings may vary, but may not exceed one year from the date of issuance. Interest bearing notes may be issued either as fixed notes or floating rate notes. As of December 31, 2018, 2017 and 2016, the Company had $465 million, $180 million and $165 million, respectively, outstanding under this program.

Other financing activities during 2018 included the net repurchase of approximately 12.3 million shares of treasury stock, including restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled $732 million, including $700 million related to shares repurchased under the Company's share repurchase program. On October 9, 2018, the Company announced an authorization to repurchase $2 billion of the Company's common stock to supplement remaining amounts under prior share repurchase authorizations, bringing total

share repurchase authorizations since 2013 to $5.0 billion. The Company will continue to repurchase such shares in open market repurchase transactions. Under the $5.0 billion share repurchase program, the Company has repurchased 58.0 million shares at an average price of $47.68, for a total of approximately $2.8 billion, as of December 31, 2018.

In October 2018, International Paper announced that the quarterly dividend would be increased from $0.4750 per share to $0.50 per share, effective for the 2018 fourth quarter.

2017: Financing activities during 2017 included debt issuances of $1.9 billion and retirements of $1.4 billion for a net increase of $483 million.

At December 31, 2017, International Paper had no interest rate swap contracts outstanding. During 2017, the inclusion of the offsetting interest income from short-term investments reduced the effective interest rate from 5.0% to 4.7%.

In 2017, International Paper issued $1.0 billion of 4.35% senior unsecured notes with a maturity date in 2048. The proceeds from this offering, together with a combination of available cash and other borrowings, were used to make a $1.25 billion voluntary cash contribution to the Company's pension plan. In December 2017, International Paper received $660 million in cash proceeds from a new loan entered into by International Paper as part of the transfer of the North American Consumer Packaging business to a subsidiary of Graphic Packing Holding Company discussed in Note 8 Divestitures and Impairments on pages 54 and 55 of Item 8. Financial Statements and Supplementary Data). The Company used the cash proceeds, together with available cash, to pay down existing debt of approximately $900 million of notes with interest rates ranging from 1.92% to 9.38% and original maturities from 2018 to 2021. Pre-tax early debt retirement costs of $83 million related to the debt repayments, including $82 million of cash premiums, are included in Restructuring and other charges in the accompanying consolidated statement of operations for the year ended December 31, 2017. The $660 million term loan was subsequently assumed by a subsidiary of GPIP from International Paper on January 1, 2018, and was classified as Liabilities held for sale at December 31, 2017, in the accompanying consolidated balance sheet.

Other financing activities during 2017 included the net issuance of approximately 1.7 million shares of treasury stock, including restricted stock tax withholding. Payments of restricted stock withholding taxes and repurchases totaled $47 million.

In October 2017, International Paper announced that the quarterly dividend would be increased from $0.4625 per share to $0.4750 per share, effective for the 2017 fourth quarter.

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

At December 31, 2016, International Paper had no interest rate swap contracts outstanding. During 2016, the amortization of deferred gains on previously terminated swaps had no impact on the weighted average cost of long-term recourse debt. The inclusion of the offsetting interest income from short-term investments reduced the effective rate from 5.3% to 4.8%.

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

In December 2016, International Paper entered into a new $1.5 billion contractually committed credit facility that expires in December 2021, and has a facility fee of 0.15% payable annually.

Other financing activities during 2016 included the net repurchase of approximately 0.9 million shares of treasury stock, including restricted stock tax withholding. Repurchases of common stock and payments of restricted stock withholding taxes totaled $132 million, including $100 million related to shares repurchased under the Company's share repurchase program.

In October 2016, International Paper announced that the quarterly dividend would be increased from $0.44 per share to $0.46 per share, effective for the 2016 fourth quarter.

Variable Interest Entities

Information concerning variable interest entities is set forth in Note 14 Variable Interest Entities on pages 65 and 66 of Item 8. Financial Statements and Supplementary Data.

Liquidity and Capital Resources Outlook for 2019

Capital Expenditures and Long-Term Debt

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements during 2019 with current cash balances and cash from operations. Additionally, the Company has existing credit facilities totaling $2.1 billion at December 31, 2018.

The Company will continue to rely upon debt and capital markets for the majority of any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary goals of the Company’s capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense. The majority of International Paper’s debt is accessed through global public capital markets where we have a wide base of investors. The Company was in compliance with all its debt covenants at December 31, 2018, and was well below the thresholds stipulated under the covenants as defined in our credit agreements.

Maintaining an investment grade credit rating is an important element of International Paper’s financing strategy. At December 31, 2018, the Company held long-term credit ratings of BBB (stable outlook) and Baa2 (stable outlook) by S&P and Moody’s, respectively.

Contractual obligations for future payments under existing debt and lease commitments and purchase obligations at December 31, 2018, were as follows:

In millions	2019	2020	2021	2022	2023	Thereafter

Debt maturities	$639	$83	$441	$487	$348	$ 8,656
Lease obligations	160	125	77	49	28	118
Purchase obligations (a)	3,211	654	578	487	413	1,857
Total (b)	$4,010	$862	$1,096	$1,023	$789	$ 10,631

(a) Includes $1.4 billion relating to fiber supply agreements entered into at the time of the 2006 Transformation Plan forestland sales and in conjunction with the 2008 acquisition of Weyerhaeuser Company’s Containerboard, Packaging and Recycling business. Also includes $1.1 billion relating to fiber supply agreements assumed in conjunction with the 2016 acquisition of Weyerhaeuser's pulp business.

(b) Not included in the above table due to the uncertainty of the amount and timing of the payment are unrecognized tax benefits of approximately $193 million. Also not included in the above table is $206 million of Deemed Repatriation Transition Tax associated with the 2017 Tax Cuts and Jobs Act which will be settled from 2019 - 2026.

We consider the undistributed earnings of our foreign subsidiaries as of December 31, 2018, to be permanently reinvested and, accordingly, no U.S. income taxes have been provided thereon (see Note 12 Income Taxes on pages 58 through 62 of Item 8. Financial Statements and Supplementary Data). We do not anticipate the need to

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repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business, including liquidity needs associated with our domestic debt service requirements.

Pension Obligations and Funding

At December 31, 2018, the projected benefit obligation for the Company’s U.S. defined benefit plans determined under U.S. GAAP was approximately $1.7 billion higher than the fair value of plan assets, excluding non-U.S. plans. Approximately $1.5 billion of this amount relates to plans that are subject to minimum funding requirements. Under current IRS funding rules, the calculation of minimum funding requirements differs from the calculation of the present value of plan benefits (the projected benefit obligation) for accounting purposes. In December 2008, the Worker, Retiree and Employer Recovery Act of 2008 (WERA) was passed by the U.S. Congress which provided for pension funding relief and technical corrections. Funding contributions depend on the funding method selected by the Company, and the timing of its implementation, as well as on actual demographic data and the targeted funding level. The Company continually reassesses the amount and timing of any discretionary contributions and elected to make contributions totaling $1.25 billion for the year ended December 31, 2017 and $750 million for the year ended December 31, 2016. No voluntary contributions were made in 2018. At this time, we do not expect to have any required contributions to our plans in 2019, although the Company may elect to make future voluntary contributions. The timing and amount of future contributions, which could be material, will depend on a number of factors, including the actual earnings and changes in values of plan assets and changes in interest rates.

During the fourth quarter of 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 pension plan assets. Under the transaction, at the end of 2018, Prudential assumed 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. Settlement accounting rules required a remeasurement of the qualified plan as of October 2, 2018 and the Company recognized a non-cash pension settlement charge of $424 million before tax in the fourth quarter of 2018.

During the fourth quarter of 2017, the Company entered into an agreement with The Prudential Insurance Company of America to purchase a group annuity

contract and transfer approximately $1.3 billion of International Paper's U.S. qualified pension plan projected benefit obligations. The transaction closed on October 3, 2017 and was funded with pension plan assets. Under the transaction, at the end of 2017, Prudential assumed responsibility for pension benefits and annuity administration for approximately 45,000 retirees or their beneficiaries receiving less than $450 in monthly benefit payments from the plan. Settlement accounting rules required a remeasurement of the qualified plan as of October 3, 2017 and the Company recognized a non-cash pension settlement charge of $376 million before tax in the fourth quarter of 2017. In addition, large payments from the non-qualified pension plan also required a remeasurement as of October 2, 2017 and a non-cash settlement charge of $7 million was also recognized in the fourth quarter of 2017.

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

Ilim Shareholder’s Agreement

In October 2007, in connection with the formation of the Ilim joint venture, International Paper entered into a shareholder’s agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time, either the Company or its partners may commence procedures specified under the deadlock agreement. If these or any other deadlock procedures under the shareholder's agreement are commenced, although it is not obligated to do so, the Company may in certain situations choose to purchase its partners' 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, the Company

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estimates that the current purchase price for its partners' 50% interests would be approximately $2.4 billion, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company's option. The purchase by the Company of its partners' 50% interest in Ilim would result in the consolidation of Ilim's financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provisions of the shareholder's agreement.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

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

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

Contingent Liabilities

Accruals for contingent liabilities, including legal, and environmental matters, are recorded when it is probable that a liability has been incurred or an asset impaired and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and range of loss based on historical experience and recommendations of legal counsel. Liabilities for environmental matters require evaluations of relevant environmental regulations and estimates of future remediation alternatives and costs. The Company utilizes its in-house legal and environmental experts to develop estimates of its legal and environmental obligations, supplemented as needed by third-party specialists to analyze its most complex contingent liabilities.

We calculate our workers' compensation reserves based on estimated actuarially calculated development factors. The workers' compensation reserves are reviewed at least quarterly to determine the adequacy of the accruals and related financial statement disclosure. While we believe that our assumptions are appropriate, the ultimate settlement of workers' compensation reserves

may differ significantly from amounts we have accrued in our consolidated financial statements.

Impairment of Long-Lived Assets and Goodwill

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

ASU 2011-08, "Intangibles - Goodwill and Other," allows entities testing goodwill for impairment the option of performing a qualitative (Step 0) assessment before calculating the fair value of a reporting unit for the goodwill impairment test. If a Step 0 assessment is performed, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines that, based on that Step 0 assessment, it is more likely than not that its fair value is less than its carrying value.

During 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.

The Company performed its annual testing of its reporting units for possible goodwill impairments by applying the qualitative Step 0 analysis to its reporting units as of October 1, 2018. For the current year evaluation, the Company assessed various assumptions, events and circumstances that would have affected the estimated

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fair value of the reporting units. The results of this assessment indicated that it is not more likely than not that the fair values of the Company's reporting units were less than the carrying values of the reporting units.
In addition, the Company considered whether there were any events or circumstances outside of the annual evaluation that would reduce the fair value of its reporting units below their carrying amounts and necessitate a goodwill impairment evaluation. In consideration of all relevant factors, there were no indicators that would require goodwill impairment subsequent to October 1, 2018.

No goodwill impairment charges were recorded in 2018, 2017 or 2016.
Pension Benefit Obligations
The charges recorded for pension benefit obligations are determined annually in conjunction with International Paper's consulting actuary, and are dependent upon various assumptions including the expected long-term rate of return on plan assets, discount rates, projected future compensation increases and mortality rates.
The calculations of pension obligations and expenses require decisions about a number of key assumptions that can significantly affect liability and expense amounts, including the expected long-term rate of return on plan assets and the discount rate used to calculate plan liabilities.
Benefit obligations and fair values of plan assets as of December 31, 2018, for International Paper's pension plan were as follows:

In millions	Benefit Obligation	Fair Value of Plan Assets
U.S. qualified pension	$ 10,124	$ 8,735
U.S. nonqualified pension	343	—
Non-U.S. pension	215	161

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

	2018	2017	2016
Discount rate	4.30%	3.60%	4.10%
Rate of compensation increase	2.25%	3.75%	3.75%

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

settlement portfolio selected from a universe of high quality corporate bonds.

The expected long-term rate of return on U.S. pension plan assets used to determine net periodic cost for the year ended December 31, 2018 was 7.50%.
Increasing (decreasing) the expected long-term rate of return on U.S. plan assets by an additional 0.25% would decrease (increase) 2019 pension expense by approximately $22 million, while a (decrease) increase of 0.25% in the discount rate would (increase) decrease pension expense by approximately $27 million.
Actual rates of return earned on U.S. pension plan assets for each of the last 10 years were:

Year	Return	Year	Return
2018	(3.0)%	2013	14.1 %
2017	19.3 %	2012	14.1 %
2016	7.1 %	2011	2.5 %
2015	1.3 %	2010	15.1 %
2014	6.4 %	2009	23.8 %

The 2012, 2013 and 2014 returns above represent weighted averages of International Paper and Temple-Inland asset returns. International Paper and Temple-Inland assets were combined in October 2014. The annualized time-weighted rate of return earned on U.S. pension plan assets was 6.0% and 9.8% for the past five and ten years, respectively. The following graph shows the growth of a $1,000 investment in International Paper's U.S. Pension Plan Master Trust. The graph portrays the time-weighted rate of return from 2008 – 2018.

ASC 715, "Compensation – Retirement Benefits," provides for delayed recognition of actuarial gains and losses, including amounts arising from changes in the estimated projected plan benefit obligation due to changes in the assumed discount rate, differences between the actual and expected return on plan assets, and other assumption changes. These net gains and losses are recognized in pension expense prospectively over a period that approximates the average remaining service period of active employees expected to receive

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benefits under the plans to the extent that they are not offset by gains and losses in subsequent years.
Net periodic pension plan expenses, calculated for all of International Paper's plans, were as follows:

In millions	2018	2017	2016	2015	2014
Pension expense					
U.S. plans	$632	$717	$809	$461	$387
Non-U.S. plans	4	5	4	6	—
Net expense	$636	$722	$813	$467	$387

The decrease in 2018 pension expense primarily reflects lower interest cost on a lower 2018 projected benefit obligation along with the current year absence of a curtailment loss and special termination benefits associated with the North American Consumer Packaging transaction, partially offset by a higher settlement loss in the current year associated with the October 2018 annuity purchase transaction.
Assuming that discount rates, expected long-term returns on plan assets and rates of future compensation increases remain the same as of December 31, 2018, projected future net periodic pension plan expenses would be as follows:

In millions	2020	2019
Pension expense		
U.S. plans	$ 88	$103
Non-U.S. plans	4	4
Net expense	$ 92	$107

The Company estimates that it will record net pension expense of approximately $103 million for its U.S. defined benefit plans in 2019, compared to expense of $632 million in 2018. The 2018 expense includes $424 million of settlement accounting charges. Excluding these settlement charges, the estimated decrease in net pension expense in 2019 is primarily due to lower amortization of actuarial losses and lower service cost partially offset by lower asset returns due to the annuity purchase and a decrease in the expected long-term return on asset assumption from 7.50% in 2018 to 7.25% in 2019.
The market value of plan assets for International Paper's U.S. qualified pension plan at December 31, 2018 totaled approximately $8.7 billion, consisting of approximately 32% equity securities, 51% debt securities, 11% real estate funds and 6% other assets.
The Company's funding policy for its qualified pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flows generated by the Company, and other factors. The Company continually reassesses the amount and timing of any discretionary contributions and

could elect to make voluntary contributions in the future. There are no required contributions to the U.S. qualified plan in 2019. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled $29 million for the year ended December 31, 2018.

Income Taxes

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

income, as well as successful implementation of various tax planning strategies.
While International Paper believes that these judgments and estimates are appropriate and reasonable under the circumstances, actual resolution of these matters may differ from recorded estimated amounts.

RECENT ACCOUNTING DEVELOPMENTS

See Note 2 Recent Accounting Developments on pages 47 and 48 of Item 8. Financial Statements and Supplementary Data for a discussion of new accounting pronouncements.

LEGAL PROCEEDINGS

Information concerning the Company’s environmental and legal proceedings is set forth in Note 13 Commitments and Contingent Liabilities on pages 62 through 65 of Item 8. Financial Statements and Supplementary Data.

EFFECT OF INFLATION

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

FOREIGN CURRENCY EFFECTS

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

MARKET RISK

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including various derivative contracts, are used to hedge exposures to interest rate, commodity and foreign currency risks. We do not use financial instruments for trading purposes. Information related to International Paper’s debt obligations is included in Note 15 Debt and Lines of Credit on pages 66 and 67 of Item 8. Financial Statements and Supplementary Data. A discussion of derivatives and hedging activities is included in Note 16 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data.

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to short- and long-term debt obligations and investments in marketable securities. We invest in

investment-grade securities of financial institutions and money market mutual funds with a minimum rating of AAA and limit exposure to any one issuer or fund. Our investments in marketable securities at December 31, 2018 and 2017 are stated at cost, which approximates market due to their short-term nature. Our interest rate risk exposure related to these investments was not material.

We issue fixed and floating rate debt in a proportion that management deems appropriate based on current and projected market conditions. Derivative instruments, such as, interest rate swaps, may be used to execute this strategy. At December 31, 2018 and 2017, the fair value of the net liability of financial instruments with exposure to interest rate risk was approximately $9.2 billion and $11.1 billion, respectively. The potential decline in fair value resulting from a 10% adverse shift in quoted interest rates would have been approximately $538 million and $679 million at December 31, 2018 and 2017, respectively.

Commodity Price Risk

The objective of our commodity exposure management is to minimize volatility in earnings due to large fluctuations in the price of commodities. Commodity swap or forward purchase contracts may be used to manage risks associated with market fluctuations in energy prices.

Foreign Currency Risk

International Paper transacts business in many currencies and is also subject to currency exchange rate risk through investments and businesses owned and operated in foreign countries. Our objective in managing the associated foreign currency risks is to minimize the effect of adverse exchange rate fluctuations on our after-tax cash flows. We address these risks on a limited basis by entering into cross-currency and interest rate swaps, or foreign exchange contracts. At December 31, 2018 and 2017, the net fair value of financial instruments with exposure to foreign currency risk was approximately a $8 million liability and a $10 million asset, respectively.

The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would have been approximately $29 million at both December 31, 2018 and 2017.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the preceding discussion and Note 16 Derivatives and Hedging Activities on pages 67 through 70 of Item 8. Financial Statements and Supplementary Data.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT ON:

Financial Statements

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

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

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

Internal Control Over Financial Reporting

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

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

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria described in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting was effective.
The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued its report on the effectiveness of the Company's internal control over financial reporting. The report appears on pages 38 and 39.
Internal Control Environment And Board Of Directors Oversight

Our internal control environment includes an enterprise-wide attitude of integrity and control consciousness that establishes a positive “tone at the top.” This is exemplified by our ethics program that includes long-standing principles and policies on ethical business conduct that require employees to maintain the highest ethical and legal standards in the conduct of International Paper business, which have been distributed to all employees; a toll-free telephone helpline whereby any employee may anonymously report suspected violations of law or International Paper’s policy; and an office of ethics and business practice. The internal control system further includes careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout International Paper, and an extensive program of internal audits with management follow-up.

The Board of Directors, assisted by the Audit and Finance Committee (Committee), monitors the integrity of the Company’s financial statements and financial reporting procedures, the performance of the Company’s internal audit function and independent auditors, and other matters set forth in its charter. The Committee, which consists of independent directors, meets regularly with representatives of management, and with the independent auditors and the Internal Auditor, with and without management representatives in attendance, to review their activities. The Committee’s Charter takes into account the New York Stock Exchange rules relating to Audit Committees and the SEC rules and regulations promulgated as a result of the Sarbanes-Oxley Act of 2002. The Committee has

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reviewed and discussed the consolidated financial statements for the year ended December 31, 2018, including critical accounting policies and significant management judgments, with management and the independent auditors. The Committee's report recommending the inclusion of such financial statements in this Annual Report on Form 10-K will be set forth in our Proxy Statement.

MARK S. SUTTON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

TIMOTHY S. NICHOLLS
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of International Paper Company and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included

evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Memphis, Tennessee
February 20, 2019

We have served as the Company's auditor since 2002.

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

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of International Paper Company and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company, and our report dated February 20, 2019 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities

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laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Memphis, Tennessee
February 20, 2019

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CONSOLIDATED STATEMENT OF OPERATIONS

In millions, except per share amounts, for the years ended December 31	2018	2017	2016
NET SALES	$23,306	$21,743	$19,495
COSTS AND EXPENSES			
Cost of products sold	15,555	14,802	13,419
Selling and administrative expenses	1,723	1,621	1,458
Depreciation, amortization and cost of timber harvested	1,328	1,343	1,124
Distribution expenses	1,567	1,434	1,237
Taxes other than payroll and income taxes	171	169	154
Restructuring and other charges, net	29	67	54
Net (gains) losses on sales and impairments of businesses	122	9	70
Litigation settlement	—	354	—
Net bargain purchase gain on acquisition of business	—	(6)	—
Interest expense, net	536	572	520
Non-operating pension expense	494	530	664
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY EARNINGS (LOSSES)	1,781	848	795
Income tax provision (benefit)	445	(1,085)	193
Equity earnings (loss), net of taxes	336	177	198
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	1,672	2,110	800
Discontinued operations, net of taxes	345	34	102
NET EARNINGS (LOSS)	2,017	2,144	902
Less: Net earnings (loss) attributable to noncontrolling interests	5	—	(2)
NET EARNINGS (LOSS) ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY	$2,012	$2,144	$904
BASIC EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$4.07	$5.11	$1.95
Discontinued operations, net of taxes	0.84	0.08	0.25
Net earnings (loss)	$4.91	$5.19	$2.20
DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$4.02	$5.05	$1.93
Discontinued operations, net of taxes	0.83	0.08	0.25
Net earnings (loss)	$4.85	$5.13	$2.18
AMOUNTS ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS			
Earnings (loss) from continuing operations	$1,667	$2,110	$802
Discontinued operations, net of taxes	345	34	102
Net earnings (loss)	$2,012	$2,144	$904

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

In millions for the years ended December 31	2018	2017	2016
NET EARNINGS (LOSS)	$2,017	$2,144	$902
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Amortization of pension and postretirement prior service costs and net loss:			
U.S. plans (less tax of $196, $280 and $343)	588	486	545
Non-U.S. plans (less tax of $0, $0 and $0)	1	—	—
Pension and postretirement liability adjustments:			
U.S. plans (less tax of $6, $69 and $283)	18	56	(451)
Non-U.S. plans (less tax of $1, $1 and $4)	4	3	3
Change in cumulative foreign currency translation adjustment (less tax of $1, $0 and $0)	(473)	177	260
Net gains/losses on cash flow hedging derivatives:			
Net gains (losses) arising during the period (less tax of $5, $4 and $3)	(10)	15	(6)
Reclassification adjustment for (gains) losses included in net earnings (less tax of $1, $2 and $3)	2	(7)	(7)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	130	730	344
Comprehensive Income (Loss)	2,147	2,874	1,246
Net (Earnings) Loss Attributable to Noncontrolling Interests	(5)	—	2
Other Comprehensive (Income) Loss Attributable to Noncontrolling Interests	3	(1)	2
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY	$2,145	$2,873	$1,250

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

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CONSOLIDATED BALANCE SHEET

In millions, except per share amounts, at December 31	2018	2017
ASSETS		
Current Assets		
Cash and temporary investments	$589	$1,018
Accounts and notes receivable (less allowances of $81 in 2018 and $73 in 2017)	3,521	3,287
Contract assets	395	—
Inventories	2,241	2,313
Assets held for sale	—	1,377
Other current assets	250	282
Total Current Assets	6,996	8,277
Plants, Properties and Equipment, net	13,067	13,265
Forestlands	402	448
Investments	1,648	390
Financial Assets of Special Purpose Entities (Note 14)	7,070	7,051
Goodwill	3,374	3,411
Deferred Charges and Other Assets	1,019	1,061
TOTAL ASSETS	$33,576	$33,903
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable and current maturities of long-term debt	$639	$311
Accounts payable	2,413	2,458
Accrued payroll and benefits	535	485
Liabilities held for sale	—	805
Other accrued liabilities	1,107	1,043
Total Current Liabilities	4,694	5,102
Long-Term Debt	10,015	10,846
Nonrecourse Financial Liabilities of Special Purpose Entities (Note 14)	6,298	6,291
Deferred Income Taxes	2,600	2,291
Pension Benefit Obligation	1,762	1,939
Postretirement and Postemployment Benefit Obligation	264	326
Other Liabilities	560	567
Commitments and Contingent Liabilities (Note 13)		
Equity		
Common stock $1 par value, 2018 - 448.9 shares & 2017 - 448.9 shares	449	449
Paid-in capital	6,280	6,206
Retained earnings	7,465	6,180
Accumulated other comprehensive loss	(4,500)	(4,633)
	9,694	8,202
Less: Common stock held in treasury, at cost, 2018 – 48.310 shares and 2017 – 35.975 shares	2,332	1,680
Total International Paper Shareholders' Equity	7,362	6,522
Noncontrolling interests	21	19
Total Equity	7,383	6,541
TOTAL LIABILITIES AND EQUITY	$33,576	$33,903

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

In millions for the years ended December 31	2018	2017	2016
OPERATING ACTIVITIES			
Net earnings (loss)	$2,017	$2,144	$902
Depreciation, amortization, and cost of timber harvested	1,328	1,423	1,227
Deferred income tax provision (benefit), net	133	(1,113)	136
Restructuring and other charges, net	29	67	54
Pension plan contributions	—	(1,250)	(750)
Periodic pension expense, net	632	717	809
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	70
Equity method dividends received	153	133	58
Equity (earnings) losses, net	(336)	(177)	(198)
Other, net	75	212	99
Changes in current assets and liabilities			
Accounts and notes receivable	(342)	(370)	(94)
Contract assets	(32)	—	—
Inventories	(236)	(87)	11
Accounts payable and accrued liabilities	151	114	98
Interest payable	(8)	1	41
Other	28	(60)	15
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	3,226	1,757	2,478
INVESTMENT ACTIVITIES			
Invested in capital projects	(1,572)	(1,391)	(1,348)
Acquisitions, net of cash acquired	(8)	(45)	(2,228)
Net settlement on transfer of North American Consumer Packaging business	(40)	—	—
Proceeds from divestitures, net of cash divested	—	4	108
Proceeds from sale of fixed assets	23	26	19
Other	28	15	(49)
CASH PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES	(1,569)	(1,391)	(3,498)
FINANCING ACTIVITIES			
Repurchases of common stock and payments of restricted stock tax withholding	(732)	(47)	(132)
Issuance of debt	490	1,907	3,830
Reduction of debt	(1,008)	(1,424)	(1,938)
Change in book overdrafts	(1)	26	—
Dividends paid	(789)	(769)	(733)
Net debt tender premiums paid	(6)	(84)	(31)
Other	—	(8)	(14)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(2,046)	(399)	982
Effect of Exchange Rate Changes on Cash	(40)	18	21
Change in Cash and Temporary Investments	(429)	(15)	(17)
Cash and Temporary Investments			
Beginning of the period	1,018	1,033	1,050
End of the period	$589	$1,018	$1,033

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions	Common Stock Issued	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE, JANUARY 1, 2016	$ 449	$6,243	$4,649	$ (5,708)	$1,749	$ 3,884	$ 25	$3,909
Issuance of stock for various plans, net	—	(6)	—	—	(128)	122	—	122
Repurchase of stock	—	—	—	—	132	(132)	—	(132)
Dividends	—	—	(743)	—	—	(743)	—	(743)
Transactions of equity method investees	—	(48)	—	—	—	(48)	—	(48)
Divestiture of noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Other	—	—	8	—	—	8	—	8
Comprehensive income (loss)	—	—	904	346	—	1,250	(4)	1,246
BALANCE, DECEMBER 31, 2016	449	6,189	4,818	(5,362)	1,753	4,341	18	4,359
Issuance of stock for various plans, net	—	42	—	—	(120)	162	—	162
Repurchase of stock	—	—	—	—	47	(47)	—	(47)
Dividends	—	—	(782)	—	—	(782)	—	(782)
Transactions of equity method investees	—	(25)	—	—	—	(25)	—	(25)
Comprehensive income (loss)	—	—	2,144	729	—	2,873	1	2,874
BALANCE, DECEMBER 31, 2017	449	6,206	6,180	(4,633)	1,680	6,522	19	6,541
Adoption of ASC 606 revenue from contracts with customers	—	—	73	—	—	73	—	73
Issuance of stock for various plans, net	—	62	—	—	(80)	142	—	142
Repurchase of stock	—	—	—	—	732	(732)	—	(732)
Dividends	—	—	(800)	—	—	(800)	—	(800)
Transactions of equity method investees	—	12	—	—	—	12	—	12
Comprehensive income (loss)	—	—	2,012	133	—	2,145	2	2,147
BALANCE, DECEMBER 31, 2018	$ 449	$6,280	$7,465	$ (4,500)	$2,332	$ 7,362	$ 21	$7,383

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

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

FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States that require the use of management's estimates. Actual results could differ from management's estimates.

On January 1, 2018, the Company completed the previously announced transfer of its North American Consumer Packaging business, which includes its North American Coated Paperboard and Foodservice businesses, to a subsidiary of Graphic Packaging Holding Company. The Company received a 20.5% ownership interest in a subsidiary of Graphic Packaging Holding Company that holds the assets of the combined business. See Note 8 for further discussion.

CONSOLIDATION

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

EQUITY METHOD INVESTMENTS

The equity method of accounting is applied for investments in affiliated companies when the Company has significant influence over the investee's operations, or when the investee is structured with separate capital accounts and our investment is considered more than minor, which is the case for our 20.5% investment in Graphic Packaging International Partners, LLC (GPIP). Our material equity method investments are described in Note 10.

DISCONTINUED OPERATIONS

A discontinued operation may include a component or a group of components of the Company's operations. A disposal of a component or a group of components is

reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results when the following occurs: (1) a component (or group of components) meets the criteria to be classified as held for sale; (2) the component or group of components is disposed of by sale; or (3) the component or group of components is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). For any component classified as held for sale or disposed of by sale or other than by sale, qualifying for presentation as a discontinued operation, the Company reports the results of operations of the discontinued operations (including any gain or loss recognized on the disposal or loss recognized on classification as held for sale of a discontinued operation), less applicable income taxes (benefit), as a separate component in the consolidated statement of operations for current and all prior periods presented.

REVENUE RECOGNITION

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 generally is, as the goods are produced.

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.

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 or transfer and customer payment is one year or less.

TEMPORARY INVESTMENTS

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

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INVENTORIES

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

PLANTS, PROPERTIES AND EQUIPMENT

Plants, properties and equipment are stated at cost, less accumulated depreciation. Expenditures for betterments are capitalized, whereas normal repairs and maintenance are expensed as incurred. The units-of-production method of depreciation is used for pulp and paper mills, and the straight-line method is used for other plants and equipment.

GOODWILL

Annual evaluation for possible goodwill impairment is performed as of the beginning of the fourth quarter of each year, with additional interim evaluation performed when management believes that it is more likely than not, that events or circumstances have occurred that would result in the impairment of a reporting unit's goodwill.

The Company has the option to evaluate goodwill for impairment by first performing a qualitative (Step 0) assessment of events and circumstances to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amounts, then the two-step goodwill impairment evaluation is not required to be performed. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company does not elect the option to perform an initial qualitative assessment, the Company is required to perform the traditional two-step goodwill impairment evaluation. In performing this evaluation, the Company estimates the fair value of its reporting units using the expected discounted future cash flows for each reporting unit. Key assumptions in the impairment analysis considered by management include the discount rate, long-term growth rate, tax rate, inflation rate and foreign exchange rates. These estimated fair values are then analyzed for reasonableness by comparing them to historic market transactions for businesses in the industry, and by comparing the sum of the reporting unit fair values and other corporate assets and liabilities divided by diluted common shares outstanding to the Company's traded stock price on the evaluation date. For reporting units whose recorded value of net assets plus goodwill is

in excess of their estimated fair values, the fair values of the individual assets and liabilities of the respective reporting units are then determined to calculate the amount of any goodwill impairment charge required, if any. See Note 11 for further discussion.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances that indicate that the carrying value of the assets may not be recoverable. A recoverability test is performed based on undiscounted cash flows, requiring judgments as to whether assets are held and used or held for sale, the weighting of operational alternatives being considered by management and estimates of the amount and timing of expected future cash flows from the use of the long-lived assets generated by their use. Impaired assets are recorded at their estimated fair value. See Note 8 for further discussion.

INCOME TAXES

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

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

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

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adjustments that could materially affect future financial statements.

ENVIRONMENTAL REMEDIATION COSTS

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

TRANSLATION OF FINANCIAL STATEMENTS

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

NOTE 2 RECENT ACCOUNTING DEVELOPMENTS

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

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 early adopted the provisions of this guidance in 2018 with no material impact on the financial statements.

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. The Company is finalizing its evaluation of the provisions of this guidance.

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 early adopted the provisions of this guidance in 2018 with no material impact on the financial statements.

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 retrospective adoption had no impact on Net earnings (loss).

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.

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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.

LEASES

In February 2016, the FASB issued ASU 2016-02, (Leases Topic 842): "Leases." This ASU will require most leases to be recognized on the balance sheet which will increase reported assets and liabilities. Lessor accounting will remain substantially similar to current U.S. GAAP. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years, and mandates a modified retrospective transition method for all entities. The Company will adopt this guidance using the newly approved transition method. We will recognize a liability and corresponding asset associated with in-scope operating and finance leases and are in the final stages of determining those amounts and the processes required to account for leasing activity on an ongoing basis. On adoption, we expect to recognize additional assets and liabilities of approximately $500 million based on the present value of the remaining minimum rental payments.

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 operating 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 consolidated financial statements were as follows:

Consolidated Statement of Operations

In millions, except per share amounts	2018 Balances As Reported Under ASC 606	Balances Without Adoption of ASC 606	Impact of Adoption Increase/(Decrease)
Net sales	$23,306	$ 23,274	$ 32
Cost of products sold	15,555	15,535	20
Distribution expenses	1,567	1,563	4
Income tax provision (benefit), net	445	443	2
Earnings (loss) from continuing operations	1,672	1,666	6
Net earnings (loss)	2,017	2,011	6
Earnings per share attributable to International Paper Company Shareholders			
Basic	$4.91	$ 4.90	$ 0.01

Diluted	4.85	4.84	0.01

Consolidated Balance Sheet

In millions, except per share amounts	2018 Balances As Reported Under ASC 606	Balances Without Adoption of ASC 606	Impact of Adoption Increase/(Decrease)
Contract assets	$395	$ —	$ 395
Inventories	2,241	2,511	(270)
Other current assets	250	278	(28)
Other accrued liabilities	1,107	1,088	19
Deferred income taxes	2,600	2,601	(1)
Retained earnings	7,465	7,386	79

Consolidated Statement of Cash Flows

In millions, except per share amounts	2018 Balances As Reported Under ASC 606	Balances Without Adoption of ASC 606	Impact of Adoption Increase/(Decrease)
Net earnings (loss)	$2,017	$ 2,011	$ 6
Deferred income tax provision (benefit), net	133	159	(26)
Contract assets	(32)	—	(32)
Inventories	(236)	(256)	20
Accounts payable and accrued liabilities	151	147	4
Other	28	—	28

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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.

	2018				
Reportable Segments	Industrial Packaging	Global Cellulose Fibers	Printing Papers	Corporate & Intersegment	Total
Primary Geographical Markets (a)					
United States	$13,167	$ 2,336	$1,903	$ 203	$17,609
EMEA	1,704	304	1,330	(17)	3,321
Pacific Rim and Asia	142	179	245	39	605
Americas, other than U.S.	887	—	897	(13)	1,771
Total	$15,900	$ 2,819	$4,375	$ 212	$23,306
Operating Segments					
North American Industrial Packaging	$14,187	$ —	$—	$ —	$14,187
EMEA Industrial Packaging	1,355	—	—	—	1,355
Brazilian Industrial Packaging	232	—	—	—	232
European Coated Paperboard	359	—	—	—	359
Global Cellulose Fibers	—	2,819	—	—	2,819
North American Printing Papers	—	—	1,956	—	1,956
Brazilian Papers	—	—	978	—	978
European Papers	—	—	1,252	—	1,252
Indian Papers	—	—	202	—	202
Intra-segment Eliminations	(233)	—	(13)	—	(246)
Corporate & Inter-segment Sales	—	—	—	212	212
Total	$15,900	$ 2,819	$4,375	$ 212	$23,306

(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:

In millions	Contract Assets (Short-Term)	Contract Liabilities (Short-Term)
Beginning Balance - January 1, 2018	$ 366	$ 53
Ending Balance - December 31, 2018	395	56
Increase / (Decrease)	$ 29	$ 3

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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 difference between the price and quantity at comparable points in time for goods 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.

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.

NOTE 4 EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per share is computed assuming that all potentially dilutive securities were converted into common shares.

There are no adjustments required to be made to net income for purposes of computing basic and diluted EPS.
A reconciliation of the amounts included in the computation of basic earnings (loss) per share from continuing operations, and diluted earnings (loss) per share from continuing operations is as follows:

In millions, except per share amounts	2018	2017	2016
Earnings (loss) from continuing operations attributable to International Paper common shareholders	$1,667	$2,110	$802
Weighted average common shares outstanding	409.1	412.7	411.1
Effect of dilutive securities:			
Restricted performance share plan	5.1	5.0	4.5
Weighted average common shares outstanding – assuming dilution	414.2	417.7	415.6
Basic earnings (loss) per share from continuing operations	$4.07	$5.11	$1.95
Diluted earnings (loss) per share from continuing operations	$4.02	$5.05	$1.93

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NOTE 5 OTHER COMPREHENSIVE INCOME

The following table presents changes in AOCI, net of tax, reported in the consolidated financial statements for the years ended December 31:

In millions	2018	2017	2016
Defined Benefit Pension and Postretirement Adjustments			
Balance at beginning of period	$(2,527)	$(3,072)	$(3,169)
Other comprehensive income (loss) before reclassifications	22	59	(448)
Amounts reclassified from accumulated other comprehensive income	589	486	545
Balance at end of period	(1,916)	(2,527)	(3,072)
Change in Cumulative Foreign Currency Translation Adjustments			
Balance at beginning of period	(2,111)	(2,287)	(2,549)
Other comprehensive income (loss) before reclassifications	(475)	178	263
Amounts reclassified from accumulated other comprehensive income	2	(1)	(3)
Other Comprehensive Income (Loss) Attributable to Noncontrolling Interest	3	(1)	2
Balance at end of period	(2,581)	(2,111)	(2,287)
Net Gains and Losses on Cash Flow Hedging Derivatives			
Balance at beginning of period	5	(3)	10
Other comprehensive income (loss) before reclassifications	(10)	15	(6)
Amounts reclassified from accumulated other comprehensive income	2	(7)	(7)
Balance at end of period	(3)	5	(3)
Total Accumulated Other Comprehensive Income (Loss) at End of Period	$(4,500)	$(4,633)	$(5,362)

Reclassifications out of AOCI for the three years ended December 31 were as follows:

	Amount Reclassified from Accumulated Other Comprehensive Income				Location of Amount Reclassified from AOCI
	2018	2017	2016		
In millions					
Defined benefit pension and postretirement items:					
Prior-service costs	$(11)	$(33)	$(37)	(a)	Non-operating pension expense
Actuarial gains/(losses)	(774)	(733)	(851)	(a)	Non-operating pension expense
Total pre-tax amount	(785)	(766)	(888)		
Tax (expense)/benefit	196	280	343		
Net of tax	(589)	(486)	(545)		
Change in cumulative foreign currency translation adjustments:					
Business acquisitions/divestiture	(2)	1	3	(b)	Discontinued operations, net of taxes
Tax (expense)/benefit	—	—	—		
Net of tax	(2)	1	3		
Net gains and losses on cash flow hedging derivatives:					
Foreign exchange contracts	(3)	9	10	(c)	Cost of products sold
Total pre-tax amount	(3)	9	10		
Tax (expense)/benefit	1	(2)	(3)		
Net of tax	(2)	7	7		
Total reclassifications for the period, net of tax	$(593)	$(478)	$(535)		

(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 2016 and 2017 were reclassed 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 16 for additional details).

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NOTE 6 RESTRUCTURING CHARGES AND OTHER ITEMS

2018: During 2018, restructuring and other charges, net, totaling $29 million before taxes were recorded. These charges included:

In millions	2018
EMEA packaging restructuring (a)	$47
Gain on sale of investment in Liaison Technologies Inc.	(31)
Early debt extinguishment costs (see Note 15)	10
Riverdale mill conversion severance (b)	3
Total	$29

(a) Includes $33 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. The majority of the severance charges recorded were paid throughout the year.
(b) Includes severance related to 51 employees.

2017: During 2017, restructuring and other charges, net, totaling $67 million before taxes were recorded. These charges included:

In millions	2017
Early debt extinguishment costs (see Note 15)	$83
Gain on sale of investment in ArborGen	(14)
Other	(2)
Total	$67

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

In millions	2016
Early debt extinguishment costs (see Note 15)	$29
India packaging evaluation write-off	17
Gain on sale of investment in Arizona Chemical	(8)
Riegelwood mill conversion costs (a)	9
Turkey mill closure (b)	7
Total	$54

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

NOTE 7 ACQUISITIONS AND JOINT VENTURES

TANGIER, MOROCCO FACILITY

2017: 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-close adjustments, final consideration exchanged was €33 million (approximately $38 million using the June 30, 2017 exchange rate).

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

In millions	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

Since the date of acquisition, Net sales of $6 million and Earnings (loss) from continuing operations before income taxes and equity earnings of $(1) million from the acquired business have been included in the Company's consolidated statement of operations for the year ended December 31, 2017. 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.

WEYERHAEUSER PULP BUSINESS

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

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The following table summarizes the final fair values assigned to assets and liabilities acquired as of December 1, 2016:

In millions	December 1, 2016
Cash and temporary investments	$ 12
Accounts and notes receivable	195
Inventory	238
Other current assets	11
Plants, properties and equipment	1,711
Goodwill	52
Other intangible assets	212
Deferred charges and other assets	6
Total assets acquired	2,437
Accounts payable and accrued liabilities	114
Long-term debt	104
Other long-term liabilities	28
Total liabilities assumed	246
Net assets acquired	$ 2,191

In connection with the allocation of fair value, inventories were written up by $33 million to their estimated fair value. During 2017 and 2016, $14 million before taxes ($8 million after taxes) and $19 million before taxes ($12 million after taxes), respectively, were expensed to Cost of products sold as the related inventory was sold.

Since the date of acquisition, Net sales of $111 million and Earnings (loss) from continuing operations before income taxes and equity earnings of $(21) million from the acquired business are included in the Company's consolidated statement of operations for the year ended December 31, 2016. Additionally, Selling and administrative expenses for 2016 include $28 million in charges before taxes ($18 million after taxes) for integration costs associated with the acquisition.

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

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

On an unaudited pro forma basis, assuming the acquisition of the newly acquired pulp business had

closed January 1, 2016, the consolidated results would have reflected Net sales of $20.8 billion and Earnings (loss) from continuing operations before income taxes and equity earnings of $942 million for the year ended December 31, 2016.

The 2016 pro forma information includes adjustments for additional amortization expense on identifiable intangible assets of $18 million and eliminating the write-off of the estimated fair value of inventory of $(19) million and non-recurring integration costs associated with the acquisition of $30 million, including $12 million of deal costs.

The unaudited pro forma consolidated financial information was prepared for comparative purposes only and includes certain adjustments, as noted above. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of the acquisition. The pro forma information does not purport to represent International Paper's actual results of operations as if the transaction described above would have occurred as of January 1, 2016, nor is it necessarily an indicator of future results.

HOLMEN PAPER NEWSPRINT MILL

2016: On June 30, 2016, the Company completed the acquisition of Holmen Paper's newsprint mill in Madrid, Spain. Under the terms of the acquisition agreement, International Paper purchased the Madrid newsprint mill, as well as, associated recycling operations and a 50% ownership interest in a cogeneration facility. The Company completed the conversion of the mill to produce recycled containerboard with an expected capacity of 440,000 tons, supporting the Company's corrugated packaging business in EMEA.
The Company's aggregate purchase price for the mill, recycling operations and 50% ownership of the cogeneration facility was €53 million (approximately $59 million using June 30, 2016 exchange rate). The assignment of fair value to assets acquired and liabilities assumed was completed in the first quarter of 2017 and is presented in the table below.

In millions	June 30, 2016
Current assets	$ 14
Equity method investments	14
Plants, properties and equipment	60
Other long-term assets	5
Total assets acquired	93
Short-term liabilities	9
Long-term liabilities	16
Total liabilities assumed	25
Net assets acquired	$ 68

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The final fair values assigned indicated that the sum of the cash consideration paid was less than the fair value of the underlying net assets, after adjustments, by $6 million, resulting in a bargain purchase gain being recorded on this transaction. The amount of revenue and earnings recognized since the acquisition date are $90 million and a net loss of $2 million, respectively, for the year ended December 31, 2016. Pro forma information related to the acquisition of the Holmen businesses has not been included as it is impractical to obtain the information due to the lack of availability of financial data and does not have a material effect on the Company's consolidated results of operations. The Company has accounted for the above acquisitions under ASC 805, "Business Combinations" and the results of operations have been included in International Paper's financial statements beginning with the dates of acquisition.

NOTE 8 DIVESTITURES AND IMPAIRMENTS

DISCONTINUED OPERATIONS

2017: 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 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. Prior to the transaction, International Paper also received $660 million in cash proceeds from a new loan entered into by International Paper on December 8, 2017, which the Company used to pay down existing debt. The loan was subsequently assumed by GPI from International Paper on the transaction closing date and was classified as Liabilities held for sale in the accompanying consolidated balance sheet. 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 to be $1.1 billion and recorded a pre-tax gain of $488 million ($364 million, net of tax) in 2018. The fair value was calculated using a market approach using inputs classified as Level 2 and Level 3 within the fair value hierarchy, which is further defined in Note 16.

All current and 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 prior periods presented in the consolidated statement of operations:

In millions	2018	2017	2016
Net Sales	$—	$1,559	$1,584
Costs and Expenses			
Cost of products sold	—	1,179	1,095
Selling and administrative expenses	25	110	91
Depreciation, amortization and cost of timber harvested	—	80	103
Distribution expenses	—	126	124
Taxes other than payroll and income taxes	—	11	10
(Gain) loss on transfer of business	(488)	—	—
Interest expense, net	—	1	—
Earnings (Loss) Before Income Taxes and Equity Earnings	463	52	161
Income tax provision (benefit)	118	18	54
Discontinued Operations, Net of Taxes	$345	$34	$107

At December 31, 2017, all assets and liabilities of North American Consumer Packaging are classified as current assets held for sale and current liabilities held for sale in the accompanying consolidated balance sheet. The following summarizes the major classes of assets and liabilities of North American Consumer Packaging reconciled to total Assets held for sale and total Liabilities held for sale in the accompanying consolidated balance sheet:

In millions	2017
Accounts and notes receivable	$143
Inventories	185
Other current assets	3
Plants, properties and equipment	1,021
Deferred charges and other assets	25
Total Assets Held for Sale	$1,377
Accounts payable	$104
Accrued payroll and benefits	25
Other accrued liabilities	17
Long-term debt	651
Other liabilities	8
Total Liabilities Held for Sale	$805

Total cash provided by (used for) operations related to the North American Consumer Packaging business of $(25) million, $207 million and $268 million for 2018, 2017 and 2016, respectively, is included in Cash Provided By (Used For) Operations in the consolidated statement of cash flows. Total cash used for investing activities related to the North American Consumer Packaging business of $40 million, $111 million and $114 million for 2018, 2017 and 2016, respectively, is

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included in Cash Provided By (Used For) Investing Activities in the consolidated statement of cash flows.

OTHER DIVESTITURES AND IMPAIRMENTS

2018: During 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. In the fourth quarter of 2018, the Company announced that it was exploring strategic options for its Brazil Packaging business.

2017: On September 7, 2017, the Company completed the sale of its foodservice business in China to Huhtamaki Hong Kong Limited. Proceeds received totaled approximately RMB 129 million ($18 million using the September 30, 2017 exchange rate). Under the terms of the transaction, and after post-closing adjustments, International Paper received approximately RMB 49 million in exchange for its ownership interest in two China foodservice entities and RMB 80 million for the sale of notes receivable from the acquired entities.

Subsequent to the announced agreement in June 2017, a determination was made that the current book value of the asset group exceeded its estimated fair value of $7 million, which was the agreed upon selling price. As a result, a pre-tax charge of $9 million was recorded during the second quarter of 2017, to write down the long-lived assets of this business to their estimated fair value. Amounts related to this business included in the Company's statement of operations were immaterial for all periods presented.

2016: On June 30, 2016, the Company completed the sale of its corrugated packaging business in China and Southeast Asia to Xiamen Bridge Hexing Equity Investment Partnership Enterprise. Under the terms of the transaction and after post-closing adjustments, International Paper received a total of approximately RMB 957 million (approximately $144 million at the June 30, 2016 exchange rate), which included the buyer's assumption of a liability for outstanding loans of approximately $55 million which are payable up to three

years from the closing of the sale. There was no remaining balance on the outstanding loans payable to International Paper as of December 31, 2018.

Based on the final sales price, a determination was made that the current book value of the asset group was not recoverable. As a result, a pre-tax charge of $46 million was recorded during 2016 in the Company's Industrial Packaging segment to write down the long-lived assets of this business to their estimated fair value. In addition, the Company recorded a pre-tax charge of $24 million for severance that was contingent upon the sale of this business. The 2016 net loss totaling $70 million related to the impairment and severance of IP Asia Packaging is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations. The amount of pre-tax losses related to the IP Asia Packaging business included in the Company's consolidated statement of operations was $83 million for year ended December 31, 2016.

NOTE 9 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

TEMPORARY INVESTMENTS

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost. Temporary investments totaled $402 million and $661 million at December 31, 2018 and 2017, respectively.

ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net, by classification were:

In millions at December 31	2018	2017
Accounts and notes receivable:		
Trade	$3,249	$3,017
Other	272	270
Total	$3,521	$3,287

INVENTORIES

In millions at December 31	2018	2017
Raw materials	$260	$274
Finished pulp, paper and packaging products	1,241	1,337
Operating supplies	641	615
Other	99	87
Inventories	$2,241	$2,313

The last-in, first-out inventory method is used to value most of International Paper’s U.S. inventories. Approximately 70% of total raw materials and finished products inventories were valued using this method. The last-in, first-out inventory reserve was $329 million

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and $293 million at December 31, 2018 and 2017, respectively.

PLANTS, PROPERTIES AND EQUIPMENT

In millions at December 31	2018	2017
Pulp, paper and packaging facilities	$32,329	$32,523
Other properties and equipment	1,232	1,291
Gross cost	33,561	33,814
Less: Accumulated depreciation	20,494	20,549
Plants, properties and equipment, net	$13,067	$13,265

Non-cash additions to plants, property and equipment included within accounts payable were $135 million, $275 million and $172 million at December 31, 2018, 2017 and 2016, respectively.

Annual straight-line depreciable lives generally are, for buildings - 20 to 40 years, and for machinery and equipment - 3 to 20 years. Depreciation expense was $1.2 billion, $1.2 billion and $1.0 billion for the years ended December 31, 2018, 2017 and 2016, respectively. Cost of products sold excludes depreciation and amortization expense.

INTEREST

Interest payments of $772 million, $782 million and $682 million were made during the years ended December 31, 2018, 2017 and 2016, respectively.

Amounts related to interest were as follows:

In millions	2018	2017	2016
Interest expense	$734	$758	$695
Interest income	198	186	175
Capitalized interest costs	30	25	28

ASSET RETIREMENT OBLIGATIONS

At both December 31, 2018 and December 31, 2017, we had recorded liabilities of $86 million related to asset retirement obligations.

NOTE 10 - EQUITY METHOD INVESTMENTS

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

GRAPHIC PACKAGING INTERNATIONAL PARTNERS, 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 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 $46 million for the year ended December 31, 2018. The Company received cash dividends from GPIP of $25 million during 2018. At December 31, 2018, the Company's investment in GPIP was $1.1 billion, which was $562 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. Management engaged a third party to assist with determining the fair value of the intangible assets and the fixed assets. The fair value of the intangible assets were calculated using income and market approaches and the fair value of the fixed assets was calculated using a cost approach. The fair values were determined using inputs classified as Level 2 and Level 3 within the fair value hierarchy, which is further defined in Note 16. The Company is party to various agreements with GPI under which it sells fiber and other products to GPI. Sales under these agreements were $240 million for the year ended December 31, 2018.

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

Balance Sheet

In millions	2018
Current assets	$1,757
Noncurrent assets	5,292
Current liabilities	1,148
Noncurrent liabilities	3,156

Income Statement

In millions	2018
Net sales	$6,023
Gross profit	946
Income from continuing operations	336
Net income	337

ILIM S.A. (Ilim)

The Company also holds a 50% equity interest in Ilim, which has subsidiaries whose primary operations are in Russia. The Company recorded equity earnings (losses), net of taxes, of $290 million, $183 million, and $199 million in 2018, 2017, and 2016, respectively, for Ilim. Equity earnings (losses) includes an after-tax foreign exchange (loss) gain of $(82) million, $15 million, and $25 million in 2018, 2017 and 2016, respectively, primarily on the remeasurement of U.S. dollar-denominated net debt. The Company received cash dividends from the joint venture of $128 million and $133 million in 2018 and 2017, respectively. At

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December 31, 2018 and 2017, the Company's investment in Ilim, which is recorded in Investments in the consolidated balance sheet, was $478 million and $338 million, respectively, which was $145 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 $214 million, $205 million and $170 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

Balance Sheet

In millions	2018	2017
Current assets	$981	$689
Noncurrent assets	1,710	1,696
Current liabilities	545	1,039
Noncurrent liabilities	1,470	972
Noncontrolling interests	11	6

Income Statement

In millions	2018	2017	2016
Net sales	$2,713	$2,150	$1,927
Gross profit	1,549	1,047	957
Income from continuing operations	592	379	419
Net income	571	362	391

The audited U.S. GAAP financial statements for Ilim are included in Exhibit 99.1 to this Form 10-K.

NOTE 11 GOODWILL AND OTHER INTANGIBLES

GOODWILL

The following table presents changes in the goodwill balances as allocated to each business segment for the years ended December 31, 2018 and 2017:

In millions	Industrial Packaging		Global Cellulose Fibers		Printing Papers	Total
Balance as of December 31, 2016						
Goodwill	$ 3,375		$ 19		$2,143	$5,537
Accumulated impairment losses	(296)		—		(1,877)	(2,173)
	3,079		19		266	3,364
Currency translation and other (a)	3		—		8	11
Additions/reductions	4	(b)	33	(c)	(1)	36
Balance as of December 31, 2017						
Goodwill	3,382		52		2,150	5,584
Accumulated impairment losses	(296)		—		(1,877)	(2,173)
	3,086		52		273	3,411
Currency translation and other (a)	(1)		—		(34)	(35)

Additions/reductions	(2) (d)	—	—	(2)
Balance as of December 31, 2018				
Goodwill	3,379	52	2,116	5,547
Accumulated impairment losses	(296)	—	(1,877)	(2,173)
Total	$ 3,083	$ 52	$ 239	$ 3,374

(a) Represents the effects of foreign currency translations and reclassifications.
(b) Reflects the acquisition of the Moroccan box plant.
(c) Reflects the acquisition and purchase price adjustments of the Weyerhaeuser pulp business.
(d) Reflects a reduction from tax benefits generated by the deduction of goodwill amortization for tax purposes in the U.S.

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The Company performed its annual evaluation of its reporting units for possible goodwill impairments by applying the qualitative Step 0 analysis to its reporting units as of October 1, 2018. For the current year evaluation, the Company assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting units. The results of this assessment indicated that it is not more likely than not that the fair values of the Company's reporting units were less than the carrying values of the reporting units.

In addition, the Company considered whether there were any events or circumstances subsequent to the annual evaluation that would reduce the fair value of its reporting units below their carrying amounts and necessitate another goodwill impairment evaluation. In consideration of all relevant factors, there were no indicators that would require goodwill impairment subsequent to October 1, 2018.

OTHER INTANGIBLES

Identifiable intangible assets comprised the following:

In millions at December 31	2018 Gross Carrying Amount	2018 Accumulated Amortization	2018 Net Intangible Assets	2017 Gross Carrying Amount	2017 Accumulated Amortization	2017 Net Intangible Assets
Customer relationships and lists	$542	$ 247	$ 295	$610	$ 247	$ 363
Non-compete agreements	67	67	—	72	72	—
Tradenames, patents and trademarks, and developed technology	174	90	84	172	72	100
Land and water rights	8	2	6	8	2	6
Software	26	25	1	24	23	1
Other	30	23	7	38	26	12
Total	$847	$ 454	$ 393	$924	$ 442	$ 482

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

In millions	2018	2017	2016
Amortization expense related to intangible assets	$ 59	$ 77	$ 54

Based on current intangibles subject to amortization, estimated amortization expense for each of the succeeding years is as follows: 2019 – $48 million, 2020 – $46 million, 2021 – $46 million, 2022 – $44 million, 2023 – $40 million, and cumulatively thereafter – $163 million.

NOTE 12 INCOME TAXES

The components of International Paper’s earnings from continuing operations before income taxes and equity earnings by taxing jurisdiction were as follows:

In millions	2018	2017	2016
Earnings (loss)			
U.S.	$1,450	$297	$411
Non-U.S.	331	551	384
Earnings (loss) from continuing operations before income taxes and equity earnings	$1,781	$848	$795

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 provided guidance on accounting for the tax effects of the Tax Act. SAB 118 provided 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 had to 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 was incomplete but it

was able to determine a reasonable estimate, it was required to record a provisional estimate in the financial statements. The Company has completed its analysis of the one-time impacts of the Tax Act within the one year measurement period.
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. During the SAB 118 measurement period in the year ended December 31, 2018, we recorded an additional net tax benefit of $36 million associated with the one-time effects of the Tax Act.
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 third quarter and state tax returns in the fourth quarter, we recognized an adjustment of $11 million from the remeasurement of certain temporary differences. The tax benefit of the measurement-period adjustment on the 2018 effective tax rate was approximately 0.6%. A total decrease of the deferred tax liabilities by $1.462 billion has been recorded to date with a corresponding adjustment of $1.462 billion to income tax benefit.
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 period ended December 31, 2017. On the basis of revised E&P computations that were calculated during the SAB 118 measurement period, as well as the impacts of guidance received from the IRS pertaining to the Transition Tax computation, we recognized an adjustment of $25 million related to the Transition Tax obligation. The tax benefit of the measurement-period adjustment on the 2018 effective tax rate was approximately 1.4%. A total Transition Tax obligation of $206 million has been recorded.

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). 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. The Company has determined at the conclusion of the SAB 118 measurement period that the Tax Act had no additional direct impact on the state and local income tax valuation allowance. Therefore the accounting for this item is complete and no change was recorded in the year ended December 31, 2018.
Global Intangible Low-Taxed Income (GILTI): The Tax Act subjects a U.S. shareholder to current tax on GILTI earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740 No. 5, "Accounting for Global Intangible Low-Taxed Income," states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years, or provide for the tax expense related to GILTI in the year the tax is incurred. We have elected to recognize the tax on GILTI as a period expense in the period the tax is incurred.

Undistributed Earnings of Subsidiaries: The Company provides for foreign withholding taxes and any applicable U.S. state income taxes on earnings intended to be repatriated from non-U.S. subsidiaries, which we believe will be limited in the future to each year's current earnings. No provision for these taxes on approximately $1.7 billion of undistributed earnings of non-U.S. subsidiaries as of December 31, 2018 has been made, as these earnings are considered indefinitely invested. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted in a taxable manner is not practicable.

If management decided to monetize the Company's foreign investments, we would recognize the tax cost related to the excess of the book value over the tax basis of those investments. This would include foreign withholding taxes and any applicable U.S. Federal and state income taxes. Determination of the tax cost that that would be incurred upon monetization of the Company's foreign investments is not practicable; however, we do not believe it would be material.

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The provision (benefit) for income taxes from continuing operations (excluding noncontrolling interests) by taxing jurisdiction was as follows:

In millions	2018	2017	2016
Current tax provision (benefit)			
U.S. federal	$227	$(73)	$(7)
U.S. state and local	37	(23)	(12)
Non-U.S.	165	112	76
	$429	$16	$57
Deferred tax provision (benefit)			
U.S. federal	$12	$(1,150)	$134
U.S. state and local	50	9	27
Non-U.S.	(46)	40	(25)
	$16	$(1,101)	$136
Income tax provision (benefit)	$445	$(1,085)	$193

The Company’s deferred income tax provision (benefit) includes a $13 million benefit, a $1.459 billion benefit and a $18 million provision for 2018, 2017 and 2016, respectively, for the effect of various changes in non-U.S. and U.S. federal and state tax rates.

International Paper made income tax payments, net of refunds, of $388 million, $7 million and $90 million in 2018, 2017 and 2016, respectively.

A reconciliation of income tax expense using the statutory U.S. income tax rate compared with the actual income tax provision follows:

In millions	2018	2017	2016
Earnings (loss) from continuing operations before income taxes and equity earnings	$1,781	$848	$795
Statutory U.S. income tax rate	21%	35%	35%
Tax expense (benefit) using statutory U.S. income tax rate	374	297	278
State and local income taxes	72	(7)	8
Impact of rate differential on non-U.S. permanent differences and earnings	35	(36)	(26)
Tax expense (benefit) on manufacturing activities	(1)	23	(10)
Non-deductible business expenses	27	7	9
Sale of non-strategic assets	—	—	12
Tax audits	28	—	(14)
Subsidiary liquidation	—	—	(63)
Deemed repatriation, net of foreign tax credits	(25)	231	—
U.S. federal tax rate change	(13)	(1,451)	—
Foreign derived intangible income deduction	(25)	—	—
US tax on non-U.S. earnings (GILTI and Subpart F)	19	44	21
Foreign tax credits	(15)	(96)	(11)
General business and other tax credits	(26)	(86)	(15)
Other, net	(5)	(11)	4
Income tax provision (benefit)	$445	$(1,085)	$193
Effective income tax rate	25%	(128)%	24%

The tax effects of significant temporary differences, representing deferred income tax assets and liabilities at December 31, 2018 and 2017, were as follows:

In millions	2018	2017
Deferred income tax assets:		
Postretirement benefit accruals	$89	$102
Pension obligations	465	516
Alternative minimum and other tax credits	291	416
Net operating and capital loss carryforwards	594	665
Compensation reserves	191	174
Other	164	139
Gross deferred income tax assets	1,794	2,012
Less: valuation allowance (a)	(441)	(429)
Net deferred income tax asset	$1,353	$1,583
Deferred income tax liabilities:		
Intangibles	$(152)	$(139)
Investments	(255)	—
Plants, properties and equipment	(1,826)	(2,000)
Forestlands, related installment sales, and investment in subsidiary	(1,453)	(1,454)
Gross deferred income tax liabilities	$(3,686)	$(3,593)
Net deferred income tax liability	$(2,333)	$(2,010)

(a) The net change in the total valuation allowance for the years ended December 31, 2018 and 2017 was an increase of $12 million and an increase of $26 million, respectively.

Deferred income tax assets and liabilities are recorded in the accompanying consolidated balance sheet under the captions Deferred charges and other assets and Deferred income taxes. There was a decrease in deferred income tax assets principally relating to the utilization of U.S. Federal alternative minimum tax credits as permitted under Tax Reform. Deferred tax liabilities increased primarily due to the tax deferral of the book gain recognized on the transfer of the North American Consumer Packaging business to a subsidiary of Graphic Packaging Holding Company. Of the $1.5 billion of deferred tax liabilities for forestlands, related installment sales, and investment in subsidiary, $884 million is attributable to an investment in subsidiary and relates to a 2006 International Paper installment sale of forestlands and $538 million is attributable to a 2007 Temple-Inland installment sale of forestlands (see Note 14).

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2018, 2017 and 2016 is as follows:

In millions	2018	2017	2016
Balance at January 1	$(188)	$(98)	$(150)
(Additions) reductions based on tax positions related to current year	(7)	(54)	(4)
(Additions) for tax positions of prior years	(37)	(40)	(3)
Reductions for tax positions of prior years	5	4	33
Settlements	2	6	19
Expiration of statutes of limitations	2	1	5
Currency translation adjustment	3	(7)	2
Balance at December 31	$(220)	$(188)	$(98)

If the Company were to prevail on the unrecognized tax benefits recorded, substantially all of the balances at December 31, 2018, 2017 and 2016 would benefit the effective tax rate.

The Company accrues interest on unrecognized tax benefits as a component of interest expense. Penalties, if incurred, are recognized as a component of income tax expense. The Company had approximately $21 million and $17 million accrued for the payment of estimated interest and penalties associated with unrecognized tax benefits at December 31, 2018 and 2017, respectively.

The major jurisdictions where the Company files income tax returns are the United States, Brazil, France, Poland and Russia. Generally, tax years 2006 through 2017 remain open and subject to examination by the relevant tax authorities. The Company frequently faces challenges regarding the amount of taxes due. These challenges include positions taken by the Company related to the timing, nature, and amount of deductions and the allocation of income among various tax jurisdictions. Pending audit settlements and the expiration of statute of limitations could reduce the uncertain tax positions by $30 million during the next twelve months.

The Brazilian Federal Revenue Service has challenged the deductibility of goodwill amortization generated in a 2007 acquisition by International Paper do Brasil Ltda., a wholly-owned subsidiary of the Company. The Company received assessments for the tax years 2007-2015 totaling approximately $150 million in tax, and $380 million in interest and penalties as of December 31, 2018 (adjusted for variation in currency exchange rates). After a previous favorable ruling challenging the basis for these assessments, we received an unfavorable decision in October 2018 from the Brazilian Administrative Council of Tax Appeals. The Company intends to further appeal the matter in the

Brazilian federal courts in 2019; however, this tax litigation matter may take many years to resolve. The Company believes that it has appropriately evaluated the transaction underlying these assessments, and has concluded based on Brazilian tax law, that its tax position would be sustained. The Company intends to vigorously defend its position against the current assessments and any similar assessments that may be issued for tax years subsequent to 2015.

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 during 2018 and recorded a tax benefit of $68 million during 2017 related to Investment Tax Credits earned in tax years 2013-2017.

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The following details the scheduled expiration dates of the Company's net operating loss and income tax credit carryforwards:

In millions	2019 Through 2028	2029 Through 2038	Indefinite	Total
U.S. federal and non-U.S. NOLs	$ 53	$ —	$ 417	$470
State taxing jurisdiction NOLs (a)	80	42	—	122
U.S. federal, non-U.S. and state tax credit carryforwards (a)	162	11	118	291
U.S. federal and state capital loss carryforwards (a)	2	—	—	2
Total	$ 297	$ 53	$ 535	$885
Less: valuation allowance (a)	(192)	(8)	(198)	(398)
Total, net	$ 105	$ 45	$ 337	$487

(a) State amounts are presented net of federal benefit.

NOTE 13 COMMITMENTS AND CONTINGENT LIABILITIES

OPERATING LEASES

Certain property, machinery and equipment are leased under cancelable and non-cancelable agreements.

At December 31, 2018, total future minimum commitments under existing non-cancelable operating leases were as follows:

In millions	2019	2020	2021	2022	2023	Thereafter
Lease obligations	$160	$125	$ 77	$ 49	$ 28	$ 118

Rent expense was $196 million, $157 million and $150 million for 2018, 2017 and 2016, respectively.

GUARANTEES

In connection with sales of businesses, property, equipment, forestlands and other assets, International Paper commonly makes representations and warranties relating to such businesses or assets, and may agree to indemnify buyers with respect to tax and environmental liabilities, breaches of representations and warranties, and other matters. Where liabilities for such matters are determined to be probable and subject to reasonable estimation, accrued liabilities are recorded at the time of sale as a cost of the transaction.

ENVIRONMENTAL AND LEGAL PROCEEDINGS

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 $128 million ($138 million undiscounted) in the aggregate as of December 31, 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 $49 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,

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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. As noted below, the Company is involved in allocation/apportionment litigation with regard to the site. Accordingly, it is premature to predict the outcome or estimate our maximum reasonably possible loss with respect to this site. However, we do not believe that any material loss is probable.

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 June 2018, the Court issued its Final Judgment and Order, which 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 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, we remain 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 numerous meetings between the EPA and the PRPs, and the Company continues to work with the EPA and MIMC/WMI to develop the remedial design.

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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 an excavation remedy is able to be implemented in a manner protective of human health and the environment, and investigating potential impacts of remediation activities 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 alleged 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 asserted Wisconsin state antitrust claims. In January

2019, the parties filed a stipulation to dismiss the Ashley Furniture lawsuit with prejudice, and the case is now closed. The Company made no payment in consideration for the dismissal.

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 Tennessee lawsuit and is vigorously defending it. At this time, however, because the action is 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 presented in its briefing numerous and strong bases for appeal, and we believe we will prevail on appeal. Because the appellate proceedings are ongoing, 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, tax 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

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a material effect on its consolidated financial statements. See Note 12 for details regarding a tax matter.

NOTE 14 VARIABLE INTEREST ENTITIES

In connection with the 2006 sale of approximately 5.6 million acres of forestlands, International Paper received installment notes (the Timber Notes) totaling approximately $4.8 billion.

The Timber Notes were used as collateral for borrowings from third party lenders, which effectively monetized the Timber Notes through the creation of newly formed special purposes entities (the Entities). The monetization structure preserved the tax deferral that resulted from the 2006 forestlands sales. As of December 31, 2018, this deferred tax liability was $884 million.

During 2015, International Paper initiated a series of actions in order to extend the 2006 monetization structure and maintain the long-term nature of the deferred tax liability. The Entities, with assets and liabilities primarily consisting of the Timber Notes and third-party bank loans (the Extension Loans), were restructured which resulted in the formation of wholly-owned, bankruptcy-remote special purpose entities (the 2015 Financing Entities).

The Timber Notes are shown in Financial assets of special purpose entities on the accompanying consolidated balance sheet and mature in August 2021 unless extended for an additional five years. These notes, which do not require principal payments prior to their maturity, are supported by approximately $4.8 billion of irrevocable letters of credit.

The Extension Loans are shown in Nonrecourse financial liabilities of special purpose entities on the accompanying consolidated balance sheet and mature in the fourth quarter of 2020. These bank loans, totaling approximately $4.2 billion, are nonrecourse to the Company, and are secured by approximately $4.8 billion of Timber Notes, the irrevocable letters of credit supporting the Timber Notes and approximately $150 million of International Paper debt obligations. The $150 million of International Paper debt obligations are eliminated in the consolidation of the 2015 Financing Entities and are not reflected in the Company’s consolidated balance sheet. Provisions of loan agreements related to approximately $1.1 billion of the Extension Loans require the bank issuing letters of credit supporting the Timber Notes pledged as collateral to maintain a credit rating at or above a specified threshold. In the event the credit rating of the letter of credit bank is downgraded below the specified threshold, the letters of credit must be replaced within 60 days with letters of credit from a qualifying financial institution.

As of December 31, 2018 and 2017, the fair value of the Timber Notes was $4.7 billion and $4.8 billion, respectively, and the fair value of the Extension Loans was $4.2 billion and $4.3 billion for the years ended 2018 and 2017. The Timber Notes and Extension Loans are classified as Level 2 within the fair value hierarchy, which is further defined in Note 16.

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

In millions	2018	2017	2016
Revenue (a)	$ 95	$ 95	$ 95
Expense (a)	128	128	128
Cash receipts (b)	95	95	77
Cash payments (c)	128	128	98

(a) The revenue and expense are included in Interest expense, net in the accompanying consolidated 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.

In connection with the acquisition of Temple-Inland in February 2012, two special purpose entities became wholly-owned subsidiaries of International Paper.

The use of the two wholly-owned special purpose entities discussed below preserved the tax deferral that resulted from the 2007 Temple-Inland timberlands sales. As of December 31, 2018, this deferred tax liability was $538 million, which will be settled with the maturity of the notes in 2027.

In October 2007, Temple-Inland sold 1.55 million acres of timberland for $2.4 billion. The total consideration consisted almost entirely of notes due in 2027 issued by the buyer of the timberland, which Temple-Inland contributed to two wholly-owned, bankruptcy-remote special purpose entities. The notes are shown in Financial assets of special purpose entities in the accompanying consolidated balance sheet and are supported by $2.4 billion of irrevocable letters of credit issued by three banks, which are required to maintain minimum credit ratings on their long-term debt. As of December 31, 2018 and 2017, the fair value of the notes was $2.2 billion and $2.3 billion, respectively. These notes are classified as Level 2 within the fair value hierarchy, which is further defined in Note 16.

In December 2007, Temple-Inland's two wholly-owned special purpose entities borrowed $2.1 billion which is shown in Nonrecourse financial liabilities of special purpose entities. The loans are repayable in 2027 and are secured by the $2.4 billion of notes and the irrevocable letters of credit securing the notes, and are nonrecourse to us. The loan agreements provide that if a credit rating of any of the banks issuing the letters of credit is downgraded below the specified threshold, the letters of credit issued by that bank must be replaced within 30 days with letters of credit from another qualifying financial institution. As of December 31, 2018 and 2017, the fair value of this debt was $2.0 billion and $2.1 billion for the years ended 2018 and 2017, respectively. This debt is classified as Level 2 within the fair value hierarchy, which is further defined in Note 16.

Activity between the Company and the 2007 financing entities was as follows:

In millions	2018	2017	2016
Revenue (a)	$ 72	$ 49	$ 37
Expense (b)	67	48	37
Cash receipts (c)	48	28	15
Cash payments (d)	57	39	27

(a) The revenue is included in Interest expense, net, in the accompanying consolidated statement of operations and includes approximately $19 million for the years ended December 31, 2018, 2017 and 2016, respectively, of accretion income for the amortization of the purchase accounting adjustment on the Financial assets of special purpose entities.

(b) The expense is included in Interest expense, net, in the accompanying consolidated statement of operations and includes approximately $7 million for the years ended December 31, 2018, 2017 and 2016, respectively, of accretion expense for the amortization of the purchase accounting 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 15 DEBT AND LINES OF CREDIT

Amounts related to early debt extinguishment during the years ended December 31, 2018, 2017 and 2016 were as follows:

In millions	2018	2017	2016
Debt reductions (a)	$780	$993	$266
Pre-tax early debt extinguishment costs (b)	10	83	29

(a) Reductions related to notes with interest rates ranging from 1.57% to 9.38% with original maturities from 2018 to 2032 for the years ended December 31, 2018, 2017 and 2016.

(b) Amounts are included in Restructuring and other charges in the accompanying consolidated statements of operations.

In June 2018, the borrowing capacity of the commercial paper program was increased from $750 million 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 December 31, 2018, the Company had $465 million outstanding under this program.

A summary of long-term debt follows:

In millions at December 31	2018	2017
8.7% note – due 2038	$264	$264
7.5% note – due 2021	406	409
7.3% note – due 2039	721	721
6 7/8% notes – due 2023 – 2029	131	131
6.65% note – due 2037	4	4
6.4% to 7.75% debentures due 2025 – 2027	144	143

6.0% note – due 2041	585	585
5.00% to 5.15% notes – due 2035 – 2046	1,288	1,281
4.8% note – due 2044	799	796
4.75% note – due 2022	355	817
3.00% to 4.40% notes – due 2024 – 2048	4,481	4,775
Floating rate notes – due 2018 – 2023 (a)	908	650
Environmental and industrial development bonds – due 2018 – 2035 (b)	566	585
Other (c)	2	(4)
Total (d)	10,654	11,157
Less: current maturities	639	311
Long-term debt	$10,015	$10,846

(a) The weighted average interest rate on these notes was 3.5% in 2018 and 2.6% in 2017.
(b) The weighted average interest rate on these bonds was 5.5% in 2018 and 6.0% in 2017.
(c) Includes $60 million and $70 million of debt issuance costs as of December 31, 2018 and 2017, respectively.
(d) The fair market value was approximately $10.6 billion at December 31, 2018 and $12.3 billion at December 31, 2017.

Total maturities of long-term debt over the next five years are 2019 – $639 million; 2020 – $83 million; 2021 – $441 million; 2022 – $487 million; and 2023 – $348 million.

At December 31, 2018, International Paper's credit facilities (the Agreements) totaled $2.1 billion. The Agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper's credit rating. The Agreements include a $1.5 billion contractually committed bank facility that expires in December 2021, and has a facility fee of 0.15% payable annually. The liquidity facilities also include up to $600 million of uncommitted financings based on eligible receivables balances under a receivables securitization program that expires in December 2019. At December 31, 2018, there were no borrowings under either the bank facility or receivables securitization program.
The Company's financial covenants require the maintenance of a minimum net worth, as defined in our debt agreements, of $9 billion and a total debt-to-capital ratio of less than 60%. Net worth is defined as the sum of common stock, paid-in capital and retained earnings,

less treasury stock plus any cumulative goodwill impairment charges. The calculation also excludes accumulated other comprehensive income/loss and Nonrecourse Financial Liabilities of Special Purpose Entities. The total debt-to-capital ratio is defined as total debt divided by the sum of total debt plus net worth. As of December 31, 2018, we were in compliance with our debt covenants.

NOTE 16 DERIVATIVES AND HEDGING ACTIVITIES

International Paper periodically uses derivatives and other financial instruments to hedge exposures to interest rate, commodity and currency risks. International Paper does not hold or issue financial instruments for trading purposes. For hedges that meet the hedge accounting criteria, International Paper, at inception, formally designates and documents the instrument as a fair value hedge, a cash flow hedge or a net investment hedge of a specific underlying exposure.

INTEREST RATE RISK MANAGEMENT

Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage this risk in a cost-efficient manner, we enter into interest rate swaps whereby we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional amount.

Interest rate swaps that meet specific accounting criteria are accounted for as fair value or cash flow hedges. For fair value hedges, the changes in the fair value of both the hedging instruments and the underlying debt obligations are immediately recognized in interest expense. For cash flow hedges, the effective portion of the changes in the fair value of the hedging instrument is reported in Accumulated other comprehensive income (AOCI) and reclassified into interest expense over the life of the underlying debt. The ineffective portion for both cash flow and fair value hedges, which is not material for any year presented, is immediately recognized in earnings.

FOREIGN CURRENCY RISK MANAGEMENT

We manufacture and sell our products and finance operations in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. The purpose of our foreign currency hedging program is to manage the volatility associated with the changes in exchange rates.

To manage this exchange rate risk, we have historically utilized a combination of forward contracts, options and currency swaps. Contracts that qualify are designated as cash flow hedges of certain forecasted transactions denominated in foreign currencies. The effective portion of the changes in fair value of these instruments is reported in AOCI and reclassified into earnings in the same financial statement line item and in the same period or periods during which the related hedged transactions affect earnings. The ineffective portion, which is not material for any year presented, is immediately recognized in earnings.

The change in value of certain non-qualifying instruments used to manage foreign exchange exposure of intercompany financing transactions and certain balance sheet items subject to revaluation is immediately recognized in earnings, substantially offsetting the foreign currency mark-to-market impact of the related exposure.

COMMODITY RISK MANAGEMENT

Certain raw materials used in our production processes are subject to price volatility caused by weather, supply conditions, political and economic variables and other unpredictable factors. To manage the volatility in earnings due to price fluctuations, we may utilize swap contracts or forward purchase contracts.

Derivative instruments are reported in the consolidated balance sheets at their fair values, unless the derivative instruments qualify for the normal purchase normal sale (NPNS) exception under GAAP and such exception has been elected. If the NPNS exception is elected, the fair values of such contracts are not recognized on the balance sheet.

Contracts that qualify are designated as cash flow hedges of forecasted commodity purchases. The effective portion of the changes in fair value for these instruments is reported in AOCI and reclassified into
earnings in the same financial statement line item and in the same period or periods during which the hedged transactions affect earnings. The ineffective and non-qualifying portions, which are not material for any year presented, are immediately recognized in earnings. The change in the fair value of certain non-qualifying instruments used to reduce commodity price volatility is immediately recognized in earnings.

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

In millions	December 31, 2018	December 31, 2017
Derivatives in Cash Flow Hedging Relationships:		
Foreign exchange contracts (a)	407	329
Derivatives in Fair Value Hedging Relationships:		
Interest rate contracts	700	—
Derivatives Not Designated as Hedging Instruments:		
Electricity contract	8	13
Foreign exchange contracts	19	10

(a) These contracts had maturities of two years or less as of December 31, 2018.

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

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		
In millions	2018	2017	2016
Foreign exchange contracts	$ (10)	$ 15	$ 4
Interest rate contracts	—	—	(10)
Total	$ (10)	$ 15	$ (6)

During the next 12 months, the amount of the December 31, 2018 AOCI balance, after tax, that is expected to be reclassified to earnings is a loss of $4 million.

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

	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)			Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)
In millions	2018	2017	2016	
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange contracts	$(1)	$ 8	$ 7	Cost of products sold
Interest rate contracts	(1)	(1)	—	Interest expense, net
Total	$(2)	$ 7	$ 7	

	Gain (Loss) Recognized in Income			Location of Gain (Loss) in Consolidated Statement of Operations
In millions	2018	2017	2016	
Derivatives in Fair Value Hedging Relationships:				
Interest rate contracts	$16	$—	$ —	Interest expense, net
Debt	(16)	—	—	Interest expense, net
Total	$—	$—	$ —	
Derivatives Not Designated as Hedging Instruments:				

Electricity Contracts	$2	$(10)		$ —		Cost of products sold
Foreign exchange contracts	1	—		—		Cost of products sold
Interest rate contracts	—	1	(a)	5	(b)	Interest expense, net
Total	$3	$(9)		$ 5		

(a) Excluding gain of $1 million related to debt reduction recorded to Restructuring and other charges.
(b) Excluding gain of $2 million related to debt reduction recorded to Restructuring and other charges.

Fair Value Measurements

International Paper's financial assets and liabilities that are recorded at fair value consist of derivative contracts, including interest rate swaps, foreign currency forward contracts, options and other financial instruments that

are used to hedge exposures to interest rate, commodity and currency risks. For these financial instruments, fair value is determined at each balance sheet date using an income approach.

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The guidance for fair value measurements and disclosures sets out a fair value hierarchy that groups fair value measurement inputs into the following three classifications:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability reflecting the reporting entity’s own assumptions or external inputs from inactive markets.

Transfers between levels are recognized at the end of the reporting period. All of International Paper’s derivative fair value measurements use Level 2 inputs.

Below is a description of the valuation calculation and the inputs used for each class of contract:

Interest Rate Contracts

Interest rate contracts are valued using swap curves obtained from an independent market data provider. The market value of each contract is the sum of the fair value of all future interest payments between the contract counterparties, discounted to present value. The fair value of the future interest payments is determined by comparing the contract rate to the derived forward

interest rate and present valued using the appropriate derived interest rate curve.

Foreign Exchange Contracts

Foreign currency forward and option contracts are valued using standard valuation models. Significant inputs used in these standard valuation models are foreign currency forward and interest rate curves and a volatility measurement. The fair value of each contract is present valued using the applicable interest rate. All significant inputs are readily available in public markets, or can be derived from observable market transactions.

Electricity Contract

The Company is party to an electricity contract used to manage market fluctuations in energy pricing. The Company's electricity contract is valued using the Mid-C index forward curve obtained from the Intercontinental Exchange. The market value of the contract is the sum of the fair value of all future purchase payments between the contract counterparties, discounted to present value. The fair value of the future purchase payments is determined by comparing the contract price to the forward price and present valued using International Paper's cost of capital.

Since the volume and level of activity of the markets that each of the above contracts are traded in has been normal, the fair value calculations have not been adjusted for inactive markets or disorderly transactions.

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

Fair Value Measurements
Level 2 – Significant Other Observable Inputs

In millions	Assets December 31, 2018		Assets December 31, 2017		Liabilities December 31, 2018		Liabilities December 31, 2017	
Derivatives designated as hedging instruments								
Foreign exchange contracts – cash flow	$3		$ 11		$10		$ 1	
Interest rate contracts – fair value	16		—		—		—	
Total derivatives designated as hedging instruments	19	(a)	11	(b)	10	(c)	1	(c)
Derivatives not designated as hedging instruments								
Electricity contract	—		—		4		8	
Foreign exchange contracts	—		—		1		—	
Total derivatives not designated as hedging instruments	—		—		5	(c)	8	(d)
Total derivatives	$19		$ 11		$15		$ 9	

(a) Includes $2 million recorded in Other current assets and $17 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.
(b) Included in Other current assets in the accompanying consolidated balance sheet.
(c) Included in Other accrued liabilities in the accompanying consolidated balance sheet.
(d) Includes $5 million recorded in Other accrued liabilities and $3 million recorded in Other liabilities in the accompanying consolidated balance sheet.

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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 consolidated 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.

Credit-Risk-Related Contingent Features

International Paper evaluates credit risk by monitoring its exposure with each counterparty to ensure that exposure stays within acceptable policy limits. Credit risk is also mitigated by contractual provisions with the majority of our banks. Certain of the contracts include a credit support annex that requires the posting of collateral by the counterparty or International Paper based on each party's rating and level of exposure. Based on the Company's current credit rating, the collateral threshold is generally $15 million.

If the lower of the Company's credit rating by Moody's or S&P were to drop below investment grade, the Company would be required to post collateral for all of its derivatives in a net liability position, although no derivatives would terminate. As of December 31, 2018 and 2017, there were no derivative instruments containing credit-risk-related contingent features in a net liability position. The Company was not required to post any collateral as of December 31, 2018 or 2017.

NOTE 17 CAPITAL STOCK

The authorized capital stock at both December 31, 2018 and 2017, consisted of 990,850,000 shares of common stock, $1 par value; 400,000 shares of cumulative $4 preferred stock, without par value (stated value $100 per share); and 8,750,000 shares of serial preferred stock, $1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without further shareholder action.

The following is a rollforward of shares of common stock for the three years ended December 31, 2018, 2017 and 2016:

	Common Stock	
In thousands	Issued	Treasury
Balance at January 1, 2016	448,916	36,776
Issuance of stock for various plans, net	—	(2,745)
Repurchase of stock	—	3,640
Balance at December 31, 2016	448,916	37,671
Issuance of stock for various plans, net	—	(2,577)
Repurchase of stock	—	881
Balance at December 31, 2017	448,916	35,975
Issuance of stock for various plans, net	—	(1,721)
Repurchase of stock	—	14,056
Balance at December 31, 2018	448,916	48,310

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 to participate in the Pension Plan, but receive a company contribution to their individual savings plan accounts (see Other U.S. Plans); 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. 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).

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The Company also has three unfunded nonqualified defined benefit pension plans: a Pension Restoration Plan available to employees hired prior to July 1, 2004 that provides retirement benefits based on eligible compensation in excess of limits set by the Internal Revenue Service, and two supplemental retirement plans for senior managers (SERP), which is an alternative retirement plan for salaried employees who are senior vice presidents and above or who are designated by the chief executive officer as participants. These nonqualified plans are only funded to the extent of benefits paid, which totaled $29 million, $40 million and $21 million in 2018, 2017 and 2016, respectively, and which are expected to be $27 million in 2019.

Notwithstanding the foregoing, the Company has frozen 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 does not affect benefits accrued through December 31, 2018. For service after this date, employees affected by the freeze will receive Retirement Savings Account contributions as described later in this Note 18.

Many non-U.S. employees are covered by various retirement benefit arrangements, some of which are considered to be defined benefit pension plans for accounting purposes.

OBLIGATIONS AND FUNDED STATUS

The following table shows the changes in the benefit obligation and plan assets for 2018 and 2017, and the plans' funded status.

In millions	2018 U.S. Plans	2018 Non-U.S. Plans	2017 U.S. Plans	2017 Non-U.S. Plans
Change in projected benefit obligation:				
Benefit obligation, January 1	$13,264	$247	$13,683	$219
Service cost	153	5	160	4
Interest cost	467	8	536	9
Settlements	(1,653)	(2)	(1,295)	(4)
Actuarial loss (gain)	(1,089)	(17)	913	2
Acquisitions	—	—	—	5
Divestitures	—	—	33	—
Plan amendments	2	—	3	—
Benefits paid	(677)	(9)	(769)	(8)
Effect of foreign currency exchange rate movements	—	(17)	—	20
Benefit obligation, December 31	$10,467	$215	$13,264	$247
Change in plan assets:				
Fair value of plan assets, January 1	$11,368	$176	$10,312	$153
Actual return on plan assets	(332)	(2)	1,830	10
Company contributions	29	10	1,290	10
Benefits paid	(677)	(9)	(769)	(8)
Settlements	(1,653)	(2)	(1,295)	(4)
Other	—	—	—	3
Effect of foreign currency exchange rate movements	—	(12)	—	12
Fair value of plan assets, December 31	$8,735	$161	$11,368	$176
Funded status, December 31	$(1,732)	$(54)	$(1,896)	$(71)

Amounts recognized in the consolidated balance sheet:								
Non-current asset	$—	$5	$—	$5				
Current liability	(27)	(2)	(30)	(3)				
Non-current liability	(1,705)	(57)	(1,866)	(73)				
	$(1,732)	$(54)	$(1,896)	$(71)				
Amounts recognized in accumulated other comprehensive income under ASC 715 (pre-tax):								
Prior service cost (credit)					$74	$(1)	$88	$(1)
Net actuarial loss					3,140	57	3,893	67
					$3,214	$56	$3,981	$66

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The largest contributor to the actuarial gain affecting the benefit obligation was the increase in the discount rate from 3.60% at December 31, 2017 to 4.30% at December 31, 2018 which improved the funded position. Mortality rates, retirement rates for hourly employees, termination rates, disability incidence and the salary increase assumption were updated to reflect an experience study completed in 2018 which also improved the funded position.

The components of the $(767) million and $(10) million related to U.S. plans and non-U.S. plans, respectively, in the amounts recognized in OCI during 2018 consisted of:

In millions	U.S. Plans	Non-U.S. Plans
Current year actuarial (gain) loss	$8	$(4)
Amortization of actuarial loss	(337)	(2)
Current year prior service cost	2	—
Amortization of prior service cost	(16)	—
Settlements	(424)	—
Effect of foreign currency exchange rate movements	—	(4)
	$(767)	$(10)

The portion of the change in the funded status that was recognized in either net periodic benefit cost or OCI for the U.S. plans was $(134) million, $(184) million and $626 million in 2018, 2017 and 2016, respectively. The portion of the change in funded status for the non-U.S. plans was $(6) million, $10 million, and $23 million in 2018, 2017 and 2016, respectively.

The accumulated benefit obligation at December 31, 2018 and 2017 was $10.4 billion and $13.2 billion, respectively, for our U.S. defined benefit plans and $200 million and $230 million, respectively, at December 31, 2018 and 2017 for our non-U.S. defined benefit plans.

The following table summarizes information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2018 and 2017:

	2018		2017	
In millions	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Projected benefit obligation	$10,467	$ 187	$13,264	$ 215
Accumulated benefit obligation	10,440	175	13,161	200
Fair value of plan assets	8,735	128	11,368	139

ASC 715, “Compensation – Retirement Benefits” provides for delayed recognition of actuarial gains and losses, including amounts arising from changes in the estimated projected plan benefit obligation due to changes in the assumed discount rate, differences

between the actual and expected return on plan assets and other assumption changes. These net gains and losses are recognized prospectively over a period that approximates the average remaining service period of active employees expected to receive benefits under the plans to the extent that they are not offset by gains in subsequent years.

NET PERIODIC PENSION EXPENSE

Service cost is the actuarial present value of benefits attributed by the plans’ benefit formula to services rendered by employees during the year. Interest cost represents the increase in the projected benefit obligation, which is a discounted amount, due to the passage of time. The expected return on plan assets reflects the computed amount of current-year earnings from the investment of plan assets using an estimated long-term rate of return.

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

	2018		2017		2016	
In millions	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$153	$ 5	$160	$ 4	$158	$ 4
Interest cost	467	8	536	9	580	9
Expected return on plan assets	(765)	(11)	(774)	(11)	(815)	(10)
Actuarial loss / (gain)	337	2	339	2	400	1
Amortization of prior service cost	16	—	28	—	41	—
Curtailment loss / (gain) (a)	—	—	23	—	—	—
Settlement loss	424	—	383	1	445	—
Special termination benefits (a)	—	—	22	—	—	—
Net periodic pension expense	$632	$ 4	$717	$ 5	$809	$ 4

(a) Recorded in Discontinued operations in the consolidated statement of operations.

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 decrease in 2018 pension expense primarily reflects lower interest cost on a lower 2018 projected benefit obligation along with the current year absence of a curtailment loss and special termination benefits associated with North American Consumer Packaging transaction, partially offset by a higher settlement loss in the current year associated with the October 2018 annuity purchase transaction.

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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 pension plan assets. Under the transaction, at the end of 2018, Prudential assumed 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. Settlement accounting rules required a remeasurement of the qualified plan as of October 2, 2018 and the Company recognized a non-cash pension settlement charge of $424 million before tax in the fourth quarter of 2018.

On September 26, 2017, the Company entered into an agreement with The Prudential Insurance Company of America to purchase a group annuity contract and transfer approximately $1.3 billion of International Paper's U.S. qualified pension plan projected benefit obligations, subject to customary closing conditions. The transaction closed on October 3, 2017 and was funded with pension plan assets. Under the transaction, at the end of 2017, Prudential assumed responsibility for pension benefits and annuity administration for approximately 45,000 retirees or their beneficiaries receiving less than $450 in monthly benefit payments from the plan. Settlement accounting rules required a remeasurement of the qualified plan as of October 3, 2017 and the Company recognized a non-cash pension settlement charge of $376 million before tax in the fourth quarter of 2017. In addition, large payments from the non-qualified pension plan also required a remeasurement as of October 2, 2017 and a non-cash settlement charge of $7 million was also recognized in the fourth quarter of 2017.

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

ASSUMPTIONS

International Paper evaluates its actuarial assumptions annually as of December 31 (the measurement date) and considers changes in these long-term factors based upon market conditions and the requirements for employers' accounting for pensions. These assumptions are used to calculate benefit obligations as of December 31 of the current year and pension expense to be recorded in the following year (i.e., the discount rate used to determine the benefit obligation as of December 31, 2018 is also the discount rate used to determine net pension expense for the 2019 year).

Major actuarial assumptions used in determining the benefit obligations and net periodic pension cost for our defined benefit plans are presented in the following table:

	2018		2017		2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans

Actuarial assumptions used to determine benefit obligations as of December 31:						
Discount rate	4.30%	3.97%	3.60%	3.59%	4.10%	3.88%
Rate of compensation increase	2.25%	4.05%	3.75%	4.06%	3.75%	4.20%
Actuarial assumptions used to determine net periodic pension cost for years ended December 31:						
Discount rate (a)	3.80%	3.59%	4.03%	3.88%	4.05%	4.72%
Expected long-term rate of return on plan assets	7.50%	6.52%	7.50%	6.73%	7.75%	6.55%
Rate of compensation increase	3.38%	4.06%	3.75%	4.20%	3.75%	4.03%

(a) Represents the weighted average rate for the U.S. qualified plans in 2018, 2017 and 2016 due to the remeasurements.

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The expected long-term rate of return on plan assets is based on projected rates of return for current and planned asset classes in the plan's investment portfolio. Projected rates of return are developed through an asset/liability study in which projected returns for each of the plan's asset classes are determined after analyzing historical experience and future expectations of returns and volatility of the various asset classes.

Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio is developed considering the effects of active portfolio management and expenses paid from plan assets. The discount rate assumption was determined from a universe of high quality corporate bonds. A settlement portfolio is selected and matched to the present value of the plan's projected benefit payments. To calculate pension expense for 2019, the Company will use an expected long-term rate of return on plan assets of 7.25% for the Retirement Plan of International Paper, a discount rate of 4.30% and an assumed rate of compensation increase of 2.25%. The Company estimates that it will record net pension expense of approximately $103 million for its U.S. defined benefit plans in 2019, compared to expense of $632 million in 2018. The 2018 expense includes $424 million of settlement accounting charges. Excluding these settlement charges, the estimated decrease in net pension expense in 2019 is primarily due to lower amortization of actuarial losses and lower service cost partially offset by lower asset returns due to the annuity purchase and a decrease in the expected long-term return on asset assumption from 7.50% in 2018 to 7.25% in 2019.

For non-U.S. pension plans, assumptions reflect economic assumptions applicable to each country.

The following illustrates the effect on pension expense for 2019 of a 25 basis point decrease in the above assumptions:

In millions	2019
Expense/(Income):	
Discount rate	$ 27
Expected long-term rate of return on plan assets	22

PLAN ASSETS

International Paper's Board of Directors has appointed a Fiduciary Review Committee that is responsible for fiduciary oversight of the U.S. Pension Plan, approving investment policy and reviewing the management and control of plan assets. Pension Plan assets are invested to maximize returns within prudent levels of risk.

The Pension Plan maintains a strategic asset allocation policy that designates target allocations by asset class. Investments are diversified across classes and within each class to minimize the risk of large losses. Derivatives, including swaps, forward and futures contracts, may be used as asset class substitutes or for hedging or other risk management purposes. Periodic reviews are made of investment policy objectives and investment manager performance. For non-U.S. plans, assets consist principally of common stock and fixed income securities.

International Paper's U.S. pension allocations by type of fund at December 31, 2018 and 2017 and target allocations were as follows:

Asset Class	2018	2017	Target Allocations
Equity accounts	32 %	49 %	32% - 43%
Fixed income accounts	51 %	36 %	44% - 56%
Real estate accounts	11 %	10 %	5% - 11%
Other	6 %	5 %	3% - 8%
Total	100 %	100 %	

The fair values of International Paper's pension plan assets at December 31, 2018 and 2017 by asset class are shown below. Hedge funds disclosed in the following table are allocated equally between equity and fixed income accounts for target allocation purposes.

Fair Value Measurement at December 31, 2018

Asset Class	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
In millions				
Equities – domestic	$685	$ 685	$ —	$ —
Equities – international	1,150	1,141	9	—
Corporate bonds	1,434	—	1,434	—
Government securities	2,262	—	2,262	—
Mortgage backed securities	—	—	—	—
Other fixed income	(723)	—	(736)	13
Derivatives	98	—	—	98
Cash and cash equivalents	294	294	—	—
Other investments:				
Equities - domestic	515			
Equities - international	433			
Corporate bonds	59			
Other fixed income	180			
Hedge funds	886			
Private equity	518			
Real estate funds	944			
Total Investments	$8,735	$ 2,120	$ 2,969	$ 111

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Fair Value Measurement at December 31, 2017

Asset Class	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
In millions				
Equities – domestic	$1,291	$ 1,291	$ —	$ —
Equities – international	2,132	2,119	13	—
Corporate bonds	1,177	—	1,177	—
Government securities	2,778	—	2,778	—
Mortgage backed securities	1	—	—	1
Other fixed income	(802)	—	(814)	12
Derivatives	8	—	(8)	16
Cash and cash equivalents	397	397	—	—
Other investments:				
Equities - domestic	708			
Equities - international	866			
Corporate bonds	66			
Other fixed income	232			
Hedge funds	927			
Private equity	481			
Real estate funds	1,106			
Total Investments	$11,368	$ 3,807	$ 3,146	$ 29

In accordance with accounting standards, the following investments are measured at NAV and are not classified in the fair value hierarchy. Some of the investments have redemption limitations, restrictions, and notice requirements which are further explained below.

Other Investments at December 31, 2018

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Remediation Notice Period
In millions				
Equities – domestic	$515	$ —	Daily to monthly	1-5 days
Equities – international	433	—	Daily to monthly	1-5 days
Corporate bonds	59	—	Daily to monthly	1-5 days
Other fixed income	180	—	Daily to monthly	1-5 days
Hedge funds	886	—	Daily to annually	1 - 100 days
Private equity	518	310	(a)	None
Real estate funds	944	109	Quarterly	45 - 60 days
Total	$3,535	$ 419		

(a) A private equity fund investment ("partnership interest") is contractually locked up for the life of the private equity fund by the partnership agreement. Limited partners do not have the option to redeem partnership interests.

Other Investments at December 31, 2017

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Remediation Notice Period
In millions				
Equities - domestic	$708	$ —	Daily to monthly	1-5 days
Equities - international	866	—	Daily to monthly	1-5 days
Corporate bonds	66	—	Daily to monthly	1-5 days
Other fixed income	232	—	Daily to monthly	1-5 days
Hedge funds	927	—	Daily to annually	1 - 100 days
Private equity	481	262	(a)	None
Real estate funds	1,106	121	Quarterly	45 - 60 days
Total	$4,386	$ 383		

(a) A private equity fund investment ("partnership interest") is contractually locked up for the life of the private equity fund by the partnership agreement. Limited partners do not have the option to redeem partnership interests.

Equity securities consist primarily of publicly traded U.S. companies and international companies. Publicly traded equities are valued at the closing prices reported in the active market in which the individual securities are traded.

Fixed income consists of government securities, mortgage-backed securities, corporate bonds, common collective funds and other fixed income investments. Government securities are valued by third-party pricing sources. Mortgage-backed security holdings consist primarily of agency-rated holdings. The fair value estimates for mortgage securities are calculated by third-party pricing sources chosen by the custodian's price matrix. Corporate bonds are valued using either the yields currently available on comparable securities of issuers with similar credit ratings or using a discounted cash flows approach that utilizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks. Common collective funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date. Other fixed income investments of $(723) million and $(802) million at December 31, 2018 and 2017, respectively, primarily include reverse repurchase agreement obligations in which we have sold a security and have an agreement to repurchase the same or substantially the same security at a later date for a price specified in the agreement.

Derivative investments such as futures, forward contracts, options and swaps are used to help manage risks. Derivatives are generally employed as an asset class substitutes (such as when employed in a portable alpha strategy), for managing asset/liability mismatches, or bona fide hedging or other appropriate risk management purposes. Derivative instruments are generally valued by the investment managers or in certain instances by third-party pricing sources.

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Hedge funds are investment structures for managing private, loosely-regulated investment pools that can pursue a diverse array of investment strategies with a wide range of different securities and derivative instruments. These investments are made through funds-of-funds (commingled, multi-manager fund structures) and through direct investments in individual hedge funds. Hedge funds are primarily valued by each fund's third-party administrator based upon the valuation of the underlying securities and instruments and primarily by applying a market or income valuation methodology as appropriate depending on the specific type of security or instrument held. Funds-of-funds are valued based upon the net asset values of the underlying investments in hedge funds.

Private equity consists of interests in partnerships that invest in U.S. and non-U.S. debt and equity securities. Partnership interests are valued using the most recent general partner statement of fair value, updated for any subsequent partnership interest cash flows.

Real estate funds include commercial properties, land and timberland, and generally includes, but is not limited to, retail, office, industrial, multifamily and hotel properties. Real estate fund values are primarily reported by the fund manager and are based on valuation of the underlying investments which include inputs such as cost, discounted cash flows, independent appraisals and market based comparable data.

The following is a reconciliation of the assets that are classified using significant unobservable inputs (Level 3) at December 31, 2018.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

In millions	Mortgage backed securities	Other fixed income	Derivatives	Total
Beginning balance at December 31, 2016	$ 1	$ 11	$ (71)	$ (59)
Actual return on plan assets:				
Relating to assets still held at the reporting date	—	1	94	95
Relating to assets sold during the period	—	—	(23)	(23)
Purchases, sales and settlements	—	—	16	16
Transfers in and/or out of Level 3	—	—	—	—
Ending balance at December 31, 2017	$ 1	$ 12	$ 16	$ 29
Actual return on plan assets:				
Relating to assets still held at the reporting date	—	1	75	76
Relating to assets sold during the period	—	—	(19)	(19)
Purchases, sales and settlements	(1)	—	26	25
Transfers in and/or out of Level 3	—	—	—	—
Ending balance at December 31, 2018	$ —	$ 13	$ 98	$ 111

FUNDING AND CASH FLOWS

The Company's funding policy for the Pension Plan 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 plans, tax deductibility, cash flow generated by the Company, and other factors. The Company continually reassesses the amount and timing of any discretionary contributions. Contributions to the qualified plan totaling $1.25 billion and $750 million were made by the Company in 2017 and 2016, respectively. No voluntary contributions were made in 2018. Generally, International Paper's non-U.S. pension plans are funded using the projected benefit as a target, except in certain countries where funding of benefit plans is not required.

At December 31, 2018, projected future pension benefit payments, excluding any termination benefits, were as follows:

In millions	
2019	$ 562
2020	571
2021	585
2022	597
2023	611
2024-2028	3,191

OTHER U.S. PLANS

International Paper sponsors the International Paper Company Salaried Savings Plan and the International Paper Company Hourly Savings Plan, both of which are tax-qualified defined contribution 401(k) savings plans.

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Substantially all U.S. salaried and certain hourly employees are eligible to participate and may make elective deferrals to such plans to save for retirement. International Paper makes matching contributions to participant accounts on a specified percentage of employee deferrals as determined by the provisions of each plan. For eligible employees hired after June 30, 2004, the Company makes Retirement Savings Account contributions equal to a percentage of an eligible employee's pay. Beginning in 2019, as a result of the freeze for salaried employees under the Pension Plan, all salaried employees will be eligible for the contribution to the Retirement Savings Account.

The Company also sponsors the International Paper Company Deferred Compensation Savings Plan, which is an unfunded nonqualified defined contribution plan. This plan permits eligible employees to continue to make deferrals and receive company matching contributions (and Retirement Savings Account contributions) when their contributions to the International Paper Salaried Savings Plan are stopped due to limitations under U.S. tax law. Participant deferrals and company contributions are not invested in a separate trust, but are paid directly from International Paper's general assets at the time benefits become due and payable.

Company contributions to the plans totaled approximately $125 million, $117 million and $106 million for the plan years ending in 2018, 2017 and 2016, respectively.

NOTE 19 POSTRETIREMENT BENEFITS

U.S. POSTRETIREMENT BENEFITS

International Paper provides certain retiree health care and life insurance benefits covering certain U.S. salaried and hourly employees. These employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. International Paper does not fund these benefits prior to payment and has the right to modify or terminate certain of these plans in the future.

In addition to the U.S. plan, certain Brazilian and Moroccan employees are eligible for retiree health care and life insurance benefits.

The components of postretirement benefit expense in 2018, 2017 and 2016 were as follows:

In millions	2018		2017		2016	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Service cost	$1	$ —	$1	$ —	$1	$ —
Interest cost	8	2	11	2	11	3
Actuarial loss	9	2	8	3	5	2
Amortization of prior service credits	(2)	(3)	(3)	(4)	(4)	(4)
Net postretirement expense	$16	$ 1	$17	$ 1	$13	$ 1

International Paper evaluates its actuarial assumptions annually as of December 31 (the measurement date) and considers changes in these long-term factors based upon market conditions and the requirements of employers' accounting for postretirement benefits other than pensions. The discount rate assumption was determined based on a hypothetical settlement portfolio selected from a universe of high quality corporate bonds.

The discount rates used to determine net U.S. and non-U.S. postretirement benefit cost for the years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016

	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Discount rate	3.50 %	9.38 %	4.00 %	10.53 %	4.20 %	12.23 %

The weighted average assumptions used to determine the benefit obligation at December 31, 2018 and 2017 were as follows:

	2018		2017	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Discount rate	4.20 %	9.10 %	3.50 %	9.38 %
Health care cost trend rate assumed for next year	7.00 %	10.04 %	6.50 %	10.27 %
Rate that the cost trend rate gradually declines to	5.00 %	4.93 %	5.00 %	5.15 %
Year that the rate reaches the rate it is assumed to remain	2026	2030	2022	2028

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The plans are only funded in an amount equal to benefits paid. The following table presents the changes in benefit obligation and plan assets for 2018 and 2017:

In millions	2018		2017	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Change in projected benefit obligation:				
Benefit obligation, January 1	$270	$25	$280	$23
Service cost	1	—	1	—
Interest cost	8	2	11	2
Participants’ contributions	5	—	5	—
Actuarial (gain) loss	(34)	2	14	2
Plan amendments	—	—	—	—
Benefits paid	(38)	(1)	(42)	(2)
Less: Federal subsidy	1	—	1	—
Currency Impact	—	(4)	—	—
Benefit obligation, December 31	$213	$24	$270	$25
Change in plan assets:				
Fair value of plan assets, January 1	$—	$—	$—	$—
Company contributions	33	1	37	2
Participants’ contributions	5	—	5	—
Benefits paid	(38)	(1)	(42)	(2)
Fair value of plan assets, December 31	$—	$—	$—	$—
Funded status, December 31	$(213)	$(24)	$(270)	$(25)
Amounts recognized in the consolidated balance sheet under ASC 715:				
Current liability	$(23)	$(1)	$(28)	$(1)
Non-current liability	(190)	(23)	(242)	(24)
	$(213)	$(24)	$(270)	$(25)
Amounts recognized in accumulated other comprehensive income under ASC 715 (pre-tax):				
Net actuarial loss (gain)	$31	$15	$74	$19
Prior service credit	(4)	(22)	(6)	(30)
	$27	$(7)	$68	$(11)

The non-current portion of the liability is included with the postemployment liability in the accompanying consolidated balance sheet under Postretirement and postemployment benefit obligation.

The components of the ($41) million and $4 million change in the amounts recognized in OCI during 2018 for U.S. and non-U.S. plans, respectively, consisted of:

In millions	U.S. Plans	Non-U.S. Plans
Current year actuarial (gain) loss	$(34)	$ 2
Amortization of actuarial (loss) gain	(9)	(2)
Current year prior service cost	—	—
Amortization of prior service credit	2	3
Currency impact	—	1
	$(41)	$ 4

The portion of the change in the funded status that was recognized in either net periodic benefit cost or OCI for the U.S. plans was $(25) million, $25 million and $42 million in 2018, 2017 and 2016, respectively. The portion of the change in funded status for the non-U.S. plans was $5 million, $3 million, and $(25) million in 2018, 2017 and 2016, respectively.

At December 31, 2018, estimated total future postretirement benefit payments, net of participant contributions and estimated future Medicare Part D subsidy receipts, were as follows:

In millions	Benefit Payments	Subsidy Receipts	Benefit Payments
	U.S. Plans	U.S. Plans	Non-U.S. Plans
2019	$ 24	$ 1	$ 1
2020	23	1	1
2021	21	1	1
2022	20	1	1
2023	19	1	1
2024 – 2028	77	5	7

NOTE 20 INCENTIVE PLANS

International Paper currently has an Incentive Compensation Plan (ICP) which, upon the approval by the Company's shareholders in May 2009, replaced the Company's Long-Term Incentive Compensation Plan (LTICP). The ICP authorizes 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,

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stock appreciation rights, other stock-based awards, and cash-based awards at the discretion of the Management Development and Compensation Committee of the Board of Directors (the Committee) that administers the ICP. Additionally, restricted stock, which may be deferred into RSU's, may be awarded under a Restricted Stock and Deferred Compensation Plan for Non-Employee Directors.

PERFORMANCE SHARE PLAN

Under the Performance Share Plan (PSP), contingent awards of International Paper common stock are granted by the Committee. The PSP awards are earned over a three-year period. PSP awards are earned based on the achievement of defined performance rankings of Return on Invested Capital (ROIC) and Total Shareholder Return (TSR) compared to ROIC and TSR peer groups of companies. The 2016-2018 and 2017-2019 Awards are weighted 75% for ROIC and 25% for TSR for all participants except for officers for whom the awards are weighted 50% for ROIC and 50% for TSR. The 2018-2020 Award is weighted 50% ROIC and 50% TSR for all participants. The ROIC component of the PSP awards is valued at the closing stock price on the day prior to the grant date. As the ROIC component contains a performance condition, compensation expense, net of estimated forfeitures, is recorded over the requisite service period based on the most probable number of awards expected to vest. The TSR component of the PSP awards is valued using a Monte Carlo simulation as the TSR component contains a market condition. The Monte Carlo simulation estimates the fair value of the TSR component based on the expected term of the award, a risk-free rate, expected dividends, and the expected volatility for the Company and its competitors. The expected term is estimated based on the vesting period of the awards, the risk-free rate is based on the yield on U.S. Treasury securities matching the vesting period, and the volatility is based on the Company's historical volatility over the expected term. PSP grants are made in performance-based restricted stock units.

The following table sets forth the assumptions used to determine compensation cost for the market condition component of the PSP plan:

	Twelve Months Ended December 31, 2018
Expected volatility	22.75%-22.99%
Risk-free interest rate	1.31%-1.98%

The following summarizes PSP activity for the three years ending December 31, 2018:

	Share/Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2015	5,857,733	$38.69
Granted	2,617,982	37.26
Shares issued	(2,316,085)	43.82
Forfeited	(209,500)	43.61
Outstanding at December 31, 2016	5,950,130	35.89
Granted	2,163,912	51.78
Shares issued	(1,876,134)	51.00
Forfeited	(438,024)	45.96
Outstanding at December 31, 2017	5,799,884	36.17
Granted	1,751,235	62.97
Shares issued	(1,588,642)	53.67
Forfeited	(196,000)	56.57
Outstanding at December 31, 2018	5,766,477	$38.79

RESTRICTED STOCK AWARD PROGRAMS

The service-based Restricted Stock Award program (RSA), designed for recruitment, retention and special recognition purposes, provides for awards of restricted stock to key employees.

The following summarizes the activity of the RSA program for the three years ending December 31, 2018:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2015	120,368	$48.24
Granted	117,881	42.81
Shares issued	(59,418)	47.14
Forfeited	(9,500)	39.36
Outstanding at December 31, 2016	169,331	45.34
Granted	63,319	57.24
Shares issued	(59,650)	47.90
Forfeited	(6,700)	53.53
Outstanding at December 31, 2017	166,300	48.63
Granted	66,100	51.43
Shares issued	(100,289)	48.44
Forfeited	—	—
Outstanding at December 31, 2018	132,111	$50.17

At December 31, 2018, 2017 and 2016 a total of 11.9 million, 13.2 million and 14.3 million shares, respectively, were available for grant under the ICP.

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

In millions	2018	2017	2016
Total stock-based compensation expense (included in selling and administrative expense)	$135	$147	$124
Income tax benefits related to stock-based compensation	16	45	34

At December 31, 2018, $104 million of compensation cost, net of estimated forfeitures, related to unvested restricted performance shares, executive continuity awards and restricted stock attributable to future performance had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.7 years.

NOTE 21 FINANCIAL INFORMATION BY BUSINESS SEGMENT AND GEOGRAPHIC AREA

International Paper’s business segments, Industrial Packaging, Global Cellulose Fibers and Printing Papers, are consistent with the internal structure used to manage these businesses. See the Description of Business Segments in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a description of the types of products and services from which each reportable segment derives its revenues. All segments are differentiated on a common product, common customer basis consistent with the business segmentation generally used in the Forest Products industry.
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 interest expense, net, corporate items, net, corporate special items, net, and non-operating pension expense.

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

INFORMATION BY BUSINESS SEGMENT

Net Sales

In millions	2018	2017	2016
Industrial Packaging	$15,900	$15,077	$14,226
Global Cellulose Fibers	2,819	2,551	1,092
Printing Papers	4,375	4,157	4,058
Corporate and Intersegment Sales (a)	212	(42)	119
Net Sales	$23,306	$21,743	$19,495

Operating Profit

In millions	2018	2017	2016
Industrial Packaging	$2,093	$1,547	$1,741
Global Cellulose Fibers	251	65	(179)
Printing Papers	533	457	540
Business Segment Operating Profit	2,877	2,069	2,102
Earnings (loss) from continuing operations before income taxes and equity earnings	1,781	848	795
Interest expense, net	536	572	520
Noncontrolling interests / equity earnings adjustment (b)	(10)	(2)	1

Corporate items, net (a)	67	91	121
Corporate special items, net (a)	9	76	55
Non-operating pension expense	494	484	610
	$2,877	$2,069	$2,102

Restructuring and Other Charges

In millions	2018	2017	2016
Industrial Packaging	$47	$ —	$ 7
Global Cellulose Fibers	—	—	—
Printing Papers	3	—	—
Corporate (c)	(21)	67	47
Restructuring and Other Charges	$29	$ 67	$ 54

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Assets

In millions	2018	2017
Industrial Packaging	$15,859	$15,354
Global Cellulose Fibers	3,880	3,913
Printing Papers	3,905	4,054
Corporate and other (d)	9,932	10,582
Assets	$33,576	$33,903

Capital Spending

In millions	2018	2017	2016
Industrial Packaging	$1,061	$836	$832
Global Cellulose Fibers	183	188	174
Printing Papers	303	235	215
Subtotal	1,547	1,259	1,221
Corporate and other (e)	25	21	20
Capital Spending	$1,572	$1,280	$1,241

Depreciation, Amortization and Cost of Timber Harvested (f)(g)

In millions	2018	2017	2016
Industrial Packaging	$803	$815	$760
Global Cellulose Fibers	262	264	110
Printing Papers	258	254	242
Corporate (h)	5	10	12
Depreciation and Amortization	$1,328	$1,343	$1,124

External Sales By Major Product

In millions	2018	2017	2016
Industrial Packaging	$15,828	$14,946	$14,142
Global Cellulose Fibers	2,810	2,524	1,090
Printing Papers	4,359	4,142	4,062
Other (i)	309	131	201
Net Sales	$23,306	$21,743	$19,495

INFORMATION BY GEOGRAPHIC AREA

Net Sales (j)

In millions	2018	2017	2016
United States (k)	$17,609	$16,247	$14,363
EMEA	3,321	3,129	2,852
Pacific Rim and Asia	605	625	699
Americas, other than U.S.	1,771	1,742	1,581
Net Sales	$23,306	$21,743	$19,495

Long-Lived Assets (l)

In millions	2018	2017
United States	$10,586	$10,545
EMEA	1,315	1,302
Pacific Rim and Asia	201	236
Americas, other than U.S.	1,367	1,630

Long-Lived Assets	$13,469	$13,713

(a) Includes sales of $0 million in 2018, $15 million in 2017 and $42 million in 2016, operating profits (losses) of $0 million in 2018, $0 million in 2017 and $(2) million in 2016, and corporate special items expense of $0 million in 2018, $9 million in 2017 and $9 million in 2016, from previously divested businesses.

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

(c) Includes corporate expenses and expenses of $0 million in 2018, $9 million in 2017 and $9 million in 2016, from previously divested businesses.

(d) Includes corporate assets, assets of businesses held for sale and assets of previously divested businesses.

(e) Includes corporate assets and assets of previously divested businesses of $0 million in 2018, $0 million in 2017 and $1 million in 2016.

(f) Excludes accelerated depreciation related to the closure and/or repurposing of mills in 2016.

(g) Prior years recast to reflect current methodology for allocation of Corporate depreciation and amortization to the business segments. There is no change to segment operating profit.

(h) Includes $0 million in 2018, $1 million in 2017 and $2 million in 2016, from previously divested businesses.

(i) Includes $0 million in 2018, $15 million in 2017, and $42 million in 2016, from previously divested businesses.

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

(k) Export sales to unaffiliated customers were $3.1 billion in 2018, $2.9 billion in 2017 and $1.8 billion in 2016.

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

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INTERIM FINANCIAL RESULTS (UNAUDITED)

In millions, except per share amounts and stock prices	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Year	
2018										
Net sales	$5,621		$5,833		$5,901		$5,951		$23,306	
Earnings (loss) from continuing operations before income taxes and equity earnings	356	(a)	490	(a)	553	(a)	382	(a)	1,781	(a)
Gain (loss) from discontinued operations	368	(b)	(23	)(b)	—	(b)	—	(b)	345	(b)
Net earnings (loss) attributable to International Paper Company	729	(a-c)	405	(a-c)	562	(a-c)	316	(a-c)	2,012	(a-c)
Basic earnings (loss) per share attributable to International Paper Company common shareholders:										
Earnings (loss) from continuing operations	$0.87		$1.03		$1.38		$0.79		$4.07	
Gain (loss) from discontinued operations	0.89		(0.05	)	—		—		0.84	
Net earnings (loss)	1.76		0.98		1.38		0.79		4.91	
Diluted earnings (loss) per share attributable to International Paper Company common shareholders:										
Earnings (loss) from continuing operations	0.86		1.02		1.37		0.78		4.02	
Gain (loss) from discontinued operations	0.88		(0.05	)	—		—		0.83	
Net earnings (loss)	1.74		0.97		1.37		0.78		4.85	
Dividends per share of common stock	0.4750		0.4750		0.4750		0.5000		1.9250	
2017										
Net sales	$5,132		$5,383		$5,517		$5,711		$21,743	
Earnings (loss) from continuing operations before income taxes and equity earnings	217	(d)	(23	)(d)	457	(d)	197	(d)	848	(d)
Gain (loss) from discontinued operations	17	(e)	(4	)(e)	29	(e)	(8	)(e)	34	(e)
Net earnings (loss) attributable to International Paper Company	209	(d-f)	80	(d-f)	395	(d-f)	1,460	(d-f)	2,144	(d-f)
Basic earnings (loss) per share attributable to International Paper Company common shareholders:										
Earnings (loss) from continuing operations	$0.47		$0.20		$0.89		$3.56		$5.11	
Gain (loss) from discontinued operations	0.04		(0.01	)	0.07		(0.02	)	0.08	
Net earnings (loss)	0.51		0.19		0.96		3.54		5.19	
Diluted earnings (loss) per share attributable to International Paper Company common shareholders:										
Earnings (loss) from continuing operations	0.46		0.20		0.88		3.52		5.05	
Gain (loss) from discontinued operations	0.04		(0.01	)	0.07		(0.02	)	0.08	
Net earnings (loss)	0.50		0.19		0.95		3.50		5.13	
Dividends per share of common stock	0.4625		0.4625		0.4625		0.4750		1.8625	

Note: International Paper's common shares (symbol: IP) are listed on the New York Stock Exchange.

Note: Since basic and diluted earnings per share are computed independently for each period and category, full year per share amounts may not equal the sum of the four quarters.

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Footnotes to Interim Financial Results

(a) Includes the following pre-tax charges (gains):

	2018			
In millions	Q1	Q2	Q3	Q4
Smurfit-Kappa acquisition proposal costs	$—	$12	$—	$—
Legal settlement	9	—	—	—
Litigation settlement recovery	—	—	—	(5)
Environmental remediation reserve adjustment	—	—	9	—
EMEA Packaging optimization	22	26	—	(1)
Abandoned property removal	9	9	6	8
Riverdale mill conversion costs	—	—	5	4
Brazil Packaging impairment	—	—	122	—
Debt extinguishment costs	—	—	—	10
Gain on sale of investment in Liaison Technologies	—	—	—	(31)
Non-operating pension expense	4	36	25	429
Total	$44	$83	$167	$414

(b) Includes the following pre-tax charges (gains):

	2018			
In millions	Q1	Q2	Q3	Q4
North American Consumer Packaging transaction costs	$23	$2	$ —	$ —
North American Consumer Packaging gain on transfer	(516)	28	—	—
Total	$(493)	$30	$ —	$ —

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

	2018			
In millions	Q1	Q2	Q3	Q4
State income tax legislative changes	$—	$9	$—	$—
Tax benefit of Tax Cuts and Jobs Act	—	—	(36)	—
International investment restructuring	—	—	—	19
Foreign tax audits	—	—	—	25
Tax impact of other special items	(9)	(13)	(46)	3
Tax impact of non-operating pension expense	(1)	(9)	(6)	(107)
Total	$(10)	$(13)	$(88)	$(60)

(d) Includes the following pre-tax charges (gains):

	2017			
In millions	Q1	Q2	Q3	Q4
Gain on sale of investment in ArborGen	$—	$(14)	$—	$—
Costs associated with the pulp business acquired in 2016	4	5	6	18
Amortization of Weyerhaeuser inventory fair value step-up	14	—	—	—
Holmen bargain purchase gain	(6)	—	—	—
Abandoned property removal	2	5	7	6
Kleen Products settlement	—	354	—	—

Asia Foodservice sale	—	9	—	—
Brazil Packaging wood supply accelerated amortization	—	—	10	—
Debt extinguishment costs	—	—	—	83
Interest income on income tax refund claims	—	(4)	—	(1)
Other items	—	(2)	—	—
Non-operating pension expense	31	34	33	386
Total	$45	$387	$56	$492

(e) Includes the operating earnings of the North American Consumer Packaging business for the full year. Also includes the following pre-tax charges (gains):

	2017			
In millions	Q1	Q2	Q3	Q4
North American Consumer Packaging transaction costs	$—	$—	$—	$17
Non-operating pension expense	—	—	—	45
Total	$—	$—	$—	$62

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

	2017			
In millions	Q1	Q2	Q3	Q4
International legal entity restructuring	$15	$—	$19	$—
Income tax refund claims	—	(85)	—	(28)
Cash pension contribution	—	38	—	—
International tax law change	—	—	—	9
Tax benefit of Tax Cuts and Jobs Act	—	—	—	(1,222)
Tax impact of other special items	(8)	(137)	(8)	(41)
Tax impact of non-operating pension expense	(12)	(13)	(13)	(148)
Total	$(5)	$(197)	$(2)	$(1,430)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2018, an evaluation was carried out under the supervision and with the participation of the Company's management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures and internal control over financial reporting. Based upon this evaluation, our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors is hereby incorporated by reference to our definitive proxy statement that will be filed with the Securities and Exchange Commission (SEC) within 120 days of the close of our fiscal year. The Audit and Finance Committee of the Board of Directors has at least one member who is a financial expert, as that term is defined in Item 401(d)(5) of Regulation S-K. Further information concerning the composition of the Audit and Finance Committee and our audit committee financial experts is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year. Information with respect to our executive officers is set forth on pages 4 and 5 in Part I of this Form 10-K under the caption, "Executive Officers of the Registrant."

Executive officers of International Paper are elected to hold office until the next annual meeting of the Board of Directors following the annual meeting of shareholders and, until the election of successors, subject to removal by the Board.

The Company's Code of Business Ethics (Code) is applicable to all employees of the Company, including the chief executive officer and senior financial officers, as well as the Board of Directors. We disclose any amendments to our Code and any waivers from a provision of our Code granted to our directors, chief executive officer and senior financial officers on our website within four business days following such amendment or waiver. To date, no waivers of the Code have been granted.

We make available free of charge on our website at www.internationalpaper.com, and in print to any shareholder who requests them, our Corporate Governance Principles, our Code of Business Ethics and the Charters of our Audit and Finance Committee, Management Development and Compensation Committee, Governance Committee and Public Policy and Environment Committee. Requests for copies may be directed to the corporate secretary at our corporate headquarters.

Information with respect to compliance with Section 16(a) of the Exchange Act and our corporate governance is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to the compensation of executives and directors of the Company is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

A description of the security ownership of certain beneficial owners and management and equity compensation plan information is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

A description of certain relationships and related transactions is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to fees paid to, and services rendered by, our independent registered public accounting firm, and our policies and procedures for pre-approving those services, is hereby incorporated by reference to our definitive proxy statement that will be filed with the SEC within 120 days of the close of our fiscal year.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements – See Item 8. Financial Statements and Supplementary Data.

(2) Financial Statement Schedules – The following additional financial data should be read in conjunction with the consolidated financial statements in Item 8. Financial Statements and Supplementary Data. Schedules not included with this additional financial data have been omitted because they are not applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

Additional Financial Data
2018, 2017 and 2016

(2.1) Transaction Agreement, dated October 23, 2017, by and among the Company, Graphic Packaging Holding Company, Gazelle Newco LLC and Graphic Packaging International, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed October 24, 2017).

(3.1) Restated Certificate of Incorporation of International Paper Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 13, 2013).

(3.2) By-laws of International Paper Company, as amended through February 9, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated February 8, 2016).

(4.1) Indenture, dated as of April 12, 1999, between International Paper and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 29, 2000).

(4.2) Supplemental Indenture (including the form of Notes), dated as of June 4, 2008, between International Paper Company and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 4, 2008).

(4.3) Supplemental Indenture (including the form of Notes), dated as of May 11, 2009, between International Paper Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 11, 2009).

(4.4) Supplemental Indenture (including the form of Notes), dated as of August 10, 2009, between International Paper Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 10, 2009).

(4.5) Supplemental Indenture (including the form of Notes), dated as of December 7, 2009, between International Paper Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 7, 2009).

(4.6)

Supplemental Indenture (including the form of Notes), dated as of November 16, 2011, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 16, 2011).

(4.7) Supplemental Indenture (including the form of Notes), dated as of June 10, 2014, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 10, 2014).

(4.8) Supplemental Indenture (including the form of Notes), dated as of May 26, 2015, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 26, 2015).

(4.9)	Supplemental Indenture (including the form of Notes), dated as of August 11, 2016, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 11, 2016).
(4.10)	Supplemental Indenture (including the form of Notes), dated as of August 9, 2017, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 9, 2017).
(4.11)	In accordance with Item 601 (b) (4) (iii) (A) of Regulation S-K, certain instruments respecting long-term debt of the Company have been omitted but will be furnished to the Commission upon request.
(10.1)	Amended and Restated 2009 Incentive Compensation Plan (ICP) (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated February 10, 2014). +
(10.2)	Restricted Stock and Deferred Compensation Plan for Non-Employee Directors, Amended and Restated as of May 10, 2010 (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010). +
(10.3)	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017). * +
(10.4)	Form of Restricted Stock Unit Award Agreement (cash settled) (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017). +
(10.5)	Form of Restricted Stock Unit Award Agreement (stock settled) (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017). +
(10.6)	Form of Performance Share Plan award certificate (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017). +
(10.7)	Pension Restoration Plan for Salaried Employees (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009). +

(10.8)	Unfunded Supplemental Retirement Plan for Senior Managers, as amended and restated effective January 1, 2008 (incorporated by reference to Exhibit 10.21 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007). +
(10.9)	Amendment No. 1 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective October 13, 2008 (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K dated October 17, 2008). +
(10.10)	Amendment No. 2 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective October 14, 2008 (incorporated by reference to Exhibit 10.5 to the Company’s Current Report on Form 8-K dated October 17, 2008). +
(10.11)	Amendment No. 3 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective December 8, 2008 (incorporated by reference to Exhibit 10.20 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008). +

(10.12) Amendment No. 4 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective January 1, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009). +

(10.13) Amendment No. 5 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective October 31, 2009 (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009). +

(10.14) Amendment No. 6 to the International Paper Company Unfunded Supplemental Retirement Plan for Senior Managers, effective January 1, 2012 (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011). +

(10.15) Form of Non-Competition Agreement, entered into by certain Company employees (including named executive officers) who have received restricted stock (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008). +

(10.16)	Form of Non-Solicitation Agreement, entered into by certain Company employees (including named executive officers) who have received restricted stock (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006). +
(10.17)	Form of Change-in-Control Agreement - Tier I, for the Chief Executive Officer and all "grandfathered" senior vice presidents elected prior to 2012 (all named executive officers) - approved September 2013 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013). +
(10.18)	Form of Change-in-Control Agreement - Tier II, for all future senior vice presidents and all "grandfathered" vice presidents elected prior to February 2008 - approved September 2013 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013). +
(10.19)	Form of Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003). +
(10.20)	Board Policy on Severance Agreements with Senior Executives (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 18, 2005). +
(10.21)	Board Policy on Change of Control Agreements (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 18, 2005). +
(10.22)	Time Sharing Agreement, dated October 17, 2014 (and effective November 1, 2014), by and between Mark S. Sutton and International Paper Company (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated October 14, 2014). +
(10.23)	Five-Year Credit Agreement dated as of December 12, 2016, among International Paper Company, JPMorgan Chase Bank, N.A., individually and as administrative agent, and certain lenders (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed June 6, 2017).
(10.24)	Settlement Agreement dated June 27, 2017, by and between International Paper Company, Temple-Inland Inc., n/k/a Temple-Inland LLC, TIN Inc., n/k/a TIN LLC, and Weyerhaeuser Company, and Kleen Products LLC, R.P.R. Enterprises, Inc., Mighty Pac, Inc., Ferraro Foods, Inc., Ferraro Foods of North Carolina, LLC, MTM Packaging Solutions of Texas, LLC, RHE Hatco, Inc., and Chandler Packaging, Inc., the plaintiff class representatives, both individually and on behalf of the plaintiff class (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017).
(10.25)	Commitment Agreement, dated September 26, 2017, between International Paper Company and The Prudential Insurance Company of America, relating to the Retirement Plan of International Paper Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017). †
(10.26)	Credit Agreement, dated December 8, 2017, by and among the Company, Bank of America, N.A. and BNP Paribas (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 12, 2017).
(10.27)	

	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 (corrected version of previously filed exhibit). * †
(10.28)	Termination Agreement and Release, dated 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).
(10.29)	Letter to Glenn R. Landau, dated July 23, 2018 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K/A filed on July 27, 2018).
(21)	Subsidiaries and Joint Ventures.*
(23.1)	Consent of Independent Registered Public Accounting Firm. *
(23.2)	Consent of Independent Auditors. *
(24)	Power of Attorney (contained on the signature page to the Company’s Annual Report on Form 10-K for the year ended December 31, 2018). *
(31.1)	Certification by Mark S. Sutton, Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
(31.2)	Certification by Tim S. Nicholls, Senior Vice President and Chief 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.*
(99.1)	Audited Financial Statements for Ilim S.A. and its subsidiaries as of and for the year ended December 31, 2018 and 2017. *

(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 *

+ Management contract or compensatory plan or arrangement.
* Filed herewith
† Confidential treatment has been granted for certain information pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /S/ SHARON R. RYAN February 20, 2019
Sharon R. Ryan
Senior Vice President, General Counsel
and Corporate Secretary

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Sharon R. Ryan and Matthew Barron as his or her true and lawful attorney-in-fact and agent, acting alone, with full power of substitution and resubstitution for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact full power and authority to do and perform each and every act and thing requisite or necessary to be done, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/S/ MARK S. SUTTON Mark S. Sutton	Chairman of the Board & Chief Executive Officer and Director	February 20, 2019
/S/ DAVID J. BRONCZEK David J. Bronczek	Director	February 20, 2019
/S/ WILLIAM J. BURNS Willliam J. Burns	Director	February 20, 2019
/S/ CHRISTOPHER M. CONNOR Christopher M. Connor	Director	February 20, 2019
/S/ AHMET C. DORDUNCU Ahmet C. Dorduncu	Director	February 20, 2019
/S/ ILENE S. GORDON Ilene S. Gordon	Director	February 20, 2019

/S/ JACQUELINE C. HINMAN Jacqueline C. Hinman	Director	February 20, 2019
/s/ CLINTON A. LEWIS, JR. Clinton A. Lewis, Jr.	Director	February 20, 2019
/S/ KATHRYN D. SULLIVAN Kathryn D. Sullivan	Director	February 20, 2019
/S/ J. STEVEN WHISLER J. Steven Whisler	Director	February 20, 2019
/S/ RAY G. YOUNG Ray G. Young	Director	February 20, 2019
/S/ TIMOTHY S. NICHOLLS Timothy S. Nicholls	Senior Vice President and Chief Financial Officer	February 20, 2019
/S/ VINCENT P. BONNOT Vincent P. Bonnot	Vice President – Finance and Controller	February 20, 2019

APPENDIX I
2018 LISTING OF FACILITIES
(all facilities are owned except noted otherwise)

PRINTING PAPERS

Uncoated Papers
U.S.:
Selma, Alabama (Riverdale Mill)
Ticonderoga, New York
Eastover, South Carolina
Georgetown, South Carolina
Sumter, South Carolina

International:
Luiz Antônio, São Paulo, Brazil
Mogi Guacu, São Paulo, Brazil
Três Lagoas, Mato Grosso do Sul, Brazil
Saillat, France
Kadiam, India
Rajahmundry, India
Kwidzyn, Poland
Svetogorsk, Russia

GLOBAL CELLULOSE FIBERS

Pulp
U.S.:
Cantonment, Florida
Flint River, Georgia
Port Wentworth, Georgia
Columbus, Mississippi
New Bern, North Carolina
Riegelwood, North Carolina
Eastover, South Carolina
Georgetown, South Carolina
Franklin, Virginia

International:
Grande Prairie, Alberta, Canada
Saillat, France
Gdansk, Poland
Kwidzyn, Poland

Savannah, Georgia
Cayuga, Indiana
Cedar Rapids, Iowa
Henderson, Kentucky
Maysville, Kentucky
Bogalusa, Louisiana
Campti, Louisiana
Mansfield, Louisiana
Vicksburg, Mississippi
Valliant, Oklahoma
Springfield, Oregon
Orange, Texas

International:
Franco da Rocha, São Paulo, Brazil
Nova Campina, São Paulo, Brazil
Paulinia, São Paulo, Brazil
Veracruz, Mexico
Kenitra, Morocco
Madrid, Spain

Corrugated Container
U.S.:
Bay Minette, Alabama
Decatur, Alabama
Dothan, Alabama leased
Huntsville, Alabama
Conway, Arkansas
Fort Smith, Arkansas (2 locations)
Russellville, Arkansas (2 locations)
Tolleson, Arizona
Yuma, Arizona
Anaheim, California
Buena Park, California leased
Camarillo, California
Carson, California
Cerritos, California leased
Compton, California
Elk Grove, California

Tracy, California
Golden, Colorado
Wheat Ridge, Colorado
Putnam, Connecticut
Orlando, Florida
Plant City, Florida
Tampa, Florida leased
Columbus, Georgia
Forest Park, Georgia
Griffin, Georgia
Kennesaw, Georgia leased
Lithonia, Georgia
Savannah, Georgia
Stone Mountain, Georgia leased
Tucker, Georgia
Aurora, Illinois (3 locations)
Bedford Park, Illinois (2 locations) 1 leased
Belleville, Illinois
Carol Stream, Illinois
Des Plaines, Illinois
Lincoln, Illinois
Montgomery, Illinois
Northlake, Illinois
Rockford, Illinois
Butler, Indiana
Crawfordsville, Indiana
Fort Wayne, Indiana
Hammond, Indiana
Indianapolis, Indiana (2 locations)
Saint Anthony, Indiana
Tipton, Indiana
Cedar Rapids, Iowa
Waterloo, Iowa
Garden City, Kansas
Kansas City, Kansas
Bowling Green, Kentucky
Lexington, Kentucky
Louisville, Kentucky
Walton, Kentucky

Svetogorsk, Russia

INDUSTRIAL PACKAGING

Containerboard

U.S.:

Pine Hill, Alabama
Prattville, Alabama
Cantonment, Florida
Rome, Georgia

Exeter, California
Gilroy, California (2 locations)
Los Angeles, California
Modesto, California
Ontario, California
Salinas, California
Sanger, California
San Leandro, California leased [3]
Santa Fe Springs, California (2 locations)
Stockton, California

Bogalusa, Louisiana
Lafayette, Louisiana
Shreveport, Louisiana
Springhill, Louisiana
Auburn, Maine
Three Rivers, Michigan
Arden Hills, Minnesota
Austin, Minnesota
Fridley, Minnesota
Minneapolis, Minnesota leased

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Shakopee, Minnesota
White Bear Lake, Minnesota
Houston, Mississippi
Jackson, Mississippi
Magnolia, Mississippi leased
Olive Branch, Mississippi
Fenton, Missouri
Kansas City, Missouri
Maryland Heights, Missouri
North Kansas City, Missouri leased
St. Joseph, Missouri
St. Louis, Missouri
Omaha, Nebraska
Barrington, New Jersey
Bellmawr, New Jersey
Milltown, New Jersey
Spotswood, New Jersey
Thorofare, New Jersey
Binghamton, New York
Buffalo, New York
Rochester, New York
Scotia, New York
Utica, New York
Charlotte, North Carolina (2 locations) 1 leased
Lumberton, North Carolina
Manson, North Carolina
Newton, North Carolina
Statesville, North Carolina
Byesville, Ohio
Delaware, Ohio
Eaton, Ohio
Madison, Ohio
Marion, Ohio
Marysville, Ohio leased
Middletown, Ohio
Mt. Vernon, Ohio
Newark, Ohio
Streetsboro, Ohio
Wooster, Ohio
Oklahoma City, Oklahoma
Beaverton, Oregon (3 locations)
Hillsboro, Oregon
Portland, Oregon
Salem, Oregon leased

Laurens, South Carolina
Lexington, South Carolina
Ashland City, Tennessee leased
Cleveland, Tennessee
Elizabethton, Tennessee leased
Morristown, Tennessee
Murfreesboro, Tennessee
Amarillo, Texas
Carrollton, Texas (2 locations)
Edinburg, Texas
El Paso, Texas
Ft. Worth, Texas leased
Grand Prairie, Texas
Hidalgo, Texas
McAllen, Texas
San Antonio, Texas (2 locations)
Sealy, Texas
Waxahachie, Texas
Lynchburg, Virginia
Petersburg, Virginia
Richmond, Virginia
Moses Lake, Washington
Olympia, Washington
Yakima, Washington
Fond du Lac, Wisconsin
Manitowoc, Wisconsin

International:
Manaus, Amazonas, Brazil
Paulinia, São Paulo, Brazil
Rio Verde, Goias, Brazil
Suzano, São Paulo, Brazil
Rancagua, Chile
Arles, France
Chalon-sur-Saone, France
Creil, France
LePuy, France (Espaly Box Plant)
Mortagne, France
Guadeloupe, French West Indies
Bellusco, Italy
Catania, Italy
Pomezia, Italy
San Felice, Italy
Apodaco (Monterrey), Mexico leased

Silao, Mexico
Toluca, Mexico
Villa Nicolas Romero, Mexico
Zapopan, Mexico
Agadir, Morocco
Casablanca, Morocco
Tangier, Morocco
Almeria, Spain [2]
Barcelona, Spain
Bilbao, Spain
Gandia, Spain
Las Palmas, Spain
Madrid, Spain
Tenerife, Spain
Adana, Turkey
Bursa. Turkey
Corlu, Turkey
Corum, Turkey
Gebze, Turkey
Izmir, Turkey

Recycling
U.S.:
Phoenix, Arizona
Fremont, California
Norwalk, California
West Sacramento, California
Itasca, Illinois
Des Moines, Iowa
Wichita, Kansas
Roseville, Minnesota
Omaha, Nebraska
Charlotte, North Carolina
Beaverton, Oregon
Springfield, Oregon leased
Carrollton, Texas
Salt Lake City, Utah
Richmond, Virginia
Kent, Washington

International:
Monterrey, Mexico leased
Xalapa, Veracruz, Mexico leased

Biglerville, Pennsylvania (2 locations)	Ixtaczoquitlan, Mexico	Bags
Eighty-four, Pennsylvania	Juarez, Mexico leased	U.S.:
Hazleton, Pennsylvania	Los Mochis, Mexico	Buena Park, California
Kennett Square, Pennsylvania	Puebla, Mexico leased	Beaverton, Oregon
Lancaster, Pennsylvania	Reynosa, Mexico	Grand Prairie, Texas
Mount Carmel, Pennsylvania	San Jose Iturbide, Mexico	
Georgetown, South Carolina	Santa Catarina, Mexico	

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Coated Paperboard
International:
Kwidzyn, Poland
Svetogorsk, Russia

DISTRIBUTION

IP Asia
International:
Guangzhou, China
Hong Kong, China
Shanghai, China
Japan
Korea
Singapore
Taiwan [1]
Thailand [1]
Vietnam [1]

FOREST RESOURCES
International:
Approximately 329,400 acres
in Brazil

1) Closed July 2018
2) Closed September 2018
3) Closed December 2018

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APPENDIX II
2018 CAPACITY INFORMATION

(in thousands of short tons except as noted)	U.S.	EMEA	Americas, other than U.S.	India	Total
Industrial Packaging					
Containerboard [a]	13,596	91	366	—	14,053
Coated Paperboard	—	428	—	—	428
Total Industrial Packaging	13,596	519	366	—	14,481
Global Cellulose Fibers					
Dried Pulp (in thousands of metric tons)	2,914	277	535	—	3,726
Printing Papers					
Uncoated Freesheet & Bristols [b]	1,990	1,162	1,135	266	4,553
Newsprint	—	75	—	—	75
Total Printing Papers	1,990	1,237	1,135	266	4,628

(a) In addition to Containerboard, this also includes saturated kraft, kraft bag, and gypsum.
(b) In addition to Uncoated Freesheet and Bristols, includes bleached multiwall bag and plate.

Forest Resources	
We own, manage or have an interest in approximately 1.4 million acres of forestlands worldwide. These forestlands and associated acres are located in the following regions:	(M Acres)
Brazil	329
We have harvesting rights in:	
Russia	1,047
Total	1,376

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