INTERNATIONAL PAPER CO /NEW/
Form 10-K
February 26, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2008

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission File No. 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York	**13-0872805**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6400 Poplar Avenue

Memphis, Tennessee

(Address of principal executive offices)

38197

(Zip Code)

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

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $1 per share par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Yes x No ¨

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

Yes ¨ No x

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

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

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

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

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

The aggregate market value of the Company s outstanding common stock held by non-affiliates of the registrant, computed by reference to the closing price as reported on the New York Stock Exchange, as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2008) was approximately $9,887,280,215.

The number of shares outstanding of the Company s common stock, as of February 20, 2009 was 427,766,394.

Documents incorporated by reference:

Portions of the registrant s proxy statement filed within 120 days of the close of the registrant s fiscal year in connection with registrant s 2009 annual meeting of shareholders are incorporated by reference into Parts III and IV of this Form 10-K.

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PART I.

ITEM 1. BUSINESS

GENERAL

International Paper Company (the Company or International Paper, which may also be referred to as we or us) is a global pape and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. We are a New York corporation, incorporated in 1941 as the successor to the New York corporation of the same name organized in 1898. Our home page on the Internet is www.internationalpaper.com. You can learn more about us by visiting that site.

In the United States at December 31, 2008, including the Containerboard, Packaging and Recycling business (CBPR) acquired in August 2008 from Weyerhaeuser Company, the Company operated 23 pulp, paper and packaging mills, 157 converting and packaging plants, 19 recycling plants and three bag facilities. Production facilities at December 31, 2008 in Europe, Asia, Latin America and South America included eight pulp, paper and packaging mills, 53 converting and packaging plants, and two recycling plants. We distribute printing, packaging, graphic arts, maintenance and industrial products principally through over 237 distribution branches in the United States and 35 distribution branches located in Canada, Mexico and Asia. At December 31, 2008, we owned or managed approximately 200,000 acres of forestlands in the United States, approximately 250,000 acres in Brazil and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions.

For management and financial reporting purposes, our businesses are separated into six segments: Printing Papers; Industrial Packaging; Consumer Packaging; Distribution; Forest Products; and Specialty Businesses and Other. A description of these business segments can be found on pages 25 through 27 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. The Company s 50% equity interest in Ilim Holding S.A. is also a separate reportable industry segment.

From 2004 through 2008, International Paper s capital expenditures approximated $5.6 billion, excluding

mergers and acquisitions. These expenditures reflect our continuing efforts to improve product quality and environmental performance, as well as lower costs, maintain reliability of operations and improve forestlands. Capital spending for continuing operations in 2008 was approximately $1.0 billion and is expected to be approximately $700 million in 2009. You can find more information about capital expenditures on page 33 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Discussions of acquisitions can be found on pages 33 and 34 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

You can find discussions of restructuring charges and other special items on pages 22 through 25 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Throughout this Annual Report on Form 10-K, we incorporate by reference certain information in parts of other documents filed with the Securities and Exchange Commission (SEC). The SEC permits us to disclose important information by referring to it in that manner. Please refer to such information. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, along with all other reports and any amendments thereto filed with or furnished to the SEC, are publicly available free of charge on the Investor Relations section of our Internet Web site at ***www.internationalpaper.com*** *as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained on or connected to our Web site is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we filed with or furnished to the SEC.*

FINANCIAL INFORMATION CONCERNING INDUSTRY SEGMENTS

The financial information concerning segments is set forth on pages 47 and 48 of Item 8. Financial Statements and Supplementary Data.

FINANCIAL INFORMATION ABOUT INTERNATIONAL AND U.S. OPERATIONS

The financial information concerning international and U.S. operations and export sales is set forth on page 48 of Item 8. Financial Statements and Supplementary Data.

COMPETITION AND COSTS

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

Many factors influence the Company s competitive position, including price, cost, product quality and services. You can find more information about the impact of price and cost on operating profits on pages 16 through 32 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations. You can find information about the Company s manufacturing capacities on page A-4 of Appendix II.

MARKETING AND DISTRIBUTION

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

DESCRIPTION OF PRINCIPAL PRODUCTS

The Company s principal products are described on pages 26 and 27 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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SALES VOLUMES BY PRODUCT

Sales volumes of major products for 2008, 2007 and 2006 were as follows:

Sales Volumes by Product (1) (2)

(Unaudited)

In thousands of short tons	**2008**	2007	2006
Printing Papers			
U.S. Uncoated Papers	**3,397**	3,788	3,973
European and Russian Uncoated Papers	**1,461**	1,448	1,455
Brazilian Uncoated Papers	**853**	794	477
Asian Uncoated Papers	**27**	24	18
Uncoated Papers	**5,738**	6,054	5,923
Coated Papers (3)			1,168
Market Pulp (4)	**1,604**	1,402	1,124
Industrial Packaging			
Corrugated Packaging (5)	**5,298**	3,578	3,628
Containerboard (5)	**2,305**	1,776	1,816
Recycling (5)	**966**		
Saturated Kraft	**170**	167	150
Bleached Kraft	**82**	73	82
European Industrial Packaging	**1,123**	1,173	1,267
Asian Industrial Packaging	**568**	477	363
Industrial Packaging	**10,512**	7,244	7,306
Consumer Packaging			
U.S. Coated Paperboard	**1,591**	1,602	1,538
European Coated Paperboard	**311**	320	298
Asian Coated Paperboard	**550**	496	77 (6)
Other Consumer Packaging	**178**	164	162
Consumer Packaging	**2,630**	2,582	2,075

(1) Includes third-party and inter-segment sales.
(2) Sales volumes for divested businesses are included through the date of sale, except for discontinued operations.
(3) Sold in the third quarter of 2006, International Paper has a 10% continuing interest in the owning entity.
(4) Includes internal sales to mills.
(5) Includes CBPR volumes from date of acquisition in August 2008.
(6) Includes two months of sales for International Paper & Sun Cartonboard Co., Ltd. in which International Paper acquired a 50% interest in the fourth quarter of 2006.

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RESEARCH AND DEVELOPMENT

The Company operates its primary research and development center in Loveland, Ohio, as well as several product laboratories. Additionally, the Company has a 1/3 interest in ArborGen, LLC, a joint venture with certain other forest products and biotechnology companies. We direct research and development activities to short-term, long-term and technical assistance needs of customers and operating divisions, and to process, equipment and product innovations. Activities include studies on innovation and improvement of pulping, bleaching, chemical recovery, papermaking and coating processes; packaging design and materials development; reduction of environmental discharges; re-use of raw materials in manufacturing processes; recycling of consumer and packaging paper products; energy conservation; applications of computer controls to manufacturing operations; innovations and improvement of products; and development of various new products. Our development efforts specifically address product safety as well as the minimization of solid waste. The cost to the Company of its research and development operations was $22 million in 2008, $24 million in 2007 and $45 million in 2006.

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

ENVIRONMENTAL PROTECTION

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

EMPLOYEES

As of December 31, 2008, we had approximately 61,700 employees, 42,700 of whom were located in the United States. Of the U.S. employees, approximately 27,900 are hourly, with unions representing

approximately 16,900 employees. Approximately 12,600 of the union employees are represented by the United Steel Workers (USW) under individual location contracts.

During 2008, pursuant to the 2008 Agreement with the USW that establishes a new framework for bargaining future local labor contracts at 14 of our U.S. pulp, paper and packaging mills, labor agreements at the Texarkana, Texas, Courtland, Alabama, Prattville, Alabama and Pineville, Louisiana paper mills were renewed. Additionally, the Company announced the shutdown and bargained the effects of the closing of the Bastrop, Louisiana mill. During 2009, labor agreements are scheduled to expire and renew under the terms of the USW Agreement, at the Savannah, Georgia, Ticonderoga, New York, Pensacola, Florida and Augusta, Georgia mill locations. In addition, the labor agreement for one Weyerhaeuser mill location, Pine Hill, Alabama, is scheduled to be negotiated in 2009. It is not covered by the agreement with the 14 mills described above.

The Company also reached an agreement with the USW for 32 International Paper converting facilities in 2008. Similar to the 2007 USW Agreement for the mill locations, it establishes the framework for bargaining future local agreements for those facilities for a four-year period.

Labor agreements were renewed in 2008 at 13 converting, distribution and consumer packaging operations, and our one remaining wood products location. In addition, labor agreements were extended at seven converting locations formerly owned by Weyerhaeuser; they are not covered by the converting agreement described above.

During 2009, 26 labor agreements are scheduled to be negotiated in 23 converting, distribution and consumer packaging operations. Thirteen of these agreements are not covered by the converting agreement reached with the USW described above. The other 13 that are part of the USW agreement will renew automatically if new agreements are not reached.

EXECUTIVE OFFICERS OF THE REGISTRANT

John V. Faraci, 59, chairman and chief executive officer since 2003. Mr. Faraci previously served as president during 2003, and executive vice president and chief financial officer from 2000 to 2003. Mr. Faraci joined International Paper in 1974.

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John N. Balboni, 60, senior vice president and chief information officer since 2005. Mr. Balboni previously served as vice president and chief information officer from 2003 to 2005, and vice president-ebusiness from 2000 to 2003. Mr. Balboni joined International Paper in 1978.

Michael J. Balduino, 58, senior vice president-consumer packaging since 2008. Mr. Balduino previously served as senior vice president responsible for consumer products converting business and president-Shorewood Packaging Corp. from 2004 to 2008. Mr. Balduino served as senior vice president-sales and marketing from 2000 to 2003. Mr. Balduino joined International Paper in 1992.

H. Wayne Brafford, 57, senior vice president-printing and communications papers since 2005. Mr. Brafford previously served as senior vice president-industrial packaging from 2003 to 2005, and as vice president and general manager-converting, specialty and pulp from 1999 to 2003. Mr. Brafford joined International Paper in 1975.

Jerome N. Carter, 60, senior vice president-human resources since 1999. Since 2005, Mr. Carter is also responsible for overseeing the communications function of the Company. Mr. Carter joined International Paper in 1980. In February 2009, Mr. Carter announced that he will retire from the Company effective May 1, 2009.

C. Cato Ealy, 52, senior vice president-corporate development since 2003. Mr. Ealy previously served as vice president-corporate development from 1996 to 2003. Mr. Ealy is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Mr. Ealy joined International Paper in 1992.

Tommy S. Joseph, 48, senior vice president-manufacturing and technology since February 2009. Mr. Joseph previously served as vice president-technology from 2005 to February 2009. He served as vice president-specialty papers business from 2003 to 2005. Mr. Joseph joined International Paper in 1983.

Thomas E. Gestrich, 62, senior vice president and president-IP Asia since 2005. Mr. Gestrich previously served as senior vice president-consumer packaging from 2001 to 2005. Mr. Gestrich joined International Paper in 1990.

Thomas G. Kadien, 52, senior vice president and president-*xpedx* since 2005. Mr. Kadien previously served as senior vice president-Europe from 2003 to

2005, and as vice president-commercial printing and imaging papers from 2001 to 2003. Mr. Kadien joined International Paper in 1978.

Mary A. Laschinger, 48, senior vice president since 2007 and president-IP Europe, Middle East, Africa and Russia since 2005. Ms. Laschinger previously served as vice president-wood products from 2004 to 2005, and as vice president-pulp from 2001 to 2004. Ms. Laschinger is a director of Ilim Holding S.A., a Swiss holding company in which International Paper holds a 50% interest, and of its subsidiary, Ilim Group. Ms. Laschinger joined International Paper in 1992.

Tim S. Nicholls, 47, senior vice president and chief financial officer since December 2007. Mr. Nicholls previously served as vice president and executive project leader of IP Europe during 2007. Mr. Nicholls served as vice president and chief financial officer-IP Europe from 2005 to 2007, and as president of the Company s former Canadian pulp and wood products business from 2002 to 2005. Mr. Nicholls joined International Paper in 1991.

Maximo Pacheco, 56, senior vice president since 2005 and president-IP do Brasil since 2004. Previously, Mr. Pacheco served as senior vice president-IP do Brasil from 2003 to 2004 and as president-IP Latin America from 2000 to 2003. Mr. Pacheco joined International Paper in 1994.

Carol L. Roberts, 49, senior vice president industrial packaging since 2008. Ms. Roberts previously served as senior vice president IP packaging solutions from 2005 to 2008. Ms. Roberts served as vice president-container of the Americas from 2000 to 2005. Ms. Roberts joined International Paper in 1981.

Maura A. Smith, 53, senior vice president, general counsel, corporate secretary and global government relations. From 1998 to 2003, she served as senior vice president, general counsel and corporate secretary of Owens Corning and in addition, from 2000 to 2003, as chief restructuring officer and a member of its board of directors. Ms. Smith joined International Paper in 2003.

Mark S. Sutton, 47, senior vice president-supply chain since 2008. Mr. Sutton previously served as vice president-supply chain from 2007 until 2008. Mr. Sutton served as vice president-strategic planning from 2005 to 2007, and as vice president and general manager-European Corrugated Packaging Operations from 2002 to 2005. Mr. Sutton joined International Paper in 1984.

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Robert J. Grillet, 53, vice president-finance and controller since 2003. Mr. Grillet previously served as senior vice president-*xpedx* from 2000 to 2003. Mr. Grillet joined International Paper in 1976.

Terri L. Herrington, 53, vice president-internal audit since November 2007. Ms. Herrington previously served as director of audit for finance and financial control for BP p.l.c. from 2003 to 2007, and as group development leader in internal audit for BP p.l.c. from 2000 to 2003. Ms. Herrington joined International Paper in 2007.

RAW MATERIALS

Raw materials essential to our businesses include wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers (OCC), and certain chemicals, including caustic soda, starch, and polyethylene. Information concerning fiber supply purchase agreements that were entered into in connection with the Company s 2006 Transformation Plan is presented in Note 11 Commitments and Contingent Liabilities on page 76 of Item 8. Financial Statements and Supplementary Data.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, and in particular, statements found in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature, may constitute forward-looking statements. These statements are often identified by the words, will, may, should, continue, anticipate, believe, expe appear, project, estimate, intend, and words of a similar nature. Such statements reflect the current views of International Pape with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Below, we have listed specific risks and uncertainties that you should carefully read and consider. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1A. RISK FACTORS

In addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K (particularly in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations), or in the Company s other filings with the Securities and Exchange Commission, the following are some important factors that could cause the Company s actual results to differ materially from those projected in any forward-looking statement.

RISKS RELATING TO INDUSTRY CONDITIONS

CHANGES IN THE COST OR AVAILABILITY OF RAW MATERIALS, ENERGY AND TRANSPORTATION COULD AFFECT OUR PROFITABILITY. We rely heavily on certain raw materials (principally wood fiber, caustic soda and polyethylene), energy sources (principally natural gas, coal and fuel oil) and third party companies that transport our goods. Our profitability has been, and will continue to be, affected by changes in the costs and availability of such raw materials, energy sources and transportation sources.

THE INDUSTRIES IN WHICH WE OPERATE EXPERIENCE BOTH ECONOMIC CYCLICALITY AND CHANGES IN CONSUMER PREFERENCES. FLUCTUATIONS IN THE PRICES OF AND THE DEMAND FOR OUR PRODUCTS COULD MATERIALLY AFFECT OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to industry capacity and general economic conditions. The length and magnitude of these cycles have varied over time and by product. In addition, changes in consumer preferences may increase or decrease the demand for our fiber-based products and non-fiber substitutes. Consequently, our operating cash flow is sensitive to changes in the pricing and demand for our products.

COMPETITION IN THE UNITED STATES AND INTERNATIONALLY COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS. We operate in a competitive environment, both in the United States and internationally, in all of our operating segments. Pricing or product strategies pursued by competitors could negatively impact our financial results.

RISKS RELATING TO MARKET AND ECONOMIC FACTORS

CONTINUED ADVERSE DEVELOPMENTS IN GENERAL BUSINESS AND ECONOMIC CONDITIONS COULD HAVE AN ADVERSE EFFECT ON THE DEMAND FOR OUR PRODUCTS AND OUR FINANCIAL CONDITION AND RESULTS OF OPERATION. General economic conditions may adversely affect industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels and consumer confidence, all of which impact demand for our products. In addition, continued volatility in the capital and credit markets, which

impacts interest rates, currency exchange rates and the availability of credit could have a material adverse effect on our business, financial condition and our results of operations.

CHANGES IN CREDIT RATINGS ISSUED BY NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS COULD ADVERSELY AFFECT OUR COST OF FINANCING AND HAVE AN ADVERSE EFFECT ON THE MARKET PRICE OF OUR SECURITIES. Maintaining an investment-grade credit rating is an important element of our financial strategy and a downgrade of our Company s ratings below investment grade may limit our access to the capital markets, have an adverse effect on the market price of our securities and increase our cost of borrowing. In light of current economic conditions, the Company s desire to maintain its investment grade rating may cause the Company to take certain actions designed to improve its cash flow, including sale of assets, reduction or suspension of the dividend and further reductions in capital expenditures and working capital. Similarly, we are subject to the risk that one of the banks that has issued irrevocable letters of credit supporting the installment notes issued in connection with sales of our forestlands is downgraded below a required rating. If this were to happen, it may increase the cost to the Company of securing a replacement letter-of-credit bank or could result in an acceleration of deferred taxes if a replacement bank cannot be obtained.

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

OUR PENSION AND HEALTH CARE COSTS ARE SUBJECT TO NUMEROUS FACTORS WHICH COULD CAUSE THESE COSTS TO CHANGE. We have defined benefit pension plans covering substantially all salaried U.S. employees hired prior to July 1, 2004 and substantially all hourly and union employees regardless of hire date. We provide retiree health care benefits to certain of our U.S. salaried and certain hourly employees. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Pension plan assets are primarily

made up of equity and fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also increase pension and health care costs. Significant changes in any of these factors may adversely impact our cash flows, financial conditions and results of operations.

OUR PENSION PLANS ARE CURRENTLY UNDERFUNDED, AND OVER TIME WE WILL BE REQUIRED TO MAKE CASH PAYMENTS TO THE PLANS, REDUCING THE CASH AVAILABLE FOR OUR BUSINESS. We record a liability associated with our pension plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded under the provisions of Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, at December 31, 2008 was $3.2 billion. Although we expect to have no obligation to fund our plans in 2009, over the next several years we may make contributions to the plans that could be material. The amount of such contributions will be dependent upon a number of factors, principally the actual earnings and changes in values of plan assets, changes in interest rates and the impact of possible funding relief legislation currently under consideration in the U.S. Congress.

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

THE AMOUNT OF OUR DEBT OBLIGATIONS COULD ADVERSELY AFFECT OUR BUSINESS. OUR ABILITY TO REFINANCE OR REPAY OUR DEBT IS DEPENDENT UPON OUR ABILITY TO GENERATE CASH FROM OPERATIONS AND CONDITIONS IN THE CREDIT MARKETS AND THE AVAILABILITY OF CREDIT GENERALLY. As of December 31, 2008, we had $1.6 billion of debt that had to be repaid or refinanced before

December 31, 2009, including $362 million of notes that matured in January 2009 and were repaid with cash on hand, and a 500 million (approximately $696 million) term loan due August 31, 2009 that we are currently negotiating to refinance. We have approximately $1.3 billion and $600 million in debt that matures in 2010 and 2011, respectively. We may be required to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness. If we use a substantial portion of our cash flow to repay indebtedness, our flexibility in planning for and reacting to changes in our business and the industries in which we operate may be limited. This may place us at a competitive disadvantage compared to our competitors with less debt. Similarly, if we are unable to generate sufficient cash from operations to repay our debt, or are unable to refinance our debt because credit market conditions remain volatile, this may have an adverse impact on our cost of borrowing, liquidity, financial condition and results of operations.

RISKS RELATING TO LEGAL PROCEEDINGS AND COMPLIANCE COSTS

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

RESULTS OF LEGAL PROCEEDINGS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR CONSOLIDATED FINANCIAL STATEMENTS. The costs and other effects of pending litigation against us cannot be determined with certainty. Although we believe that the outcome of any pending or threatened lawsuits or claims, or all of them combined, will not have a material adverse effect on our consolidated financial statements, there can be no assurance that the outcome of any lawsuit or claim will be as expected.

RISKS RELATING TO OUR OPERATIONS

MATERIAL DISRUPTIONS AT ONE OF OUR MANUFACTURING FACILITIES COULD NEGATIVELY IMPACT OUR FINANCIAL RESULTS. We operate our facilities in compliance with applicable

rules and regulations and take measures to minimize the risks of disruption at our facilities. A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial results. Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- unscheduled maintenance outages;
- prolonged power failures;
- an equipment failure;
- a chemical spill or release;
- explosion of a boiler;
- the effect of a drought or reduced rainfall on its water supply;
- labor difficulties;

- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- fires, floods, earthquakes, hurricanes or other catastrophes;
- terrorism or threats of terrorism;
- domestic and international laws and regulations applicable to our Company and our business partners, including joint venture partners, around the world; and
- other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned capital expenditures. If one of these machines or facilities were to incur significant downtime, our ability to meet our production targets and satisfy customer requirements could be impaired, resulting in lower sales and having a negative effect on our financial results.

SEVERAL OF OUR OPERATIONS ARE CONDUCTED BY JOINT VENTURES THAT WE CANNOT OPERATE SOLELY FOR OUR BENEFIT.

Several of our operations, particularly in emerging markets, are carried on by joint ventures such as the Ilim Group in Russia. In joint ventures we share ownership and management of a company with one or more parties who may or may not have the same goals, strategies, priorities or resources as we do. In general, joint ventures are intended to be operated for the benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint

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venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to pay more attention to our relationship with our co-owners as well as with the joint venture, and if a co-owner changes, our relationship may be adversely affected. In addition, the benefits from a successful joint venture are shared among the co-owners, so that we do not receive all the benefits from our successful joint ventures.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FORESTLANDS

As of December 31, 2008, the Company owned or managed approximately 200,000 acres of forestlands in the United States, approximately 250,000 acres in Brazil, and had, through licenses and forest management agreements, harvesting rights on government-owned forestlands in Russia. All owned lands are independently third-party certified for sustainable forestry (under operating standards of the Sustainable Forestry Initiative (SFI) in the United States and ISO 14001 and CERFLOR in Brazil). During 2006, in conjunction with the Company s 2006 Transformation Plan, approximately 5.6 million acres of forestlands in the United States were sold under various agreements, principally in October and November, for proceeds totaling approximately $6.6 billion of cash and notes. A further discussion of these sales transactions can be found on page 23 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and on pages 69 and 70 of Item 8. Financial Statements and Supplementary Data. Our remaining forestlands are being marketed to optimize the economic value to our shareholders. Most of these forestlands consist of properties that are likely to be sold to investors and other buyers for various uses or held for real estate development.

MILLS AND PLANTS

A listing of our production facilities, the vast majority of which we own, can be found in Appendix I hereto, which is incorporated herein by reference.

The Company s facilities are in good operating condition and are suited for the purposes for which they are presently being used. We continue to study the economics of modernization or adopting other alternatives for higher cost facilities.

CAPITAL INVESTMENTS AND DISPOSITIONS

Given the size, scope and complexity of our business interests, we continually examine and evaluate a wide variety of business opportunities and planning alternatives, including possible acquisitions and sales or other dispositions of properties. You can find a discussion about the level of planned capital investments for 2009 on page 33, and dispositions and restructuring activities as of December 31, 2008, on pages 22 through 25 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and on pages 65 through 71 of Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

Information concerning the Company s legal proceedings is set forth on pages 44 and 45 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and on pages 76 through 79 of Item 8. Financial Statements and Supplementary Data.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2008.

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PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Dividend per share data on the Company s common stock and the high and low sales prices for the Company s common stock for each of the four quarters in 2008 and 2007 are set forth on page 94 of Item 8. Financial Statements and Supplementary

Data. As of the filing of this Annual Report on 10-K, the Company s common shares are traded on the New York stock exchange. International Paper options are traded on the Chicago Board of Options Exchange. As of February 20, 2009, there were approximately 21,535 record holders of common stock of the Company.

The table below presents information regarding the Company s purchase of its equity securities for the time periods presented.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2008 - January 31, 2008	838	$ 31.02	N/A
February 1, 2008 - February 29, 2008	1,458,246	31.85	N/A
April 1, 2008 - April 30, 2008	237	27.20	N/A
November 1, 2008 - November 30, 2008	3,000	17.26	N/A
Total	1,462,321		

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

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PERFORMANCE GRAPH

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

The following graph compares a $100 investment in Company stock on December 31, 2003 with a $100 investment in each of our ROI Peer Group and the S&P 500 also made on December 31, 2003. The graph portrays total return, 2003 2008, assuming reinvestment of dividends.

(1) *The companies included in the ROI Peer Group are Bowater Inc., Domtar Inc., MeadWestvaco Corp., M-Real Corp., Packaging Corporation of America, Sappi Limited, Smurfit-Stone Container Corp., Stora Enso Group, UPM Corporation and Weyerhaeuser Co.*

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ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR FINANCIAL SUMMARY (a)

Dollar amounts in millions, except per share amounts and stock prices	**2008**	2007	2006	2005	2004
RESULTS OF OPERATIONS					
Net sales	**$ 24,829**	$ 21,890	$ 21,995	$ 21,700	$ 20,721
Costs and expenses, excluding interest	**25,490**	19,939	18,286	20,819	19,633
Earnings (loss) from continuing operations before income taxes, equity earnings and minority interest	**(1,153)**[(b)]	1,654(e)	3,188(h)	286(j)	376(m)
Equity earnings, net of taxes	**49**				
Minority interest expense, net of taxes	**3**	24	17	9	24
Discontinued operations	**(13)**[(c)]	(47)[(f)]	(232)[(i)]	416(k)	(273)[(n)]
Net earnings (loss)	**(1,282)**[(b-d)]	1,168(e-g)	1,050(h-i)	1,100(j-l)	(35)[(m-o)]
Earnings (loss) applicable to common shares	**(1,282)**[(b-d)]	1,168(e-g)	1,050(h-i)	1,100(j-l)	(35)[(m-o)]
FINANCIAL POSITION					
Working capital	**$ 2,605**	$ 2,893	$ 3,996	$ 6,804	$ 9,506
Plants, properties and equipment, net	**14,202**	10,141	8,993	9,073	9,402
Forestlands	**594**	770	259	2,127	2,099
Total assets	**26,913**	24,159	24,034	28,771	34,217
Notes payable and current maturities of long-term debt	**828**	267	692	1,178	209
Long-term debt	**11,246**	6,353	6,531	11,019	13,626
Common shareholders equity	**4,169**	8,672	7,963	8,351	8,254
BASIC PER SHARE OF COMMON STOCK					
Earnings (loss) from continuing operations	**$ (3.02)**	$ 2.83	$ 2.69	$ 1.41	$ 0.49
Discontinued operations	**(0.03)**	(0.11)	(0.48)	0.85	(0.56)
Net earnings (loss)	**(3.05)**	2.72	2.21	2.26	(0.07)
DILUTED PER SHARE OF COMMON STOCK					
Earnings (loss) from continuing operations	**$ (3.02)**	$ 2.81	$ 2.65	$ 1.40	$ 0.49
Discontinued operations	**(0.03)**	(0.11)	(0.47)	0.81	(0.56)
Net earnings (loss)	**(3.05)**	2.70	2.18	2.21	(0.07)
Cash dividends	**1.00**	1.00	1.00	1.00	1.00
Common shareholders equity	**9.75**	20.40	17.56	17.03	16.93
COMMON STOCK PRICES					
High	**$ 33.77**	$ 41.57	$ 37.98	$ 42.59	$ 45.01
Low	**10.20**	31.05	30.69	26.97	37.12
Year-end	**11.80**	32.38	34.10	33.61	42.00
FINANCIAL RATIOS					
Current ratio	**1.5**	1.7	1.9	2.4	2.3
Total debt to capital ratio	**0.73**	0.43	0.47	0.59	0.62
Return on equity	**(14.9)**[(b-d)]	14.8(e-g)	14.6(h-i)	13.2(j-l)	(0.4)[(m-o)]
Return on investment from continuing operations	**(4.0)**[(b-d)]	7.2(e-g)	8.1(h-i)	5.2(j-l)	3.1(m-o)
CAPITAL EXPENDITURES	**$ 1,002**	$ 1,292	$ 1,073	$ 1,095	$ 1,119
NUMBER OF EMPLOYEES	**61,700**	51,500	60,600	68,700	79,400

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ITEM 6. SELECTED FINANCIAL DATA
FINANCIAL GLOSSARY

Current ratio

current assets divided by current liabilities.

Total debt to capital ratio

long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt, minority interest and total common shareholders equity.

Return on equity

net earnings divided by average common shareholders equity (computed monthly).

Return on investment

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

FOOTNOTES TO FIVE-YEAR FINANCIAL SUMMARY

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

2008:

(b) Includes restructuring and other charges of $370 million before taxes ($227 million after taxes), including a pre-tax charge of $123 million ($75 million after taxes) for shutdown costs for the Louisiana mill, a pre-tax charge of $30 million ($18 million after taxes) for the shutdown of a paper machine at the Franklin mill, a charge of $53 million before taxes ($32 million after taxes) for severance and related costs associated with the Company s 2008 overhead cost reduction initiative, a charge of $75 million before taxes ($47 million after taxes) for adjustments to legal reserves, a pre-tax charge of $30 million ($19 million after taxes) for costs associated with the reorganization of the Company s Shorewood operations, a pre-tax charge of $53 million ($33 million after taxes) to write off deferred supply chain initiative development costs for U.S. container operations that will not be implemented due to
the CBPR acquisition, a charge of $8 million before taxes ($5 million after taxes) for closure costs associated with the Ace Packaging business, and a pre-tax gain of $2 million ($2 million after taxes) for adjustments to previously recorded reserves and other charges associated with the Company s 2006 Transformation Plan. Also included are a charge of $1.8 billion (before and after taxes) for the impairment of goodwill in the Company s U.S. Printing Papers and U.S. and European Coated Paperboard businesses, a pre-tax charge of $107 million ($84 million after taxes) to write down the assets of the Inverurie, Scotland mill to estimated fair value, a pre-tax gain of $6 million ($4 million after taxes) for adjustments to estimated transaction costs accrued in connection with the 2006 Transformation Plan forestland sales, a $39 million charge before taxes ($24 million after taxes) relating to the write-up of inventory to fair value in connection with the CBPR acquisition and a $45 million charge before taxes ($28 million after taxes) for integration costs associated with the CBPR acquisition.

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

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

2007:

(e) Includes restructuring and other charges of $95 million before taxes ($59 million after taxes), including a $30 million charge before taxes ($19 million after taxes) for organizational restructuring and other charges principally associated with the Company s 2006 Transformation Plan, a charge of $60 million before taxes ($38 million after taxes) of accelerated depreciation charges, a $10 million charge before taxes ($6 million after taxes) for environmental costs associated with a mill closure, and a pre-tax gain of $5 million ($4 million after taxes) for other items. Also included are a $9 million pre-tax gain ($5 million after taxes) to reduce estimated trans-

action costs accrued in connection with the 2006 sale of U.S. forestlands included in the Company s 2006 Transformation Plan; and a $327 million gain before taxes ($267 million after taxes) for net gains on sales and impairments of businesses including a pre-tax gain of $113 million ($102 million after taxes) on the sale of the Arizona Chemical business, a gain of $205 million before taxes ($159 million after taxes) related to the asset exchange for the Luiz Antonio mill in Brazil, and a pre-tax gain of $9 million ($6 million after taxes) for other items.

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

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

2006:

(h) Includes restructuring and other charges of $300 million before taxes ($184 million after taxes), including a $157 million charge before taxes ($95 million after taxes) for organizational restructuring and other charges principally associated with the Company s 2006 Transformation Plan, a charge of $165 million before taxes ($102 million after taxes) for losses on early debt extinguishment, a $97 million charge before taxes ($60 million after taxes) for legal reserves, a $115 million gain before taxes ($70 million after taxes) for payments received relating to the Company s participation in the U.S. Coalition for Fair Lumber Imports, and a credit of $4 million before taxes ($3 million after taxes) for other items. Also included are a $4.8 billion gain before taxes ($2.9 billion after taxes) from sales of U.S. forestlands included in the Company s 2006 Transformation Plan; a charge of $759 million before and after taxes for the impairment of goodwill in the Coated Paperboard and Shorewood businesses; a $1.5 billion pre-tax charge ($1.4 billion after taxes) for net losses on sales and impairments of businesses including $1.4 billion before taxes ($1.3 billion after taxes) for the U.S. Coated and Supercalendered Papers business, $52 million before taxes ($37 million after taxes) for certain assets in Brazil, and $128 million before taxes ($84 million after taxes) for the Company s Saillat mill in France to reduce the carrying value of net assets to their estimated fair value; the recognition of a previously deferred $110 million gain before taxes ($68 million after taxes) related to a 2004 sale of forestlands in Maine; and a pre-tax charge of $21 million (zero after taxes) for other smaller items.

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

2005:

(j) Includes restructuring and other charges of $340 million before taxes ($213 million after taxes), including a $256 million charge before taxes ($162 million after taxes) for organizational restructuring and other charges principally associated with the Company s 2006 Transformation Plan, a $57 million charge before taxes ($35 million after taxes) for early extinguishment of debt, and a $27 million charge before taxes ($16 million after taxes) for legal reserves. Also included are a $258 million pre-tax credit ($151 million after taxes) for net insurance recoveries related to the hardboard siding and roofing litigation, a $4 million credit before taxes ($3 million after taxes) for the net reversal of restructuring reserves no longer required, a pre-tax charge of $111 million ($73 million after taxes) for net losses on sales and impairments of businesses sold or held for sale, and interest income of $54 million before taxes ($33 million after taxes), including $43 million before taxes ($26 million after taxes) related to a settlement with the U.S.

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Internal Revenue Service concerning the 1997 through 2000 U.S. federal income tax audit, and $11 million before taxes ($7 million after taxes) related to the collection of a note receivable from the 2001 sale of a business.

(k) Includes a gain of $29 million before taxes ($361 million after taxes and minority interest) from the 2005 sale of Carter Holt Harvey Limited, as well as, the 2005 operating results of the Carter Holt Harvey Limited, Kraft Papers, Brazilian Coated Papers, Wood Products and Beverage Packaging businesses.

(l) Includes a $454 million reduction in the income tax provision, including a reduction of $627 million from a settlement reached with the U.S. Internal Revenue Service concerning the 1997 through 2000 U.S. federal income tax audit, a charge of $142 million for deferred taxes related to earnings repatriations under the American Jobs Creation Act of 2004, and $31 million of other tax charges.

2004:

(m) Includes restructuring and other charges of $164 million before taxes ($102 million after taxes), including a $62 million charge before taxes ($39 million after taxes) for organiza-
tional restructuring programs, a $92 million charge before taxes ($57 million after taxes) for early debt extinguishment costs, and a $10 million charge before taxes ($6 million after taxes) for legal settlements. Also included are pre-tax credits of $123 million ($76 million after taxes) for net insurance recoveries related to the hardboard siding and roofing litigation, a $35 million credit before taxes ($21 million after taxes) for the net reversal of restructuring reserves no longer required, and a pre-tax charge of $139 million ($125 million after taxes) for net losses on sales and impairments of businesses sold or held for sale.

(n) Includes a gain of $268 million before taxes and minority interest ($90 million after taxes and minority interest) from the 2004 sale of the Carter Holt Harvey Tissue business, and a pre-tax charge of $323 million ($711 million after taxes) from the 2004 sale of Weldwood of Canada Limited, and the 2004 operating results of the Carter Holt Harvey Limited, Weldwood of Canada Limited, Kraft Papers, Brazilian Coated Papers, Wood Products and Beverage Packaging businesses.

(o) Includes a $32 million net increase in the income tax provision reflecting an adjustment of deferred tax balances.

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

EXECUTIVE SUMMARY

International Paper s operating results in 2008 reflected two distinct economic periods. During the first three quarters, business conditions were soft but steady. Sales volumes for containerboard and boxes were solid, and paper and market pulp volumes, while below prior-year levels, were steady. Average price realizations increased for key products, and market downtime was minimal. While key input costs for raw materials and energy and freight costs increased significantly over the nine-month period, we were able to offset these effects with selling price increases, solid manufacturing operations and continued cost reduction efforts.

Beginning with the end of the third quarter, U.S. economic activity contracted significantly resulting in dramatic declines in demand for uncoated freesheet products, corrugated boxes and market pulp. Global pulp prices began declining significantly, and paper and containerboard pricing leveled out as they reached a 2008 peak. With the significant drop in demand, and International Paper s commitment to balance production with customer needs, we took about one million tons of lack-of-order downtime during the fourth quarter. Fortunately, input costs also peaked and began to decline.

Despite these severe, unfavorable fourth-quarter business conditions, the Company posted a 13% increase in net sales in 2008 to $24.8 billion, and generated a record $2.7 billion of cash from continuing operations.

As we begin 2009, we expect that operating profits for the first quarter will be less than in the fourth quarter of 2008, with the size of the decline dependent upon the amount of downtime taken to match production with customer demand, and upon changes in pricing and input costs. Sales volumes for our paper and packaging businesses are expected to be similar to fourth-quarter levels. We expect average sales price realizations for uncoated paper and containerboard to be under some pressure, while U.S. coated paperboard prices are expected to increase. Input costs for wood and energy, and transportation costs, should continue to decline, although energy costs in Europe and Brazil are expected to increase. Planned mill maintenance outages will be higher in the United States, but should remain about flat in Europe and Brazil. Earn-

ings from our Ilim joint venture are expected to be below fourth-quarter totals.

Results of Operations

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

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

The following table shows the components of net earnings (loss) for each of the last three years:

In millions	**2008**	2007	2006
Industry segment operating profits	**$ 1,393**	$ 1,897	$ 1,604
Corporate items, net	**(103)**	(206)	(276)
Corporate special items*	**(1,949)**	241	2,373
Interest expense, net	**(492)**	(297)	(521)
Minority interest	**(5)**	(5)	(9)
Income tax provision	**(162)**	(415)	(1,889)
Equity earnings	**49**		
Discontinued operations	**(13)**	(47)	(232)
Net earnings (loss)	**$ (1,282)**	$ 1,168	$ 1,050

* *Corporate special items include gains on 2006 Transformation Plan forestland sales, restructuring and other charges, net losses (gains) on sales and impairments of businesses, goodwill impairment charges, insurance recoveries and reversals of reserves no longer required.*

Industry segment operating profits of $1.4 billion were $504 million lower in 2008 than in 2007 as the impacts of higher energy and raw material costs ($721 million), higher distribution costs ($135 million), lower sales volumes ($85 million), lower earnings from land and mineral rights sales ($59 million), and other items ($57 million) offset benefits from higher average prices ($570 million), and the net impact of cost reduction initiatives, improved operating performance and a more favorable product mix ($365 million). Additionally, charges totaling

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$382 million were recorded in 2008 industry segment operating profits for facility closures, impairments and reorganization costs, and charges related to the integration of the Weyerhaeuser Containerboard, Packaging and Recycling (CBPR) business acquired in the 2008 third quarter.

The principal changes in 2008 operating profit by segment were as follows:

Printing Papers profits of $474 million were $365 million lower as the benefits of higher average sales price realizations, a more favorable mix of products sold and improved manufacturing operating costs were more than offset by higher raw material and energy costs, higher freight costs, lower sales volumes and increased lack-of-order downtime. Additionally, 2008 results included a $123 million charge for costs associated with the permanent shutdown of the Louisiana mill, a $107 million charge to reduce the carrying value of the assets of the Inverurie, Scotland mill to their estimated fair value, and a charge of $30 million for costs associated with the shutdown of a paper machine at the Franklin mill.

Industrial Packaging s profits of $390 million were up $16 million as the impacts of higher average sales price realizations, increased sales volumes (including sales from the CBPR acquisition) net of increased lack-of-order downtime, a more favorable mix of products sold, favorable operating costs, and lower costs associated with the conversion of the paper machine at the Pensacola mill to lightweight linerboard production were offset by higher raw material and freight costs, costs associated with the integration of the CBPR business, and a charge related to the write-up of the inventory of CBPR to fair value.

Consumer Packaging s profits of $17 million were $95 million lower reflecting higher raw material, energy and freight costs, unfavorable mill operating costs, and higher charges associated with the reorganization of the Shorewood business, partially offset by improved average sales price realizations, higher sales volumes, and a more favorable mix of products sold.

Distribution s profits of $103 million were $5 million lower in 2008 due to the offsetting impacts of lower sales volumes and improved average sales margins and the full-year contributions from the August 2007 Central Lewmar acquisition.

Forest Products profits of $409 million were down $49 million as lower forestland and real estate sales more than offset $261 million of profits on mineral rights sales.

Specialty Businesses and Other s profits were $6 million lower reflecting the divestiture of the Arizona Chemical business in the first quarter of 2007.

Corporate items, net, of $103 million of expense in 2008 were lower than the $206 million of expense in 2007 due to lower pension expenses. The decrease in 2007 versus $276 million of expense in 2006 reflects lower pension expenses partially offset by higher supply chain initiative costs.

Corporate special items, including impairments of goodwill, restructuring and other charges and net losses (gains) on sales and impairments of businesses, were a loss of $1.9 billion in 2008 compared with a gain of $241 million in 2007 and a gain of $2.4 billion in 2006. The loss in 2008 includes $1.8 billion of goodwill impairment charges and $179 million of restructuring and other charges. The large gain in 2006 includes $4.8 billion from the sales of forestlands included in the 2006 Transformation Plan, partially offset by $1.4 billion of net charges related to the divestiture of certain operations and $759 million of goodwill impairment charges.

Interest expense, net, was $492 million in 2008 compared with $297 million in 2007 and $521 million in 2006. The increase in 2008 reflects the issuance of approximately $6 billion of debt in connection with the acquisition of the CBPR business, while the decrease in 2007 reflects lower average debt balances and lower interest rates from debt refinancings and repayments.

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The 2008 income tax provision of $162 million includes a net $11 million benefit related to 2008 special tax adjustment items. The 2007 income tax provision of $415 million includes a $41 million benefit related to 2007 special tax adjustment items. The 2006 income tax provision of $1.9 billion consists of $1.6 billion of deferred taxes (principally reflecting deferred taxes on the 2006 Transformation Plan forestland sales) and a $300 million current tax provision, and includes an $11 million charge related to 2006 special tax adjustment items. Excluding special items, taxes as a percent of pre-tax earnings increased to 31.5% in 2008 from 30% in 2007 and 29% in 2006, reflecting a higher proportion of earnings in higher tax rate jurisdictions.

Discontinued Operations

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

During 2007, the Company completed the sale of its Wood Products, Beverage Packaging and Kraft Papers operations.

In the third quarter of 2006, International Paper completed the sale of its Brazilian Coated Papers business.

As a result of these actions, the operating results of these businesses and the associated gains/losses on the sales are reported in discontinued operations for all periods presented.

Liquidity and Capital Resources

For the year ended December 31, 2008, International Paper generated $2.7 billion of cash flow from continuing operations, compared with $1.9 billion in 2007. Capital spending from continuing operations for 2008 totaled $1.0 billion, or 74% of depreciation and amortization expense. Cash expenditures for acquisitions totaled $6.1 billion, principally for the acquisition of the CBPR business, while issuances of debt totaled $6.0 billion, principally for the CBPR acquisition. Our liquidity position remains strong, supported by approximately $2.5 billion of unused, committed credit facilities that we believe are adequate to meet future liquidity requirements. Maintaining an investment-grade credit rating for our long-term debt continues to be an important element in our overall financial strategy.

Our focus in 2009 will be to continue to maximize our financial flexibility to facilitate access to capital markets on favorable terms.

Capital spending for 2009 is targeted at $700 million, or about 43% of depreciation and amortization.

Critical Accounting Policies and Significant Accounting Estimates

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

Legal

An analysis of significant litigation activity is included in Note 11 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

CORPORATE OVERVIEW

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

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

The following is a discussion of International Paper s results of operations for the year ended December 31, 2008, and the major factors affecting these results compared to 2007 and 2006.

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RESULTS OF OPERATIONS

For the year ended December 31, 2008, International Paper reported net sales of $24.8 billion, compared with $21.9 billion in 2007 and $22.0 billion in 2006. International net sales (including U.S. exports) totaled $6.9 billion or 28% of total sales in 2008. This compares to international net sales of $6.3 billion in 2007 and $5.6 billion in 2006.

Full year 2008 net income was a loss of $1.3 billion ($3.05 per share), compared with net income of $1.2 billion ($2.70 per share) in 2007 and $1.1 billion ($2.18 per share) in 2006. Amounts include the results of discontinued operations.

Earnings (loss) from continuing operations after taxes in 2008 were a loss of $1.3 billion, including $2.1 billion of special item charges, compared with income of $1.2 billion in 2007 and income of $1.3 billion in 2006. Compared with 2007, higher average sales price realizations, favorable operating performance, and lower corporate expenses (primarily pensions) were offset by the impact of higher average raw material costs, lower sales volumes, lower earnings from land sales, higher distribution costs, higher tax expense, higher net interest expense and the incremental loss from special items. Results for 2008 also included equity earnings, net of taxes, relating to the Company s investment in Ilim Holding S.A.

See Industry Segment Results on pages 27 through 32 for a discussion of the impact of these factors by segment.

The following table presents a reconciliation of International Paper s net earnings to its total industry segment operating profit:

In millions	**2008**	2007	2006
Net Earnings (Loss)	**$ (1,282)**	$ 1,168	$ 1,050
Deduct Discontinued operations:			
Loss (earnings) from operations	**1**	11	(85)
Loss on sales or impairment	**12**	36	317
Earnings (Loss) From Continuing Operations	**(1,269)**	1,215	1,282
Add back (deduct):			
Income tax provision	**162**	415	1,889
Equity earnings, net of taxes	**(49)**		
Minority interest expense, net of taxes	**3**	24	17
Earnings (Loss) From Continuing Operations Before Income Taxes, Equity Earnings and Minority Interest	**(1,153)**	1,654	3,188
Interest expense, net	**492**	297	521
Minority interest included in operations	**2**	(19)	(8)
Corporate items	**103**	206	276
Special items:			
Restructuring and other charges	**179**	95	300
Insurance recoveries			(19)
Gain on sale of forestlands	**(6)**	(9)	(4,788)
Impairments of goodwill	**1,777**		759
Net losses (gains) on sales and impairments of businesses	**(1)**	(327)	1,381
Reserve adjustments			(6)
	$ 1,393	$ 1,897	$ 1,604
Industry Segment Operating Profit			
Printing Papers	**$ 474**	$ 839	$ 453
Industrial Packaging	**390**	374	277
Consumer Packaging	**17**	112	93
Distribution	**103**	108	97
Forest Products	**409**	458	631
Specialty Businesses and Other		6	53
Total Industry Segment Operating Profit	**$ 1,393**	$ 1,897	$ 1,604

Discontinued Operations

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

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

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

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

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

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

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

2006: In 2006, after-tax charges totaling $317 million were recorded for net losses (gains) on sales or impairments of businesses reported as discontinued operations.

During the fourth quarter of 2006, the Company entered into an agreement to sell its Beverage Packaging business to Carter Holt Harvey Limited for approximately $500 million, subject to certain adjustments. The sale of the North American Beverage Packaging operations subsequently closed on January 31, 2007, with the sale of the remaining non-U.S. operations closing later in 2007. Also during the fourth quarter, the Company entered into

separate agreements for the sale of 13 lumber mills for approximately $325 million, expected to close in the first quarter of 2007, and five wood products plants for approximately $237 million, expected to close in the first half of 2007, both subject to various adjustments at closing. Based on the commitments to sell these businesses, management determined that the accounting requirements for treatment as discontinued operations were met. As a result, net pre-tax charges of $18 million ($11 million after taxes) for the Beverage Packaging business and $104 million ($69 million after taxes) for the Wood Products business (including $58 million for pension and postretirement benefit termination benefits) were recorded in the fourth quarter as discontinued operations charges to adjust the carrying value of these businesses to their estimated fair values less costs to sell.

During the third quarter of 2006, management had determined that there was a current expectation that, more likely than not, the Beverage Packaging and Wood Products businesses would be sold. Based on the resulting impairment testing, pre-tax impairment charges of $115 million ($82 million after taxes) and $165 million (before and after taxes) were recorded to reduce the carrying values of the net assets of the Beverage Packaging and Wood Products businesses, respectively, to their estimated fair values. Also during the 2006 third quarter, International Paper completed the sale of its interests in a beverage packaging operation in Japan for a pre-tax gain of $12 million ($3 million after taxes), and the sale of its Brazilian Coated Papers business to Stora Enso Oyj for approximately $420 million, subject to certain post-closing adjustments. As the Company had determined that the accounting requirements for reporting the Brazilian Coated Papers business as a discontinued operation were met, the resulting $100 million pre-tax gain ($79 million after taxes) was recorded as a gain on sale of a discontinued operation.

During the first quarter of 2006, the Company determined that the accounting requirements for reporting the Kraft Papers business as a discontinued operation were met. Accordingly, a $100 million pre-tax charge ($61 million after taxes) was recorded to reduce the carrying value of the net assets of this business to their estimated fair value. During the 2006 second quarter, the Company signed a definitive agreement to sell this business for approximately $155 million in cash, subject to certain closing and post-closing adjustments, and two additional payments totaling up to $60 million payable five years from the date of closing, contingent upon

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business performance. A $16 million pre-tax charge ($11 million after taxes) was recorded during the second quarter to further reduce the carrying value of the assets of the Kraft Papers business based on the terms of this definitive agreement. The sale of this business was subsequently completed on January 2, 2007.

Additionally during the fourth quarter, a $37 million pre-tax credit ($22 million after taxes) was included in earnings from discontinued operations for refunds received from the Canadian government of duties paid by the Company s former Weldwood of Canada Limited business.

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

Income Taxes

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

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

The Company recorded an income tax provision for 2006 of $1.9 billion, consisting of a $1.6 billion deferred tax provision (principally reflecting deferred taxes on the 2006 Transformation Plan forestland sales) and a $0.3 billion current tax provision. The tax provision also included an $11 million provision for special item tax adjustments. Excluding the impact of special items, the tax provision was $272 million, or 29% of pre-tax earnings before equity earnings and minority interest.

The higher income tax rates in 2008 and 2007 reflect a higher proportion of earnings in higher tax rate jurisdictions.

Equity Earnings, Net of Taxes

Equity earnings, net of taxes, in 2008 consisted principally of the Company s share of earnings from its 50% investment in Ilim Holding S.A. in Russia (see page 32).

Corporate Items and Interest Expense

Minority interest expense, net of taxes, was $3 million in 2008 compared with $24 million in 2007 and $17 million in 2006. The decrease in 2008 reflects lower earnings for the International Paper & Sun Cartonboard Co., Ltd. joint ventures in 2008 and the Company s acquisition of the remaining shares of a Moroccan box plant joint venture in the third quarter of 2007. The increase in 2007 compared with 2006 reflected the formation of the International Paper & Sun Cartonboard Co., Ltd. joint ventures in the fourth quarter of 2006.

In 2008, net interest expense totaled $492 million. Net interest expense totaled $297 million in 2007, including a pre-tax credit of $2 million for interest received from the Canadian government on refunds of prior-year softwood lumber duties. Interest expense, net, for 2006 of $521 million includes a pre-tax credit of $6 million for interest received from the Canadian government on refunds of prior-year softwood lumber duties. Excluding special items, interest expense, net, of $492 million in 2008 increased from $299 million in 2007, reflecting the issuance of approximately $6 billion of debt in connection with the acquisition of the CBPR business. The decrease from $527 million in 2006 to $299 million in 2007 reflects lower average debt balances and lower interest rates from debt refinancings and repayments.

For the 12 months ended December 31, 2008, corporate items totaled $103 million of expense compared with $206 million in 2007 and $276 million in 2006. The decrease in 2008 principally reflects lower pension expenses. The decrease in 2007 compared with 2006 principally reflects the benefit of lower pension expenses partially offset by higher supply chain initiative costs.

Overhead charges allocated to industry segments decreased $140 million in 2008 versus 2007 due to lower benefit-related and corporate staff overhead costs, partially offset by higher LIFO inventory costs. Allocated overhead in 2007 was $56 million higher than in 2006 due to higher medical and LIFO inventory costs.

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Special Items

Restructuring and Other Charges

International Paper continually evaluates its operations for improvement opportunities targeted to (a) focus our portfolio on our core businesses, (b) rationalize and realign capacity to operate fewer facilities with the same revenue capability and close high cost facilities, and (c) reduce costs. Annually, strategic operating plans are developed by each of our businesses to demonstrate that they can achieve a return at least equal to their cost of capital over an economic cycle. If it subsequently becomes apparent that a facility s plan will not be achieved, a decision is then made to (a) invest additional capital to upgrade the facility, (b) shut down the facility and record the corresponding charge, or (c) evaluate the expected recovery of the carrying value of the facility to determine if an impairment of the asset value of the facility has occurred under SFAS No. 144. In recent years, this policy has led to the shutdown of a number of facilities and the recording of significant asset impairment charges and severance costs. It is possible that additional charges and costs will be incurred in future periods in our core businesses should such triggering events occur.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2006: During 2006, total restructuring and other charges of $300 million before taxes ($184 million after taxes) were recorded. These charges included:

a $157 million charge before taxes ($95 million after taxes) for organizational restructuring programs, principally associated with the Company s 2006 Transformation Plan,

a $165 million charge before taxes ($102 million after taxes) for early debt extinguishment costs,

a $97 million charge before taxes ($60 million after taxes) for litigation settlements and adjustments to legal reserves,

a pre-tax credit of $115 million ($70 million after taxes) for payments received relating to the Company s participation in the U.S. Coalition for Fair Lumber Imports, and

a $4 million credit before taxes ($3 million after taxes) for other items.

Earnings also included a $19 million pre-tax credit ($12 million after taxes) for net insurance recoveries related to the hardboard siding and roofing litigation, a $6 million pre-tax credit ($3 million after taxes) for the reversal of reserves no longer required, and a $6 million pre-tax credit ($4 million after taxes) for interest received from the Canadian government on refunds of prior-year softwood lumber duties.

A further discussion of restructuring, business improvement and other charges can be found in Note 6 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Gain on Sale of Forestlands

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

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

2006: During 2006, in connection with the previously announced Transformation Plan, the Company completed sales totaling approximately 5.6 million acres of forestlands for proceeds of approximately $6.6 billion, including $1.8 billion in cash and $4.8 billion of installment notes supported by irrevocable letters of credit. The first of these transactions in the second quarter included approximately 76,000 acres sold for cash proceeds of $97 million, resulting in a pre-tax gain of $62 million. During the third quarter, 476,000 acres of forestlands were sold for $401 million, including $265 million in cash and $136 million of installment notes, resulting in a pre-tax gain of $304 million. Finally, in the fourth quarter, the Company completed sales of 5.1 million acres of forestlands for $6.1 billion, including $1.4 billion in cash and $4.7 billion in installment notes, resulting in pre-tax gains totaling $4.4 billion. These transactions represent a permanent reduction in the Company s forestland asset base and are not a part of the normal, ongoing operations of the Forest Resources business. Thus, the net gains resulting from these sales totaling approximately $4.8 billion are separately presented in the accompanying consolidated statement of operations under the caption Gain on sale of forestlands.

Impairments of Goodwill

In the fourth quarter of 2008, in conjunction with annual testing of its reporting units for possible goodwill impairments as of the beginning of the fourth quarter, the Company recorded a $59 million charge to write off all recorded goodwill of its European

Coated Paperboard business. Subsequent to this testing date, the Company performed an interim test as of December 31, 2008 and recalculated the estimated fair value of its reporting units as of that date using higher cost-of-capital discount rate assumptions and updated future cash flow projections, which resulted in the goodwill for two additional business units, the Company s U.S. Printing Papers business and its U.S. Coated Paperboard business, being potentially impaired. Based on management s preliminary estimates, an additional goodwill impairment charge of $379 million was recorded, representing all of the goodwill for the U.S. Coated Paperboard business, as this was management s best estimate of the minimum impairment charge that would be required upon the completion of a detailed allocation of the business unit fair values to the individual assets and liabilities of each of the respective reporting units. In February 2009, based on additional work performed to date, management determined that it was probable that all of the $1.3 billion of recorded goodwill for the U.S.

Printing Papers business would be impaired when testing is completed. Accordingly, an additional goodwill impairment charge of $1.3 billion was recorded as a charge to operating results for the year ended December 31, 2008. Due to the complexity of the businesses involved, it is expected that testing will be finalized for these businesses by the end of the first quarter of 2009.

In the fourth quarter of 2006, the Company had recorded goodwill impairment charges of $630 million and $129 million related to its U.S. Coated Paperboard business and Shorewood business, respectively. No goodwill impairment charges were recorded in 2007.

Net Losses (Gains) on Sales and Impairments of Businesses

Net losses (gains) on sales and impairments of businesses included in Corporate special items totaled a gain of $1 million (before and after taxes) in 2008, a pre-tax gain of $327 million ($267 million after taxes) in 2007, and a pre-tax loss of $1.4 billion ($1.3 billion after taxes) in 2006. The principal components of these gains/losses were:

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

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

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

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

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

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

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

These gains are included, along with a $205 million pre-tax gain ($164 million after taxes) on the exchange for the Luiz Antonio mill in Brazil (see Note 5), in Net losses (gains) on sales and impairments of businesses in the accompanying consolidated statement of operations.

2006: During the fourth quarter of 2006, a net charge of $21 million before and after taxes was recorded for losses on sales and impairments of businesses. This charge included a pre-tax loss of $18 million ($6 million after taxes) relating to the sale of certain box plants in the United Kingdom and Ireland, and $3 million of pre-tax charges (a $6 million credit after taxes) for other small asset sales.

During the third quarter of 2006, a net pre-tax gain of $61 million ($37 million after taxes) was recorded for gains on sales and impairments of businesses. This net gain included the recognition of a previously deferred $110 million pre-tax gain ($68 million after taxes) related to a 2004 sale of forestlands in Maine, a pre-tax charge of $38 million ($23 million after taxes) to reflect the completion of the sale of the Company s Coated and Supercalendered Papers business in the 2006 third quarter, and a net pre-tax

loss of $11 million ($7 million after taxes) related to other smaller sales.

During the second quarter of 2006, a net pre-tax charge of $138 million ($90 million after taxes) was recorded, including a pre-tax charge of $85 million ($52 million after taxes) recorded to adjust the carrying value of the assets of the Company s Coated and Supercalendered Papers business to their estimated fair value based on the terms of a definitive sales agreement signed in the second quarter, a pre-tax

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charge of $52 million ($37 million after taxes) recorded to reduce the carrying value of the assets of the Company s Amapa wood products operations in Brazil to their estimated fair value based on estimated sales proceeds since a sale of these assets was considered more likely than not at June 30, 2006 which was completed in the third quarter, and a net charge of $1 million before and after taxes related to other smaller items.

During the first quarter of 2006, a charge of $1.3 billion before and after taxes was recorded to write down the assets of the Company s Coated and Supercalendered Papers business to their estimated fair value, as management had committed to a plan to sell this business. In addition, other pre-tax charges totaling $3 million ($2 million after taxes) were recorded to adjust estimated losses of certain smaller operations that are held for sale.

At the end of the 2006 first quarter, the Company had reported its Coated and Supercalendered Papers business as a discontinued operation based on a plan to sell the business. In the second quarter of 2006, the Company signed a definitive agreement to sell this business for approximately $1.4 billion, subject to certain post-closing adjustments, and agreed to acquire a 10 percent limited partnership interest in CMP Investments L.P., the company that will own this business. Since this limited partnership interest represents significant continuing involvement in the operations of this business under U.S. generally accepted accounting principles, the operating results for Coated and Supercalendered Papers were required to be included in continuing operations in the accompanying consolidated statement of operations. Accordingly, the operating results for this business, including the charge in the first quarter of $1.3 billion to write down the assets of the business to their estimated fair value, are now included in continuing operations for all periods presented.

In addition in 2006, industry segment operating profits included a $128 million pre-tax impairment charge ($84 million after taxes) to reduce the carrying value of the fixed assets of the Company s Saillat mill in France to their estimated fair value (in the Printing Papers segment), and in the third quarter, a pre-tax gain of $13 million ($6 million after taxes) related to a sale of property in Spain (in the Industrial Packaging segment).

Industry Segment Operating Profits

Industry segment operating profits of $1.4 billion in 2008 declined from both $1.9 billion in 2007 and $1.6 billion in 2006. The benefits of significantly higher

average price realizations ($570 million) and lower operating costs, lower mill outage costs and a more favorable mix of products sold ($365 million) were more than offset by higher energy and raw material costs ($721 million), higher freight costs ($135 million), lower sales volumes ($85 million), lower earnings from land and mineral sales ($59 million), higher costs related to special items ($382 million), and other items ($57 million).

Lack-of-order downtime in 2008 increased significantly to approximately one million tons, principally in the 2008 fourth quarter, compared with 50,000 tons in 2007 and 155,000 tons in 2006, as the Company adjusted production in line with its customer demand. The 2008 total included approximately 105,000 tons related to an uncoated paper machine at our Franklin mill and pulp production at our Louisiana mill prior to their permanent shutdown in the fourth quarter of 2008.

Looking forward to the first quarter of 2009, industry segment operating profits are expected to be lower than fourth-quarter 2008 earnings, with the amount of the decline dependent upon the amount of downtime taken to match production with customer demand, and upon changes in pricing and input costs. Sales volumes for our paper and packaging businesses are expected to be similar to 2008 fourth-quarter levels as demand for industrial and consumer packaging is expected to remain essentially the same. We expect average sales price realizations for uncoated paper and containerboard to be under some pressure, while U.S. coated paperboard price realizations are expected to increase, reflecting the renegotiation of a number of large customer contracts in the third and fourth quarters of 2008. Input costs for wood and energy, and transportation should continue to decline, although energy prices in Europe and Brazil are expected to increase. Planned mill maintenance outages will be higher in the U.S., but will remain about flat in Europe and Brazil. Earnings from our Ilim joint venture are expected to be lower than earnings reported in the fourth quarter reflecting weaker demand, reduced selling prices and an unfavorable foreign exchange impact.

DESCRIPTION OF INDUSTRY SEGMENTS

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

Printing Papers

International Paper is the world s leading producer of uncoated printing and writing papers. Products in this segment include uncoated papers, market pulp and uncoated bristols.

UNCOATED PAPERS: This business produces papers for use by commercial printers 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, Ballet, Chamex* and *Rey*. The mills producing uncoated papers are located in the United States, Brazil, France, Poland and Russia. Brazilian operations function through International Paper do Brasil, Ltda, which owns or manages approximately 250,000 acres of forestlands in Brazil. The mills have uncoated paper production capacity of approximately 5.5 million tons annually.

MARKET PULP: Market pulp is used in the manufacture of printing, writing and specialty papers, towel and tissue products and filtration products. Pulp is also converted into products such as diapers and sanitary napkins. Pulp products include fluff and southern softwood pulp, as well as southern and birch hardwood pulps. These products are produced in the United States, France, Poland and Russia, and are sold around the world. International Paper facilities have annual dried pulp capacity of about 1.4 million tons.

Industrial Packaging

International Paper has become the largest manufacturer of containerboard in the United States with the integration of Weyerhaeuser Company s packaging business. Production capacity is now about 11.0 million tons annually. Our products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturated kraft. About 80% of production is converted domestically into corrugated boxes and other packaging by 137 U.S. container plants. Additionally, International Paper recycles approximately 1.1 million tons of OCC and mixed and white paper through our 21 recycling plants in the U.S. and Mexico. In Europe, operations include recycled containerboard mills in France and Morocco

and 22 container plants in France, Italy, Spain, Turkey and Morocco. In Asia, operations include 10 container plants in China and one container plant in Thailand. The Company s container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives.

Consumer Packaging

The coated paperboard business produces high quality coated paperboard (SBS) for a variety of packaging and commercial printing end uses. *Everest®, Fortress®* and *Starcote®* brands are used in packaging applications for everyday products such as food, cosmetics, pharmaceuticals, computer software and tobacco products. *Carolina®* brand is used in commercial printing end uses such as greeting cards, paperback book covers, lottery tickets and direct mail and point-of-purchase advertising. International Paper is the world s largest producer of solid bleached sulfate board with annual U.S. production capacity of about 1.9 million tons. Mills producing coated board in Poland, Russia and China complement the Company s U.S. capacity, uniquely positioning us to provide value-added, innovative products for global customers.

Shorewood Packaging Corporation utilizes emerging technologies in its 18 facilities worldwide to produce world-class packaging with high-impact graphics for a variety of markets, including home entertainment, tobacco, cosmetics, general consumer and pharmaceuticals.

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

Distribution

Through *xpedx*, the Company s North American merchant distribution business, the Company provides distribution services and products to a number of customer markets, supplying commercial printers with printing papers and graphic pre-press, printing presses and post-press equipment; the building services and away-from-home markets with facility supplies; and manufacturers with packaging supplies and equipment. For a growing number of customers, the Company exclusively provides distribution

capabilities including warehousing and delivery services. *xpedx* is the leading wholesale distribution marketer in these customer and product segments in North America, operating 129 warehouse locations and 131 retail stores in the U.S., Mexico and Canada.

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Forest Products

International Paper owns or manages approximately 200,000 acres of forestlands in the United States, mostly in the South. All lands are independently third-party certified under the operating standards of the Sustainable Forestry Initiative (SFI™). The Company s remaining forestlands are managed as a portfolio to optimize the economic value to shareholders. Most of its portfolio represents properties that are likely to be sold to investors and other buyers for various uses or held for real estate development.

Specialty Businesses and Other

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

Ilim Holding S.A.

In October 2007, International Paper and Ilim Holding S.A. (Ilim) completed a 50:50 joint venture to operate a pulp and paper business located in Russia. Ilim s largest facilities include three paper mills located in Bratsk, Ust-Ilimsk and Koryazhma, Russia, with combined total pulp and paper capacity of over 2.5 million tons. Ilim controls timberland and forest areas exceeding 11.6 million acres (4.7 million hectares).

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INDUSTRY SEGMENT RESULTS

Printing Papers

Demand for Printing Papers products is closely correlated with changes in commercial printing and advertising activity, direct mail volumes and, for uncoated cut-size products, with changes in white-collar employment levels that affect the usage of copy and laser printer paper. Market pulp is further affected by changes in currency rates that can enhance or disadvantage producers in different geographic regions. Principal cost drivers include manufacturing efficiency, raw material and energy costs and freight costs.

PRINTING PAPERS net sales for 2008 increased 4% from 2007 and 2% from 2006. However, operating profits in 2008 were 44% lower than in 2007 and 5% higher than in 2006. Benefits from higher average

sales price realizations ($344 million), a favorable mix of products sold ($54 million), improved manufacturing operations ($39 million) and other items ($11 million) were more than offset by higher raw material and energy costs ($374 million), higher freight costs ($76 million), and lower sales volumes and increased lack-of-order downtime ($103 million). Additionally, 2008 results included a charge for costs associated with the permanent shutdown of the Louisiana mill ($123 million), an impairment charge to reduce the carrying value of the fixed assets at the Inverurie, Scotland mill ($107 million) and a charge for costs associated with the shutdown of a paper machine at the Franklin mill ($30 million). The printing papers segment took 635,000 tons of downtime in 2008, largely in the fourth quarter, including 305,000 tons of lack-of-order downtime to align production with customer demand. This compared with 325,000 tons of total downtime in 2007 of which 30,000 tons related to lack-of-orders.

Printing Papers

In millions	**2008**	2007	2006
Sales	**$ 6,810**	$ 6,530	$ 6,700
Operating Profit	**474**	839	453

NORTH AMERICAN PRINTING PAPERS net sales in 2008 were $3.4 billion compared with $3.5 billion in 2007 and $4.4 billion in 2006 ($3.5 billion excluding the Coated and Supercalendered Papers business which was sold in the third quarter of 2006). Sales volumes decreased in 2008 versus 2007, partially due to reduced production capacity resulting from the conversion of the Louisiana mill to 100% pulp production in June 2008 and the conversion of the uncoated freesheet machine at the Pensacola mill to linerboard production in the summer of 2007. Average sales price realizations increased significantly, reflecting benefits from price increases announced throughout 2008. Operating earnings of $405 million in 2008 decreased from $415 million in 2007, but were higher than the $367 million earned in 2006 ($312 million excluding the Coated and Supercalendered Papers business). Benefits from improved average sales price realizations were offset by the effects of higher input costs for wood, energy and

chemicals and higher freight costs. Mill operating costs were favorable compared with the prior year, due primarily to the conversions of the higher-cost paper machines at the Louisiana and Pensacola mills and lower mill overhead spending and operating improvements. Planned maintenance downtime costs were lower in 2008 than in 2007, but lack-of-order downtime increased to 135,000 tons in 2008 from 25,000 tons in 2007. In addition, 2008 earnings included a $30 million charge for costs

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associated with the shutdown of a paper machine at the Franklin mill.

Sales volumes for the first quarter of 2009 are expected to decrease slightly from 2008 fourth-quarter levels. Profit margins are expected to begin the quarter slightly above fourth-quarter levels, although margins later in the quarter may be affected by continued weak market demand. Planned maintenance outage costs should be lower, as should raw material costs for wood and energy. Lack-of-order downtime in the first quarter of 2009 is projected to be somewhat above fourth-quarter 2008 levels.

BRAZILIAN PAPERS net sales for 2008 of $950 million were higher than the $850 million in 2007 and the $495 million in 2006. Compared with 2007, average sales price realizations improved significantly in both domestic and export markets. Sales volumes increased for both paper and pulp. Operating profits for 2008 of $186 million were up from $174 million in 2007 and $98 million in 2006. Margins were favorably affected by a favorable mix of higher-margin domestic sales, but this benefit was partially offset by higher costs for planned mill maintenance downtime. Input costs increased significantly, principally for electricity and natural gas. Earnings toward the end of 2008 benefited from favorable foreign exchange factors, reflecting the 20% devaluation of the Brazilian Real in the third quarter.

Entering 2009, sales volumes for uncoated freesheet paper in the first quarter are expected to be seasonally lower. Profit margins are expected to be solid but below fourth-quarter levels reflecting seasonal factors, a less favorable product mix and increased input costs for electricity and chemicals.

EUROPEAN PAPERS net sales in 2008 were $1.7 billion compared with $1.5 billion in 2007 and $1.3 billion in 2006. Sales volumes in 2008 were higher than in 2007 reflecting pulp sales from our new BCTMP facility in Svetogorsk. Average sales price realizations increased significantly in 2008 in both Eastern and Western European markets. Operating profits were $39 million in 2008 compared with $171 million in 2007 and a loss of $45 million in 2006 that included a $128 million charge to reduce the carrying value of the Saillat, France mill. Earnings in 2008 included a $107 million charge to reduce the carrying value of the fixed assets at the Inverurie, Scotland mill to their estimated realizable value. Higher input costs for wood, energy and freight more than offset the benefits from higher net sales, lower planned mill maintenance outage costs and favorable manu-

facturing costs. Earnings in 2008 were also adversely affected by unfavorable foreign exchange movements.

Looking ahead to 2009, first-quarter sales volumes are expected to be stronger in Russia, reflecting increased sales into Western Europe, and seasonally higher in Western Europe. Profit margins are expected to be slightly below 2008 fourth-quarter levels. Input costs are expected to increase, particularly for energy costs in Poland where electricity rates are increasing 33%, and for chemicals. Planned maintenance outage costs will be slightly higher than in the 2008 fourth quarter.

ASIAN PRINTING PAPERS net sales were approximately $20 million in both 2008 and 2007, compared with $15 million in 2006. Operating earnings decreased slightly in 2008 compared with 2007, but were close to breakeven in all periods.

U.S. MARKET PULP sales in 2008 totaled $750 million compared with $655 million in 2007 and $510 million in 2006. Sales volumes in 2008 were up from 2007 levels despite a decline in the fourth quarter, reflecting the conversion of the Bastrop, Louisiana mill to 100% pulp in June and the conversion of the Riegelwood pulp dryer and finishing equipment to manufacture higher margin fluff versus market pulp. Average sales price realizations improved significantly in 2008, principally reflecting higher average prices earlier in the year for softwood, hardwood and fluff pulp. Operating earnings in 2008 were a loss of $156 million, including a charge of $123 million for costs associated with the permanent shutdown of the Louisiana mill, compared with earnings of $78 million in 2007 and $33 million in 2006. The benefits from higher average sales price realizations were more than offset by increased input costs for wood, energy and chemicals and higher freight costs. Mill operating costs were also higher reflecting the increased production at the Louisiana mill. Planned maintenance downtime costs were also higher year-over-year, and weak markets in the last four months of the year resulted in 135,000 tons of additional lack-of-order downtime for 2008 compared with 2007.

In the first quarter of 2009, market demand is expected to remain weak. As a result, prices for both market and fluff pulp may continue to be low. Costs will increase as a result of planned mill maintenance outages, but input costs for wood and energy and for freight should be lower.

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Industrial Packaging

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

INDUSTRIAL PACKAGING net sales for 2008 increased 47% to $7.7 billion compared with $5.2 billion in 2007, and 56% compared with $4.9 billion in 2006. Operating profits in 2008 were 4% higher than in 2007 and 41% higher than in 2006. Despite significant market-related downtime, total year-over-year shipments were higher due to the inclusion of the Weyerhaeuser CBPR business acquired in the 2008 third quarter. This net increase ($51 million), improved price realizations ($228 million) and a more favorable mix of products sold ($19 million) were partially offset by the effects of higher raw material and freight costs ($235 million) and higher other costs ($2 million). Additionally, costs related to the conversion of the paper machine at Pensacola to production of lightweight linerboard were lower in 2008 ($39 million). Operating earnings in 2008 also included a $39 million charge related to the write-up of the CBPR inventory to fair value and charges for integration costs associated with the CBPR acquisition ($45 million). The year-over-year impact of the costs associated with the second-quarter 2008 Vicksburg recovery boiler explosion, net of insurance proceeds, was negligible. The segment took 1.1 million tons of downtime in 2008 which included 700,000 tons of market-related downtime compared with 165,000 tons of downtime in 2007 which included 16,000 tons of market-related downtime.

Industrial Packaging

In millions	**2008**	2007	2006
Sales	**$ 7,690**	$ 5,245	$ 4,925
Operating Profit	**390**	374	277

NORTH AMERICAN INDUSTRIAL PACKAGING net sales for 2008 were $6.2 billion, compared with $3.9 billion in 2007 and $3.7 billion in 2006. Operating profits in 2008 were $322 million, up from $305 million in 2007 and $242 million in 2006. Sales and profits for 2008 include the operating results of the Weyerhaeuser CBPR business from the August 4, 2008 acquisition date. Operating profits also reflect charges of $39 million related to the write-up of CBPR inventory to fair value and $45 million of CBPR integration costs.

Excluding the effect of the CBPR acquisition, containerboard and box shipments were lower in 2008 compared with 2007 reflecting the economic downturn in the fourth quarter. Average sales price realizations were significantly higher than in 2007 benefiting from sales price increases implemented in late 2007 and during 2008; however, the benefit of these higher sales prices was more than offset by higher average input costs for wood, energy and chemicals. Freight costs also increased significantly year-over-year. Manufacturing performance was strong, and costs associated with planned mill maintenance outages were lower. Lack-of-order downtime totaled 700,000 tons in 2008 including 355,000 tons at CBPR facilities. Fourth-quarter 2008 results included approximately $33 million of income related to the final insurance settlement for the Vicksburg mill recovery boiler explosion. Operating results for 2007 included $52 million of costs incurred to convert the paper machine at the Pensacola mill to the production of lightweight linerboard, with an additional $13 million recorded in 2008.

Looking ahead to the first quarter of 2009, sales volumes for containerboard and boxes are expected to remain at about fourth-quarter levels, while profit margins should be comparable to fourth-quarter levels. Planned mill maintenance outage costs should be higher in the first quarter of 2009 than in the fourth quarter of 2008. Manufacturing operating costs are expected to be significantly lower, principally for the box plants.

EUROPEAN INDUSTRIAL PACKAGING net sales for 2008 were $1.2 billion, up from $1.1 billion in 2007 and $1.0 billion in 2006. Sales volumes declined primarily due to weaker markets for industrial products throughout Europe. Operating profits in 2008 were $64 million compared with $67 million in 2007 and $37 million in 2006. Earnings for the box business increased from the prior year with significant gains in France, Italy and Spain. Sales margins improved reflecting strong average sales prices for boxes, lower costs for kraft and recycled containerboard and the effects of waste reduction and box redesign initiatives. Conversion costs were unfavorable as inflationary cost increases more than offset the benefits of manufacturing improvement programs. Earnings from our joint venture in Turkey were lower than in 2007 primarily due to weak general economic conditions.

Entering the first quarter of 2009, sales volumes should be seasonally stronger as the winter fruit and vegetable season continues, but industrial markets are expected to remain weak. Profit margins are

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expected to decline slightly reflecting some pressure on box prices and lower recycled board prices at the Etienne mill.

ASIAN INDUSTRIAL PACKAGING net sales for 2008 were $350 million compared with $265 million in 2007 and $180 million in 2006. Operating profits totaled $4 million in 2008 compared with $2 million in 2007 and a loss of $2 million in 2006.

Consumer Packaging

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

CONSUMER PACKAGING net sales increased 6% compared with 2007 and 19% compared with 2006. Operating profits declined 85% from 2007 and 82% from 2006 levels. Benefits from improved average sales price realizations ($93 million), higher sales volumes for U.S., European and Asian coated paperboard ($8 million), and a favorable mix of products sold ($19 million), were more than offset by higher raw material and energy costs ($153 million), increased freight costs ($20 million), unfavorable mill operations ($14 million), lower sales volumes for U.S. converting businesses ($5 million) and other items ($4 million). Additionally, 2008 included $30 million of costs associated with the reorganization of the Shorewood business compared with $11 million of reorganization charges in 2007.

Consumer Packaging *In millions*	**2008**	2007	2006
Sales	**$ 3,195**	$ 3,015	$ 2,685
Operating Profit	**17**	112	93

NORTH AMERICAN CONSUMER PACKAGING net sales were $2.5 billion in 2008 compared with $2.4 billion in both 2007 and 2006. Operating earnings of $8 million in 2008 decreased from $70 million in 2007 and $64 million in 2006.

Coated paperboard sales volumes were essentially flat in 2008 compared with 2007. Average sales price realizations improved substantially in 2008; although these benefits were more than offset by higher raw material and freight costs. However, in the third and fourth quarters, a number of large customer contracts were renegotiated to allow more timely future

price adjustments to reflect changes in costs. Planned maintenance downtime expenses in 2008 were about flat compared with 2007, while manufacturing operating costs were unfavorable.

Foodservice sales volumes were higher in 2008 than in 2007. Average sales prices were also higher reflecting the realization of price increases implemented to recover raw material cost increases. Raw material costs for bleached board and polystyrene were significantly higher than in 2007. Manufacturing costs improved, reflecting increased productivity and reduced waste.

Shorewood sales volumes in 2008 declined from 2007 levels due to weak demand in tobacco, consumer products and display markets, partially offset by improvements in the home entertainment segment. Sales margins improved from 2007 reflecting a more favorable mix of products sold. Raw material costs were higher in 2008 primarily for bleached board, but operating costs were flat. Charges to restructure operations were $19 million higher in 2008.

Entering 2009, coated paperboard sales volumes in the first quarter are expected to be lower as downtime is taken to match production with customer demand. Average sales price realizations are expected to improve as 2008 pricing actions are realized. Earnings should benefit from fewer planned mill maintenance outages compared with the 2008 fourth quarter. Overall raw material costs for wood, polyethylene and energy are expected to be about flat. Foodservice sales volumes are expected to improve slightly and average sales price realizations should be higher. Raw material costs, particularly for resins, should be significantly lower. Shorewood sales volumes for the first quarter 2009 are expected to seasonally decline, but this negative impact should be partially offset by benefits from cost improvements associated with prior-year restructuring actions.

EUROPEAN CONSUMER PACKAGING net sales in 2008 were $300 million compared with $280 million in 2007 and $230 million in 2006. Sales volumes in 2008 were higher than in 2007 as demand in domestic markets strengthened during the first three quarters of 2008. Average sales price realizations also improved in 2008, primarily due to increased sales prices in European domestic markets. Operating earnings in 2008 of $22 million declined from $30 million in 2007 and $31 million in 2006. The additional

contribution from higher net sales was more than offset by higher input costs for wood and

energy, higher freight costs and unfavorable changes in foreign exchange rates.

Entering 2009, sales volumes for the first quarter should be comparable to the fourth quarter while average sales price realizations are expected to soften. Input costs are expected to increase, primarily for electricity costs at the Kwidzyn, Poland mill and for chemicals. These factors should be somewhat offset by a favorable currency exchange rate movement in Poland.

ASIAN CONSUMER PACKAGING net sales were $390 million in 2008 compared with $330 million in 2007 and $50 million in 2006, reflecting the acquisition of a 50% ownership interest in International Paper & Sun Cartonboard Co., Ltd. during the fourth quarter of 2006. Operating earnings in 2008 were a loss of $13 million compared with earnings of $12 million in 2007 and a loss of $2 million in 2006. The loss in 2008 was primarily due to a $12 million charge to revalue pulp inventories at our Shandong International Paper and Sun Coated Paperboard Co., Ltd. joint venture and start-up costs associated with the joint venture s new folding box board paper machine.

Distribution

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

Distribution

In millions	**2008**	2007	2006
Sales	**$ 7,970**	$ 7,320	$ 6,785
Operating Profit	**103**	108	97

DISTRIBUTION S 2008 annual sales increased 9% from 2007 and 17% from 2006 while operating profits in 2008 decreased 5% compared with 2007 and increased 6% compared with 2006.

Annual sales of printing papers and graphic arts supplies and equipment totaled $5.2 billion in 2008

compared with $4.7 billion in 2007 and $4.3 billion in 2006, reflecting a full year of contributions from the Central Lewmar business acquired in August 2007 and increased focus on publication and catalog markets. Mill direct sales were up 17% from 2007 and 38% from 2006, while sales from stock were down 4% from 2007 and about unchanged from 2006. Trade margins for printing papers decreased from 2007 and 2006 reflecting an increase in lower-margin direct sales.

Revenue from packaging products was $1.6 billion in 2008 compared with $1.5 billion for both 2007 and 2006. Trade margins for packaging products remained relatively even compared with the past two years. Facility supplies annual revenue was $1.1 billion in both 2008 and 2007 and $1.0 billion in 2006, principally reflecting increased sales volumes.

Total *xpedx* operating profit was $103 million in 2008 compared with $108 million in 2007 and $97 million in 2006, primarily reflecting lower demand for stock sales.

Looking ahead to the first quarter 2009, sales volumes are expected to be lower reflecting seasonal declines and the weaker current economic conditions. *xpedx* will continue to focus on efficiency and productivity initiatives to mitigate the effect of the demand decline.

Forest Products

Forest Products currently manages approximately 200,000 acres of forestlands in the United States. Operating results are driven by the timing and pricing of specific forestland tract sales. The decline in sales reflects the significant decline in forestland acreage since 2006. Future operations will continue to be driven by pricing and demand for forestland and real estate sales.

Forest Products

In millions	**2008**	2007	2006
Sales	**$ 200**	$ 485	$ 765
Operating Profit	**409**	458	631

Sales in 2008 decreased 59% from 2007 and 74% from 2006. Operating profits were down 11% from 2007 and 35% from 2006. As part of the Company s 2006 Transformation Plan, 5.6 million acres of forestland were sold in 2006, primarily in the fourth quarter, resulting in a significant decline in forestland acreage. The Company intends to focus future operations on maximizing the value from the sale of its remaining forestland and real estate properties.

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Operating profits in 2008 included $261 million from the sale of 13,000 net acres of subsurface mineral rights in Louisiana. Profits from stumpage sales and recreational income were $31 million in 2008, compared with $25 million in 2007 and $222 million in 2006, reflecting the significant reduction in forestland acreage. Profits from forestland and real estate sales were $144 million in 2008 compared with $469 million in 2007 and $571 million in 2006. Operating expenses decreased to $27 million from $36 million in 2007 and $162 million in 2006, reflecting the reduced level of operations.

Looking forward to 2009, the amount and timing of operating earnings will reflect the periodic sales of remaining acreage and can be expected to vary from quarter to quarter.

Specialty Businesses and Other

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

Specialty Businesses and Other *In millions*	**2008**	2007	2006
Sales	**$**	$ 135	$ 935
Operating Profit		6	53

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

On October 5, 2007, International Paper and Ilim Holding S.A. (Ilim) announced the completion of a 50:50 joint venture to operate in Russia. Due to the complex structure of Ilim s operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company reports its share of Ilim s operating results on a one-quarter lag basis. Accordingly, the accompanying consolidated statement of operations for the twelve months ended December 31, 2008 includes the Company s 50% share of Ilim s operating results for the period from acquisition through September 30, 2008, together with the results of other small equity investments, under the caption Equity earnings, net of taxes. Ilim is reported as a separate reportable industry segment.

The Company recorded equity earnings for Ilim, net of taxes of $54 million in 2008. Earnings included a $4 million after-tax foreign exchange gain on the remeasurement of U.S. dollar-denominated debt, a $3 million after-tax charge to write off a share

repurchase option, and a one-time $6 million after-tax charge reflecting the write-up of finished goods and work-in-process inventory to fair value as of the acquisition date. In August 2008, Ilim sold its 56% investment in the Saint Petersburg Cartonboard and Printing Mill (KPK) for $238 million. No gain or loss was realized by the Company on the sale of KPK because the fair value assigned to that business by the Company at the acquisition date was equal to the sales proceeds.

Sales volumes for the joint venture were strong during the 12-month period, but declined slightly in August and September as demand weakened and the sale of the KPK facility was realized. Export sales to China during the period totaled over 900,000 tons. Pulp and paper prices trended lower in the latter half of the year in both domestic and export sales reflecting weakening general economic conditions. Input costs for wood, chemicals and energy increased gradually throughout the period. Declining volumes and supply chain improvements contributed to lower distribution costs. The Company received a $67 million cash dividend from the joint venture in December 2008.

For Ilim s 2008 fourth quarter to be reported in the Company s 2009 first quarter, both sales volumes and sales price realizations are expected to be affected by weak global economic conditions. Production downtime may be taken as a result of weakening demand. In addition, a foreign exchange loss on U.S. dollar-denominated debt is expected due to the strengthening of the U.S. dollar versus the Russian Ruble.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

Financing activities in 2008 focused on the issuance of debt for the acquisition of the Weyerhaeuser CBPR

business and the subsequent repayments beginning in the 2008 fourth quarter. The Company intends to continue to strengthen its balance sheet through further debt repayments during 2009.

Cash Provided by Operations

Cash provided by continuing operations totaled $2.7 billion in 2008 compared with $1.9 billion for 2007 and $1.0 billion for 2006, which was net of a $1.0 billion voluntary cash pension plan contribution made in the fourth quarter of 2006.

The major components of cash provided by continuing operations are earnings from continuing operations adjusted for non-cash income and expense items and changes in working capital. Earnings from continuing operations, adjusted for non-cash income and expense items, decreased by $135 million in 2008 versus 2007. This compares with an increase of $123 million for 2007 over 2006, excluding the pension contribution in 2006. However, changes in working capital components, accounts receivable and inventory less accounts payable and accrued liabilities, contributed $317 million of cash in 2008, compared with a $539 million use of cash in 2007 and a $354 million use in 2006.

Investment Activities

Investment activities in 2008 included expenditures totaling $6.1 billion for acquisitions, primarily the purchase of the CBPR business, and a $21 million increase in the Company s 50% equity interest in Ilim Holding S.A. in Russia, and the receipt of $14 million of additional cash proceeds from divestitures.

Capital spending for continuing operations was $1.0 billion in 2008, or 74% of depreciation and amortization, compared with $1.3 billion, or 119% of depreciation and amortization in 2007, and $1.0 billion, or 87% of depreciation and amortization in 2006.

The following table shows capital spending for continuing operations by business segment for the years ended December 31, 2008, 2007 and 2006.

In millions	**2008**	2007	2006
Printing Papers	**$ 383**	$ 556	$ 523
Industrial Packaging	**282**	405	257
Consumer Packaging	**287**	276	130
Distribution	**9**	6	6
Forest Products	**2**	22	72
Subtotal	**963**	1,265	988
Corporate and other	**39**	23	21
Total from continuing operations	**$ 1,002**	$ 1,288	$ 1,009

We currently expect capital expenditures in 2009 to be about $700 million, or 43% of depreciation and amortization.

Acquisitions

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

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

On July 31, 2007, International Paper purchased the remaining shares of Compagnie Marocaine des Cartons et des Papiers (CMCP) in Morocco for approximately $40 million. In October 2005, the Company had acquired approximately 65% of CMCP for approximately $80 million in cash plus assumed debt of approximately $40 million. The Moroccan packaging company is now wholly owned by International Paper and fully managed as part of the Company s European Container business.

In May 2006, the Company purchased the remaining 25% third-party interest in International Paper Distribution Limited for $21 million. The financial position and results of operations of this acquisition have been consolidated in International Paper s financial statements from its date of acquisition in 2005.

Exchanges

On February 1, 2007, the Company completed the non-cash exchange of certain pulp and paper assets in Brazil with Votorantim Celulose e Papel S.A. (VCP) that had been announced in the fourth quarter of 2006. The Company exchanged its in-progress pulp mill project and certain forestland operations, including approximately 100,000 hectares of surrounding

forestlands in Tres Lagoas, Brazil, for VCP s Luiz Antonio uncoated paper and pulp mill and approximately 55,000 hectares of forestlands in the state of Sao Paulo, Brazil. The exchange improved the Company s competitive position by adding a globally cost-competitive paper mill, thereby expanding the Company s uncoated freesheet capacity in Latin America and providing additional growth opportunities in the region. The exchange was accounted for based on the fair value of assets exchanged, resulting in the recognition in the 2007 first quarter of a pre-tax gain of $205 million ($159 million after taxes) representing the difference between the fair value and book value of the assets exchanged. This gain is included in Net losses (gains) on sales and impairments of businesses in the accompanying consolidated statement of operations.

Joint Ventures

On October 5, 2007, International Paper and Ilim Holding S.A. announced the completion of the formation of a 50:50 joint venture to operate in Russia as Ilim Group. To form the joint venture, International Paper purchased 50% of Ilim Holding S.A. (Ilim) for approximately $620 million, including $545 million in cash and $75 million of notes payable, and contributed an additional $21 million in 2008. A key element of the proposed joint venture strategy is a long-term investment program in which the joint venture intends to invest, when market and financing conditions are appropriate, approximately $1.5 billion in Ilim s three mills over approximately five years, with the funding generated through cash from operations and additional borrowings by the joint venture. This planned investment in the Russian pulp and paper industry will be used to upgrade equipment, increase production capacity and allow for new high-value uncoated paper, pulp and corrugated packaging product development.

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

In October and November 2006, International Paper paid approximately $82 million for a 50% interest in the International Paper & Sun Cartonboard Co., Ltd.

joint venture that currently operates two coated paperboard machines in Yanzhou City, China. In December 2006, a 50% interest was acquired in a second joint venture, the Shandong International Paper & Sun Coated Paperboard Co., Ltd, for approximately $28 million. This joint venture was formed to construct a third coated paperboard machine that was completed and began operations in the third quarter of 2008.

Financing Activities

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

In August 2008, International Paper borrowed $2.5 billion of long-term debt with an initial interest rate of LIBOR plus a margin of 162.5 basis points. The margin can vary depending upon the credit rating of the Company. The debt requires quarterly principal payments starting in the fourth quarter of 2008 and has a final maturity in August 2013. Debt issuance costs of approximately $50 million related to this borrowing were recorded in Deferred charges and other assets in the accompanying consolidated balance sheet and will be amortized over the term of the loan. Also in August 2008, International Paper borrowed approximately $395 million under its receivables securitization program. As of December 31, 2008, all of the borrowings under the receivables securitization program were repaid.

The above funds, together with the $3 billion from unsecured senior notes borrowed in the second quarter discussed below and other available cash, were used for the CBPR business acquisition in August 2008.

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

Also in the third quarter, the Company entered into a series of forward-starting floating-to-fixed interest rate swap agreements with a notional amount of $1.5 billion in anticipation of borrowing under the $3 billion committed bank credit agreement for the purchase of the CBPR business. The floating-to-fixed interest rate swaps were effective September 2008 and mature in September 2010. These forward-starting interest rate swaps are being accounted for as cash flow hedges in accordance with SFAS No. 133 as

hedges of the benchmark interest rate of

future interest payments related to any borrowing under the bank credit agreement. In the fourth quarter of 2008, the Company terminated $550 million of these floating-to-fixed interest rate swap agreements resulting in a loss of approximately $17 million recorded in Accumulated other comprehensive loss in the accompanying consolidated balance sheet (see Note 14).

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

Also in the second quarter of 2008, International Paper entered into a series of fixed-to-floating interest rate swap agreements, with a notional amount of $1 billion and maturities in 2014 and 2018, to manage interest rate exposures associated with the new $3 billion of unsecured senior notes. These interest rate swaps are being accounted for as fair value hedges in accordance with SFAS No. 133. In 2008, International Paper terminated $1.8 billion of interest rate swap agreements designated as fair value hedges, including some of the above fixed-to-floating interest rate swaps, resulting in a gain of $127 million. This gain was deferred and recorded in Long-term debt in the accompanying consolidated balance sheet to be amortized over the life of the related debt obligations through June 2018 (see Note 13).

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

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

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

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

In October 2007, International Paper Investments (Luxembourg) S.ar.l, a wholly-owned subsidiary of International Paper, issued $75 million of long-term notes with an initial interest rate of LIBOR plus 100 basis points and a maturity date in April 2009, in connection with its investment in the Ilim Holding S.A. joint venture.

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

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

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

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

2006: Financing activities during 2006 included debt issuances of $223 million and retirements of $5.4 billion, for a net debt reduction of $5.2 billion.

In December 2006, International Paper used proceeds of $2.2 billion from its 2006 Transformation Plan forestland sales to retire notes with interest

rates ranging from 3.8% to 10.0% and original maturities from 2008 to 2029. Also in the fourth quarter of 2006, Luxembourg repaid $343 million of long-term debt with an interest rate of LIBOR plus 40 basis points and a maturity date in November 2010.

In August 2006, International Paper used approximately $320 million of cash to repay its maturing 5.375% euro-denominated notes that were designated as a hedge of euro functional currency net investments. Other debt activity in the third quarter included the repayment of $143 million of 7.875% notes and $96 million of 7% debentures, all maturing within the quarter.

In June 2006, International Paper paid approximately $1.2 billion to repurchase substantially all of its zero-coupon convertible debentures at a price equal to their accreted principal value plus interest, using proceeds from divestitures and $730 million of third-party commercial paper issued under the Company s receivables securitization program. At December 31, 2006, International Paper had repaid all of its commercial paper borrowed under its receivables securitization program.

In February 2006, International Paper repurchased $195 million of 6.4% debentures with an original maturity date of February 2026. Other reductions in the first quarter of 2006 included early payment of approximately $495 million of notes with coupon rates ranging from 4.0% to 8.875% and original maturities from 2007 to 2029.

At December 31, 2006, International Paper had interest rate swaps with a total notional amount of $2.2 billion and maturities ranging from one to ten years. In 2006, these swaps increased the weighted average cost of debt from 6.05% to an effective rate of 6.18%. The inclusion of the offsetting interest income from short-term investments reduced this effective rate to 4.95%.

Other financing activity in 2006 included the repurchase of 39.7 million shares of International Paper common stock for approximately $1.4 billion, and a net issuance of 2.8 million shares under various incentive plans, including stock option exercises that generated $32 million of cash.

Off-Balance Sheet Variable Interest Entities

During 2006 in connection with the sale of approximately 5.6 million acres of forestlands under the Company s 2006 Transformation Plan, the Company exchanged installment notes totaling approximately

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

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

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

Liquidity and Capital Resources Outlook for 2009

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 2009 through current cash balances and cash from operations, supplemented as required by its various existing credit facilities.

At December 31, 2008, International Paper had approximately $1.1 billion in cash and $2.5 billion of committed bank credit agreements, which management believes are adequate to cover expected operating cash flow variability during the current economic cycle. The credit agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper s credit rating. These agreements include a $1.5 billion fully committed revolving bank credit

agreement that expires in March 2011 that has a facility fee of 0.10% payable quarterly, and a receivables securitization program that provides up to $1.0 billion of committed commercial paper-based financings based on eligible receivable balances that expires in October 2009 and has a facility fee of

0.10%. At December 31, 2008, there were no borrowings under either the bank credit agreements or receivables securitization program. On January 23, 2009, the Company amended the receivables securitization program to extend the maturity date from October 2009 to January 2010. The amended agreement has a facility fee of 0.75% payable quarterly. The Company also intends to expand the coverage of its securitization program during 2009 to include some of its receivables in Europe.

International Paper has approximately $1.6 billion of debt and notes payable obligations maturing in 2009. In January 2009, the Company used approximately $362 million of cash to repay its maturing 4.25% notes. Other debt obligations maturing in 2009 include 500 million of euro-denominated debt (equivalent to $696 million at December 31, 2008) that matures in August 2009. International Paper is currently negotiating the refinancing of this euro-denominated debt.

The Company was in compliance with all its debt covenants at December 31, 2008. The Company s financial covenants require the maintenance of a minimum net worth of $9 billion and a total-debt-to-capital ratio of less than 60%. At December 31, 2008, International Paper s net worth, as defined, was $11.2 billion, and the total-debt-to-capital ratio was 51.9%. Net worth is defined in the covenants 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 other comprehensive income. The total-debt-to-capital ratio is defined as total debt divided by the sum of total debt plus net worth.

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

Maintaining an investment grade credit rating is an important element of International Paper s financing strategy. At December 31, 2008, the Company held long-term credit ratings of BBB (negative outlook) and Baa3 (negative outlook) by S&P and Moody s, respectively. The Company currently has short-term credit ratings of A-3 and P-3 by S&P and Moody s, respectively.

Contractual obligations for future payments under existing debt and lease commitments and purchase obligations at December 31, 2008, were as follows:

In millions	2009	2010	2011	2012	2013	Thereafter
Maturities of long-term debt (a)	$ 828	$ 1,344	$ 1,389	$ 967	$ 1,504	$ 6,042
Debt obligations with right of offset (b)		511	42			5,098
Lease obligations	174	147	124	106	86	139
Purchase obligations (c)	2,570	630	585	575	530	4,030
Total (d)	$ 3,572	$ 2,632	$ 2,140	$ 1,648	$ 2,120	$ 15,309

(a) Total debt includes scheduled principal payments only. The 2009 debt maturities reflects the reclassification of $796 million of Notes payable and current maturities of long-term debt, including the 500 million of euro-denominated debt, to Long-term debt based on International Paper s intent and ability to renew or convert these obligations, as evidenced by the Company s available bank credit agreements.

(b) Represents debt obligations borrowed from non-consolidated variable interest entities for which International Paper has, and intends to affect, a legal right to offset these obligations with investments held in the entities. Accordingly, in its consolidated balance sheet at December 31, 2008, International Paper has offset approximately $5.7 billion of interests in the entities against this $5.7 billion of debt obligations held by the entities (see Note 8 in the accompanying consolidated financial statements).

(c) Includes $2.9 billion relating to fiber supply agreements entered into at the time of the 2006 Transformation Plan forestland sales.

(d) Not included in the above table due to the uncertainty as to the amount and timing of the payment are unrecognized tax benefits of approximately $331 million.

Pension Obligations and Funding

At December 31, 2008, the projected benefit obligation for the Company s U.S. defined benefit plans determined under U.S. Generally Accepted Accounting Principles was approximately $3.2 billion higher than the fair value of plan assets. Approximately $2.9 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

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level. At this time, we do not expect that the finalization of the funded status as of December 31, 2008 will require the Company to make contributions to its plans in 2009. The timing and amount of contributions in 2010 and beyond, which could be material, will depend on a number of factors, including the actual earnings and changes in values of plan assets, changes in interest rates and the possible impact of other funding relief proposals that may be adopted by Congress.

Alternative Fuel Credits

The U.S. Internal Revenue Code allows an excise tax credit for alternative fuel mixtures produced by a taxpayer for sale, or for use as a fuel in a taxpayer s trade or business. The credit, equal to $.50 per gallon of alternative fuel contained in the mixture, is refundable to the taxpayer. During the fourth quarter of 2008, the Company filed to be registered as an alternative fuel mixer, and in January 2009 received notification that the registration was approved. The Company continues to accumulate information to file for refunds for eligible periods, generally subsequent to November 2008.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles 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 SFAS No. 5, Accounting for Contingencies, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, SFAS No. 142, Goodwill and Other Intangible Assets, SFAS No. 87, Employers Accounting for Pensions, SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, as amended by SFAS Nos. 132 and 132(R), Employers Disclosures About Pension and Other Postretirement Benefits, SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and SFAS No. 109, Accounting for Income Taxes. The following is a discussion of the impact of these accounting policies on International Paper:

CONTINGENT LIABILITIES Accruals for contingent liabilities, including legal and environmental matters,

are recorded when it is probable that a liability has been incurred or an asset impaired and the amount of the loss can be reasonably estimated. Liabilities accrued for legal matters require judgments regarding projected outcomes and range of loss based on historical experience and recommendations of legal counsel. Additionally, as discussed in Note 11 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data, reserves for projected future claims settlements relating to exterior siding and roofing products previously manufactured by the Company s former Masonite business require judgments regarding projections of future costs per claim. International Paper utilizes a third party consultant to assist in developing these estimates. Liabilities for environmental matters require evaluations of relevant environmental regulations and estimates of future remediation alternatives and costs. International Paper determines these estimates after a detailed evaluation of each site.

IMPAIRMENT OF LONG-LIVED ASSETS AND GOODWILL An impairment of a long-lived asset exists when the asset group s carrying amount cannot be recovered through future operations and exceeds its fair value. An impairment charge is then recorded to reduce the carrying amount to fair value. Assessments of possible impairments of long-lived assets are made when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable through future operations. A goodwill impairment exists when the carrying amount of a reporting unit s goodwill exceeds its implied fair value. Testing for possible impairment of goodwill is required annually, and on an interim basis if an event occurs or circumstances change that, more likely than not, would reduce the fair value of a reporting unit below its carrying amount. The amount and timing of these impairment charges require the estimation of future reporting unit cash flows, cost-of-capital discount rates and the fair market value of the related business unit assets and liabilities.

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

INCOME TAXES International Paper records its global tax provision based on the respective tax rules

and regulations for the jurisdictions in which it operates. Where the Company believes that a tax position is supportable for income tax purposes, the item is included in its income tax returns. Where treatment of a position is uncertain, a liability is recorded based upon the expected most likely outcome taking into consideration the technical merits of the position based on specific tax regulations and facts of each matter. Changes to recorded liabilities are only made when an identifiable event occurs that changes the likely outcome, such as settlement with the relevant tax authority, the expiration of statutes of limitation for the subject tax year, change in tax laws, or a recent court case that addresses the matter.

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

SIGNIFICANT ACCOUNTING ESTIMATES

GOODWILL IMPAIRMENT ANALYSIS Under the provisions of Statement of Financial Accounting Standards No. 142, the testing of goodwill for possible impairment is a two-step process. In the first step, the fair value of the Company s reporting units is compared with their carrying value, including goodwill. If fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value of a reporting unit is below the carrying value, then step two is performed to measure the amount of the goodwill impairment loss for the reporting unit. This analysis requires the determination of the fair value of all of the individual assets and liabilities of the reporting unit, including any currently unrecognized intangible assets, as if the reporting unit had been purchased on the analysis date. Once these fair values have been determined, the implied fair value of the unit s goodwill is calculated as the excess, if any, of the fair value of the reporting unit determined in step one over the fair value of the net assets determined in step two. The carrying value of goodwill is then reduced to this implied value, or to zero if the fair value of the assets exceeds the fair value of the reporting unit, through a goodwill impairment charge.

The impairment analysis requires a number of judgments by management. In calculating the estimated fair value of its reporting units in step one, the Company uses the projected future cash flows to be generated by each unit over the estimated remaining useful operating lives of the unit s assets, discounted using the estimated cost-of-capital discount rate for

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

During 2008, as in prior years, the Company performed the required annual goodwill testing for impairment as of the beginning of the fourth quarter, resulting in a $59 million impairment charge to write off all goodwill for the Company s European Coated Paperboard business. Subsequent to this testing date, the Company performed an interim test as of December 31, 2008 and recalculated the estimated fair value of its reporting units as of that date using updated future cash flow projections and higher cost-of-capital discount rates. Based on this testing, step two testing for possible impairment was required for the Company s U.S. Printing Papers business and its U.S. Coated Paperboard business. Based on management s preliminary estimates, an additional goodwill impairment charge of $379 million was recorded, representing all of the goodwill for the U.S. Coated Paperboard business, as this was management s best estimate of the minimum impairment charge that will be required upon the completion of detailed step two analyses. In February 2009, based on additional work performed to date, management determined that it was probable that all of the $1.3 billion of recorded goodwill for the U.S. Printing Papers business would be impaired when testing is completed. Accordingly, an additional goodwill impairment charge of $1.3 billion was recorded as a charge to operating results for the year ended December 31, 2008. Due to the complexity of the businesses involved, it is expected that testing will be finalized for these businesses by the end of the first quarter of 2009.

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

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

Benefit obligations and fair values of plan assets as of December 31, 2008, for International Paper s pension and postretirement plans are as follows:

In millions	Benefit Obligation	Fair Value of Plan Assets
U.S. qualified pension	$ 8,960	$ 6,079
U.S. nonqualified pension	315	
U.S. postretirement	596	
Non-U.S. pension	168	115
Non-U.S. postretirement	19	

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

	2008	2007	2006
Discount rate	**6.20%**	5.75%	5.50%
Expected long-term return on plan assets	**8.50%**	8.50%	8.50%
Rate of compensation increase	**3.75%**	3.75%	3.25%

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

	2008	2007
Health care cost trend rate assumed for next year	**9.50%**	10.00%
Rate that the cost trend rate gradually declines to	**5.00%**	5.00%
Year that the rate reaches the rate it is assumed to remain	**2017**	2017

International Paper determines these actuarial assumptions, after consultation with our actuaries, on December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. The discount rate assumption is determined based on a yield curve that incorporates approximately 500 Aa-graded bonds. The plan s projected cash payments are then matched to this yield curve to develop the discount rate. The expected long-term rate of return on plan assets reflects projected returns for an investment mix determined upon completion of a detailed asset/liability study that meets the plans investment objectives.

Increasing (decreasing) the expected long-term rate of return on U.S. plan assets by an additional 0.25% would decrease (increase) 2009 pension expense by approximately $19 million, while a (decrease) increase of 0.25% in the discount rate would (increase) decrease pension expense by approx-

imately $29 million. The effect on net postretirement benefit cost from a 1% increase or decrease in the annual trend rate would be approximately $2 million.

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

Year	Return	Year	Return
2008	**(23.6)%**	2003	26.0%
2007	9.6%	2002	(6.7)%
2006	14.9%	2001	(2.4)%
2005	11.7%	2000	(1.4)%
2004	14.1%	1999	21.4%

SFAS No. 87, Employers Accounting for Pensions, provides for delayed recognition of actuarial gains and losses, including amounts arising from changes in the estimated projected plan benefit obligation due to changes in the assumed discount rate, differences between the actual and expected return on plan assets, and other assumption changes. These net gains and losses are recognized in pension expense prospectively over a period that approximates the average remaining service period of active employees expected to receive benefits under the plans (approximately 9 years) to the extent that they are not offset by gains and losses in subsequent years. The estimated net loss and prior service cost that will be amortized from OCI into net periodic pension cost for the U.S. pension plans over the next fiscal year are $176 million and $29 million, respectively.

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

In millions	**2008**	2007	2006	2005	2004
Pension expense					
U.S. plans (non-cash)	**$ 123**	$ 210	$ 377	$ 243	$ 111
Non-U.S. plans	**4**	5	17	15	15
Postretirement expense					
U.S. plans	**28**	15	7	20	53
Non-U.S. plans	**3**	8	3	3	2
Net expense	**$ 158**	$ 238	$ 404	$ 281	$ 181

The decrease in 2008 U.S. pension expense principally reflects an increase in the assumed discount rate to 6.20% in 2008 from 5.75% in 2007 and lower amortization of unrecognized actuarial losses. The decrease in 2007 U.S. pension expense principally reflects lower amortization of unrecognized actuarial losses, an increase in the assumed discount rate to 5.75% in 2007 from 5.50% in 2006, the earnings on

the $1.0 billion contribution made to the plan during the fourth quarter of 2006, and a decrease in active participants due to divestitures.

Assuming that discount rates, expected long-term returns on plan assets and rates of future compensation increases remain the same as in 2008, projected future net periodic pension and postretirement plan expenses would be as follows: