INTERNATIONAL PAPER CO /NEW/
Form 10-Q
November 02, 2018
Table of Contents

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

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2018

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

For the Transition Period From to

Commission File Number 1-3157
INTERNATIONAL PAPER COMPANY
(Exact name of registrant as specified in its charter)

New York	13-0872805
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
6400 Poplar Avenue, Memphis, TN	38197
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (901) 419-7000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
INTERNATIONAL PAPER COMPANY
Condensed Consolidated Statement of Operations
(Unaudited)
(In millions, except per share amounts)

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

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

1

Table of Contents

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

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

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

Table of Contents

INTERNATIONAL PAPER COMPANY
Condensed Consolidated Balance Sheet
(In millions)

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

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

3

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

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

Beginning of period	1,018	1,033
End of period	$1,026	$998

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

Table of Contents

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

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - RECENT ACCOUNTING DEVELOPMENTS

Intangibles

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

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

Fair Value Measurement

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

Comprehensive Income

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

Derivatives and Hedging

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

Table of Contents

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

Retirement Benefits

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

The Company adopted the provision of ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," on January 1, 2018. Under this new guidance, employers present the service costs component of the net periodic benefit cost in the same income statement line
items as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component is eligible for capitalization in assets. Employers present the other components separately from the line items that includes the service cost and outside of any subtotal of operating income. In addition, disclosure of the lines used to present the other components of net periodic benefit cost are required if the components are not presented separately in the income statement. The following table details the impact of the retrospective adoption of this standard on the three months and nine months ended September 30, 2017, reported in the accompanying condensed consolidated statement of operations. The retrospective adoption had no impact on Net earnings (loss).

Condensed Consolidated Statement of Operations

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

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

Business Combinations

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

Income Taxes

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

Table of Contents

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

Stock Compensation

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

Leases

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

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

Revenue Recognition

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

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

Table of Contents

Condensed Consolidated Statement of Operations

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

Condensed Consolidated Statement of Operations

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

Condensed Consolidated Balance Sheet

In millions, except per share amounts	September 30, 2018		
	As Reported	Balances Without Adoption of ASC 606	Impact of Adoption Increase/(Decrease)
Contract assets	$383	$—	$ 383
Inventories	2,130	2,389	(259)
Other current assets	199	213	(14)
Other accrued liabilities	1,054	1,035	19

Deferred income taxes	2,512	2,500	12
Retained earnings	7,353	7,274	79

Condensed Consolidated Statement of Cash Flows

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

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

Table of Contents

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

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

NOTE 3 - REVENUE RECOGNITION

Disaggregated Revenue

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

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

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

9

Table of Contents

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

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

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

Revenue Contract Balances

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

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

A contract asset is created when the Company recognizes revenue on its customized products prior to having an unconditional right to payment from the customer, which generally does not occur until title and risk of loss passes to the customer.
A contract liability is created when customers prepay for goods prior to the Company transferring those goods to the customer. The contract liability is reduced once control of the goods is transferred to the customer. The majority of our customer prepayments are received during the fourth quarter each year for goods that will be transferred to customers over the following twelve months.

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

Table of Contents

Performance Obligations and Significant Judgments

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

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

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

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

Practical Expedients and Exemptions

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

NOTE 4 - EQUITY

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

	Nine Months Ended September 30,					
	2018			2017		
In millions, except per share amounts	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity	Total International Paper Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance, January 1	$6,522	$ 19	$6,541	$4,341	$ 18	$4,359
	73	—	73	—	—	—

Adoption of ASC 606 revenue from contracts with customers						
Issuance of stock for various plans, net	112	—	112	130	—	130
Repurchase of stock	(532)	—	(532)	(46)	—	(46)
Common stock dividends ($1.4250 per share in 2018 and $1.3875 per share in 2017)	(596)	—	(596)	(584)	—	(584)
Transactions of equity method investees	19	—	19	(24)	—	(24)
Comprehensive income (loss)	1,442	(1)	1,441	1,097	1	1,098
Ending Balance, September 30	$7,040	$ 18	$7,058	$4,914	$ 19	$4,933

Table of Contents

NOTE 5 - OTHER COMPREHENSIVE INCOME

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

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

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

In millions:	Amounts Reclassified from Accumulated Other Comprehensive Income — Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017		Location of Amount Reclassified from AOCI
Defined benefit pension and postretirement items:						
Prior-service costs	$(4)	$(6)	()11	()19	(a)	Non-operating pension expense
Actuarial gains (losses)	(97)	(89)	()291	()266	(a)	Non-operating pension expense
Total pre-tax amount	(101)	(95)	()302	()285		
Tax (expense) benefit	25	36	75	109		
Net of tax	(76)	(59)	()227	()176		