



PROGRESS



About this report

This report covers International Paper's sustainability performance for calendar year 2012. Among other updates, it captures our first annual progress report since publishing our 12 voluntary 2020 sustainability goals in our 2011 report.

All data are reported as of December 31, 2012, unless otherwise stated. Data is included from all global operations, including North America, Brazil, Asia, and Europe, the Middle East and Africa (EMEA). We have also included data from the 2012 acquisition of Temple-Inland. Data from our late 2011 acquisition of Andhra Pradesh Paper Mills in India is currently being collected and analyzed and has not been included in the report. Where appropriate, our 2010 baseline data has been restated to reflect these acquisitions and divestitures. The report includes limited information from joint ventures where applicable.

Additional information on International Paper is available online at www.internationalpaper.com. This report was compiled using the Global Reporting Initiative (GRI®) G3 Indicator protocols. We self-declare that this report meets a Level B application when supplemented by information on our sustainability website and in our Annual Report. Our GRI® table is available online.

For questions and more information about this report, contact sustainability@ipaper.com or visit internationalpaper.com/sustainability.

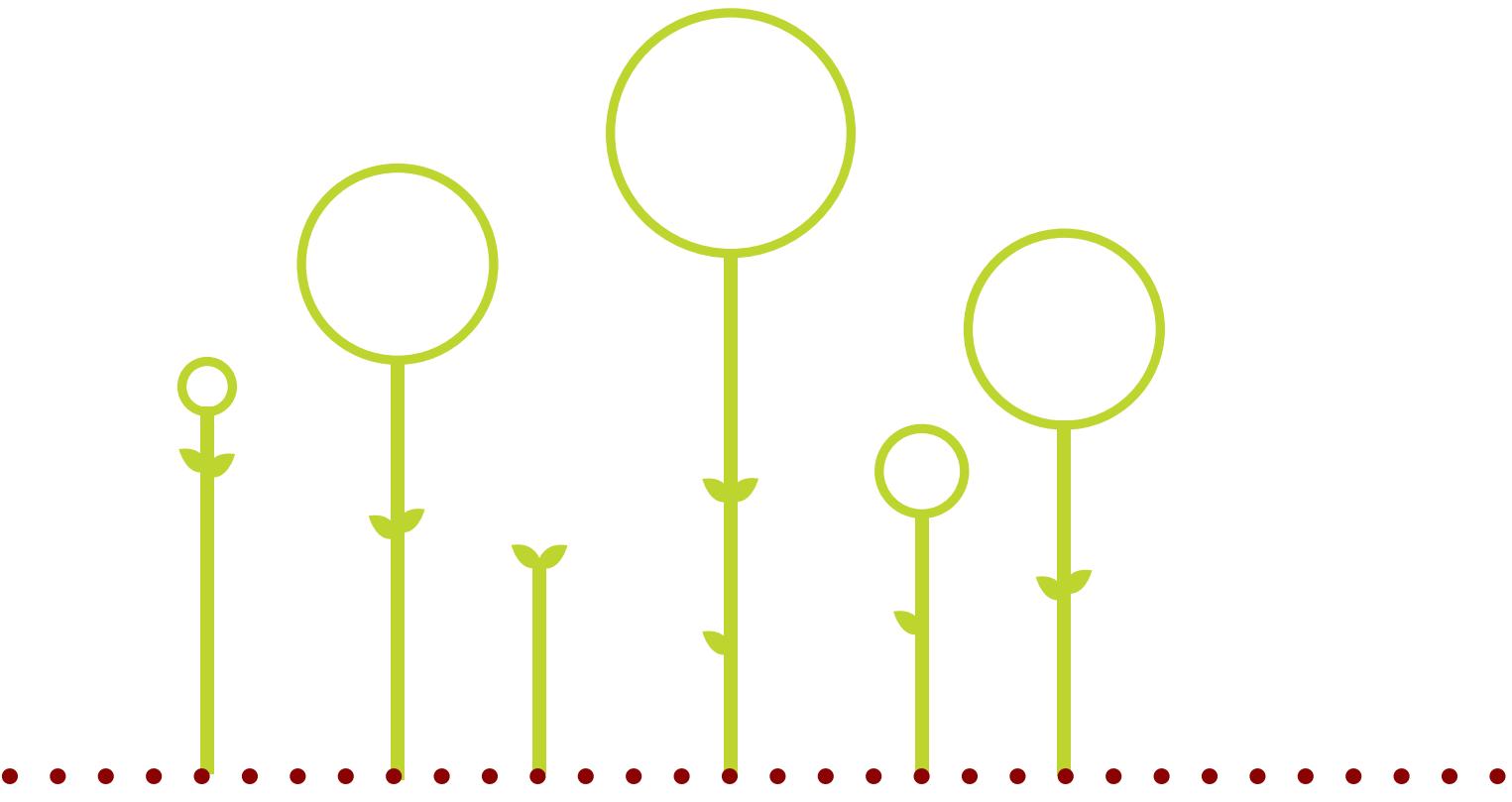


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OUR GOALS

PLANET

Energy Efficiency

15 percent improvement of energy efficiency in purchased energy use by 2020

GHG Emissions

20 percent absolute reduction in global GHG emissions (Scope 1 and 2) associated with the production of our products by 2020

Air Emissions

10 percent reduction in criteria pollutant emissions (SO_2 , NO_x , PM) by aligning with our energy efficiency initiatives by 2020

Water Use

Map water usage through our manufacturing locations by 2013; develop site-specific plans by 2015 in strategic watershed areas to reduce use by 2020

Water Quality

15 percent reduction in mill wastewater discharges of oxygen depleting substances (BOD, COD) to receiving streams

Fiber Certification

15 percent global increase in third-party certified fiber volume





Fiber Efficiency

Reduce fiber loss in the manufacturing process by achieving world-class performance of less than 0.75 percent fiber loss

Fiber Recovery

15 percent increase in the recovery of Old Corrugated Containers (OCC) by exploring new sources and diverting useable fiber from the landfill

Solid Waste

Assess options to reduce the generation and disposal of manufacturing waste from our processes by 2013; develop site-specific plans by 2015 to support an enterprise reduction goal for 2020

Supply Chain

Establish baseline supply chain performance and implement plans to improve by 2013

PEOPLE

Safety

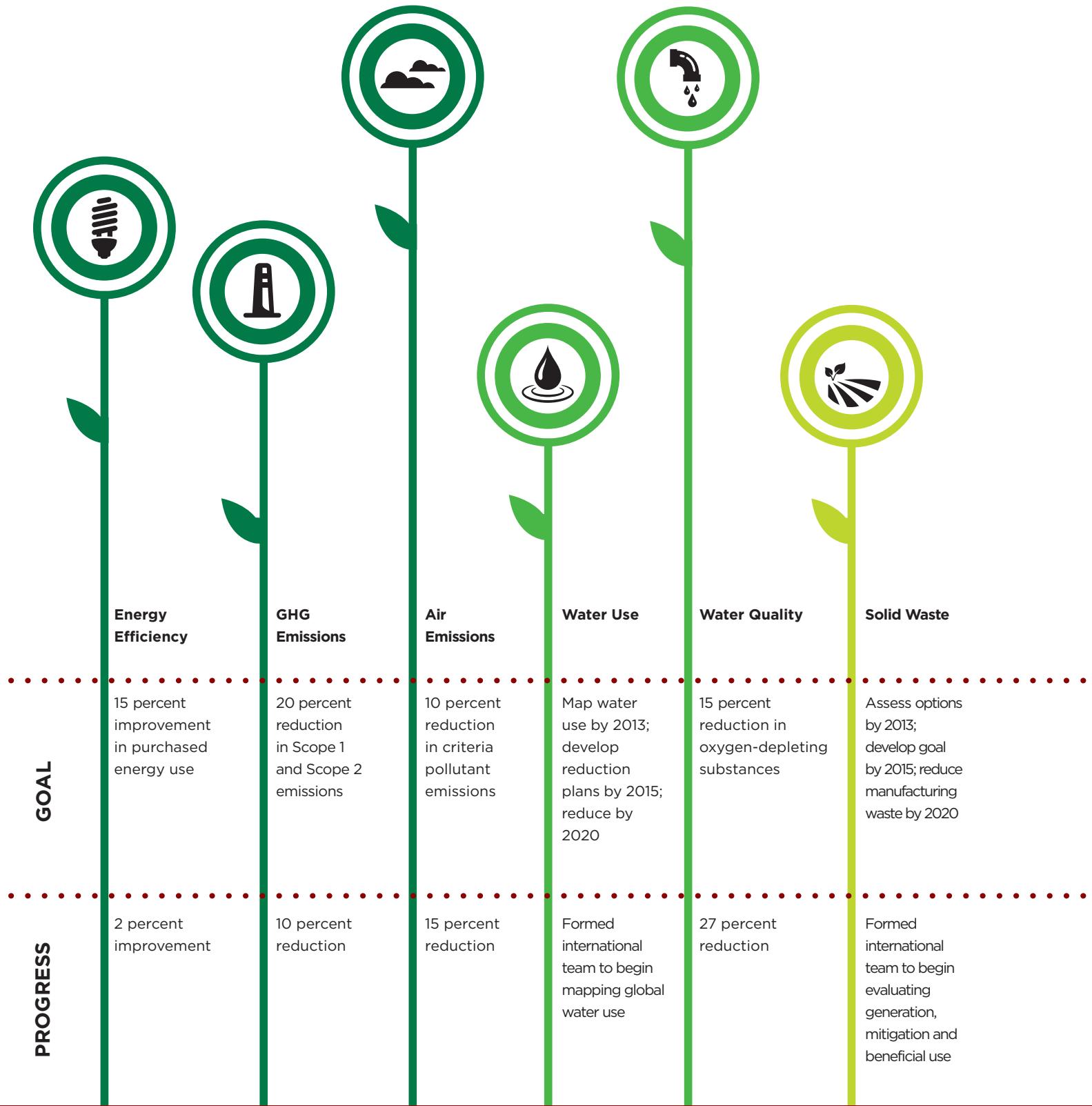
Accident-free workplace

Community

Measure and report on our charitable support for education, literacy and health and human services in the communities where we operate

OUR PROGRESS

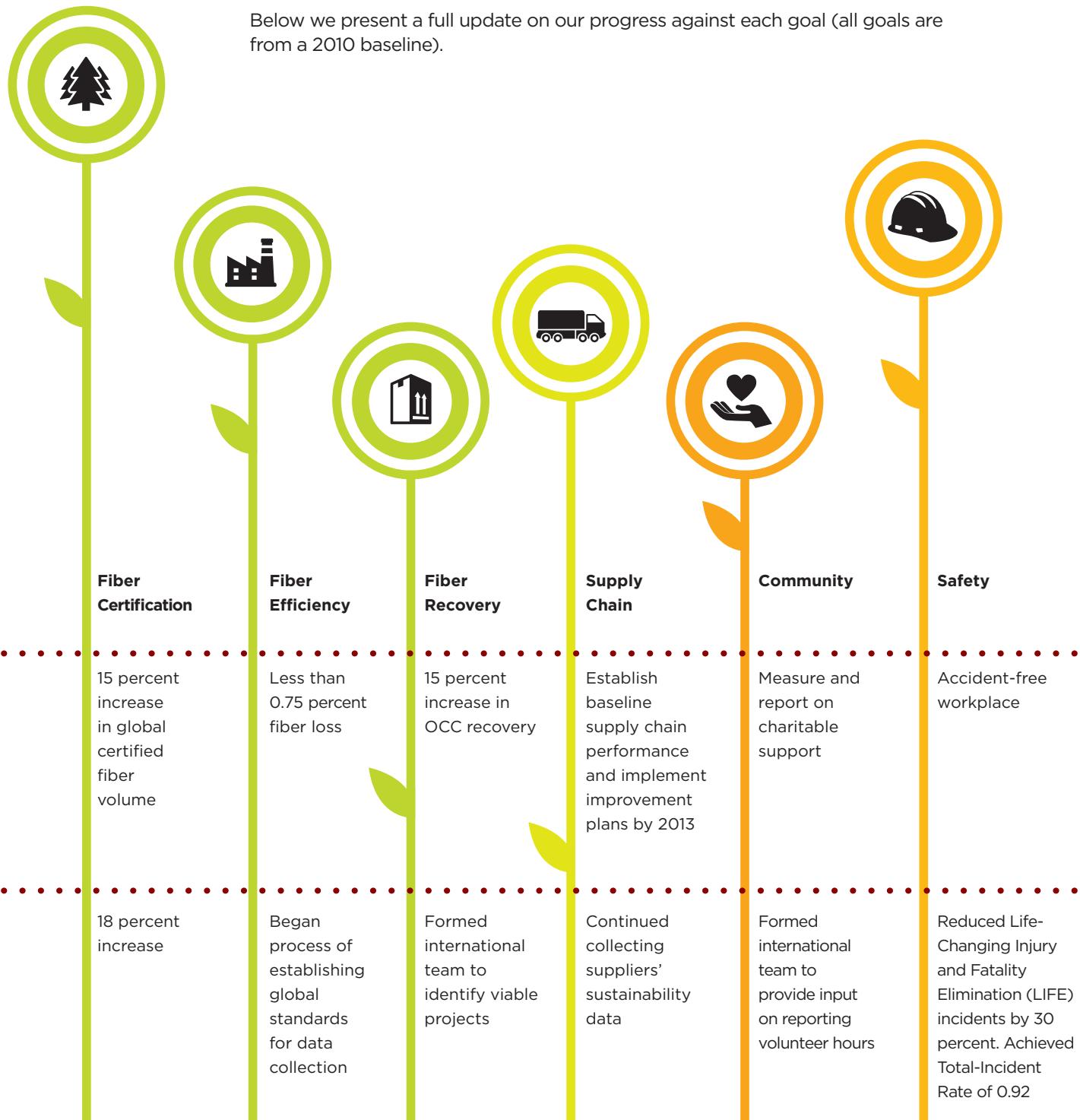
We believe that goal setting is crucial to continuously improve our operations, rally employee support, help our customers and suppliers improve their sustainability footprint and, ultimately, become a more sustainable company.

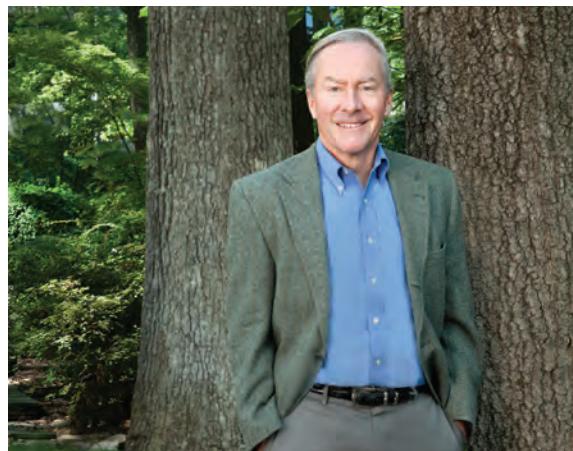


In 2012, International Paper announced a suite of 12 sustainability goals to guide our global operations through 2020. These wide-ranging objectives were developed to focus our sustainability efforts. They were driven by goal teams, our Manufacturing Council and Environment, Health, Safety and Sustainability Council. International Paper's Senior leadership team and Sustainability Steering Team endorsed the goals.

We have appointed a series of goal project teams responsible for implementing the initiatives that will help us achieve our goals. Additionally, senior company leaders will act as "Goal Champions" to drive the company's performance against each goal. We believe the introduction of these teams and leaders puts us in a strong position to accomplish our goals by 2020. As we continue on this journey, we will evaluate our goals and refresh them as appropriate, taking into consideration more accurate data collection and calculation methodologies that will ensure the rigor of our data over the long term.

Below we present a full update on our progress against each goal (all goals are from a 2010 baseline).





John V. Faraci
Chairman and Chief Executive Officer
International Paper

CHAIRMAN'S LETTER

Every day around the globe, International Paper manufactures a variety of packaging and paper products to meet customer needs. Each of our products relies on healthy, working forests – which is why for nearly 115 years, sustainability and forest stewardship have represented core values of our company. As our enterprise has grown and evolved for more than a century, we have strengthened our commitment to customers, to employees, to shareowners and to our sustainable practices. As a result, the communities where we operate have become, in many ways, stronger.

International Paper's ability to adapt and improve was highlighted in 2012 with continued progress toward a number of global initiatives. From a financial perspective, we executed well on several key initiatives, setting the stage for improved cash flow and shareowner return over the near-, mid- and long-term horizons. In the sustainability arena, we made equally important, equally lasting progress on a variety of fronts – including a 10 percent reduction in greenhouse gas emissions from a 2010 baseline.

Our sustainability reach encompasses more now than at any other time in our company's history. From our global facilities to our sourcing methods, to our products, our customers, our communities and suppliers, numerous stakeholders play a role in International Paper's sustainability continuum. To meet those vast needs, we established in late 2011, a position dedicated solely to sustainability and led by an officer of International Paper. These pages reflect our progress and our achievements in the first full year since naming a company officer to this critical position.

Among our achievements quantified within this report is International Paper's progress toward our 12 voluntary 2020 sustainability goals. In the categories we consider vital to International Paper's business – wood fiber, water, energy and people – we set goals with specific, measurable targets. While we have made good progress this year, we still have more to do and are committed to continuous improvement.

At International Paper, we are mindful that continued progress is a collaborative effort. As demonstrated through our joint ventures worldwide, collaboration and goal sharing will always generate better, stronger, faster, more sustainable results. In 2012, we launched several new collaborations to help our company refine and advance our sustainability efforts globally:

- We announced a major donation to, and collaboration with, the National Fish and Wildlife Foundation's "Forestland Stewards" initiative.
- We joined the World Business Council for Sustainable Development and its Forest Solutions Group.

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- We became a voluntary member of the U.S. Department of Energy (DOE) Better Plants program, working with DOE on cost-effective energy efficiency improvements and committing to reduce energy intensity 25 percent over 10 years across our U.S. facilities.
- We stepped up efforts both to help landowners certify their land as sustainably managed, and to increase global fiber certification through organizations such as the Sustainable Forestry Initiative®, and the Forest Stewardship Council™.
- We have joined with a number of global and regional non-governmental organizations, working together to advance sustainable forestry.

By establishing these important relationships, International Paper is preserving – and building on – a proud heritage of land management and stewardship while setting transparent goals for new ventures in a changing world. As we expand our capabilities – whether in the sustainability field or within our own businesses – one standard of excellence continues to guide us forward.

Today, International Paper operates in more than 24 countries. Our employees collectively speak more than 20 languages, and we have a global workforce of 70,000 strong. At our core, we are a people-focused company. That is why International Paper takes very seriously our efforts, commitment, leadership and responsibility to improve safety performance.

Across the company, accident reduction is strengthened through our award-winning Life-Changing Injury and Fatality Elimination (LIFE) program. The program helps to foster safety improvements and sets even stronger global standards of performance. By evaluating and eliminating hazards, and through applied LIFE learnings, a number of International Paper facilities set several safety benchmarks and achieved incident-free milestones in 2012.

The Total Incident Rate (TIR) and Lost Workday Injury Rate (LWIR) at International Paper facilities has continued to decline – and as an enterprise, we reduced total LIFE incidents by 30 percent between 2010 and 2012. I personally believe that all of our employees are ready, willing and able to make even greater progress toward our ultimate goal – an injury-free workplace.

I hope these pages provide a better understanding of who we are at International Paper. We believe in sustainability along with continuous improvement. For International Paper, sustainability is a journey – one that is pursued with leadership, goal setting, measurement, ongoing transparency and employee engagement as core elements of our sustainability initiatives. That same approach also sets the foundation for our corporate vision, which is to improve the world today and for generations to come.

I'm proud of our 70,000 employees and the positive impact we continue to make around the globe.

Sincerely,

John V. Faraci

Chairman and Chief Executive Officer
International Paper



Global Headquarters, Memphis, Tennessee

ABOUT INTERNATIONAL PAPER

At International Paper, our vision is to be one of the best and most respected companies in the world. We strive to be a company of substance in everything we do, from manufacturing our products, to investing in communities where our employees live and work, to protecting our natural environment.

International Paper is a global leader in the packaging and paper industry and supplies a wide range of products that people rely on every day. Our businesses include uncoated papers, pulp and industrial and consumer packaging, complemented by xpedx, our North American distribution business.

International Paper employs approximately 70,000 people in more than 24 countries. International Paper's global headquarters is located in Memphis, Tennessee. Our stock is publicly traded and listed on the New York Stock Exchange (ticker symbol IP).

FINANCIAL HIGHLIGHTS

In 2012, International Paper generated record cash from operations and delivered our second-best earnings per share since 1995, despite an uneven global economic environment.

Results

(As of and for the year ending December 31, 2012)

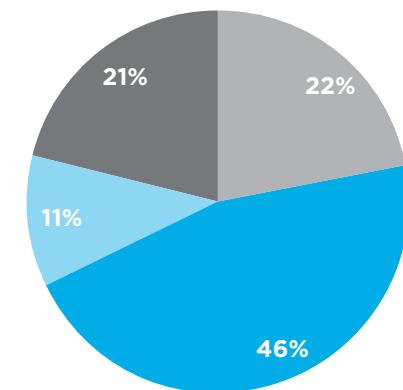
Net Sales	\$27.8 billion
Net Earnings	\$799 million
Dividends (Per Share of Common Stock)	\$1.0875

For the 10th time in the last 11 years International Paper has been named #1 in the Forest and Paper Products Industry, *FORTUNE*® "World's Most Admired Companies"® 2013."

FORTUNE
WORLD'S MOST
ADMIRERED
COMPANIES[®]
2013

RANK IN FOREST AND PAPER PRODUCTS: 1

PERCENTAGE OF TOTAL REVENUE



■ Industrial Packaging ■ Consumer packaging
■ Distribution (xpedx) ■ Printing Papers



INTERNATIONAL PAPER'S GLOBAL PRESENCE**Industrial Packaging**

International Paper's industrial packaging products ship, store and help sell the goods and materials that bring the world closer together. As we work to become the premier global manufacturer of containerboard and corrugated packaging, our Industrial Packaging business spans containerboard mills, converting plants and recycling centers across North America, South America, Europe and Asia. Our talented teams of professionals are experienced and ready to develop efficient, cost-effective, custom-designed packaging solutions for virtually any marketing or distribution requirement.

Consumer Packaging

International Paper's consumer packaging products help market leading brands in the consumer, foodservice, tobacco, and graphics markets. Our top quality coated paperboard is used in a variety of applications from folding cartons to paper cups, aseptic packaging and food containers. International Paper's Consumer Packaging business is built upon four pillars: Foodservice, North American Coated Paperboard, EMEA Coated Paperboard and the Sun Paper joint venture in China.



Printing Papers

International Paper produces some of the best-known and highest quality paper brands in the world, as well as numerous private labels. International Paper's Printing Papers businesses offer nearly every form of uncoated paper used in home offices and businesses, as well as envelopes, file folders, and tags. The Printing Papers business spans North America, Latin America, Europe, Russia and India. Within this business, International Paper also produces fluff and market pulp for a variety of uses around the globe, including diapers and personal hygiene products.

Distribution

International Paper's xpedx business is a leading business-to-business distributor of packaging, print and facility supplies, and equipment in North America. Customers include commercial printers and publishers, manufacturers, retailers, facility leaders, other distributors and government agencies.

Ilim Joint Venture

International Paper and Ilim Holding S.A. (Ilim) is a 50:50 joint venture that operates pulp and paper business located in Russia. Ilim's facilities include three paper mills located in Bratsk, Ust-Ilimsk, and Koryazhma, Russia, with combined total pulp and paper capacity of over 2.6 million tons.



Q & A WITH VICE PRESIDENT OF ENVIRONMENT, HEALTH, SAFETY AND SUSTAINABILITY, DAVID KISER AND VICE PRESIDENT OF SUSTAINABILITY, TERI SHANAHAN

In 2012, International Paper announced 12 sustainability goals for 2020 ranging from emissions reduction to fiber certification to philanthropy. What prompted these public goals?

DK: International Paper's reputation is built on what people would describe as sustainability. We have always been a good steward of natural resources like forests and water. While continuous improvement around environmental, labor and community commitments has been a constant, external visibility to our work has been inconsistent.

In 2012, we decided to set our first public sustainability goals for two reasons. First, we weren't telling our sustainability story - and others were stepping in to define our industry for us. Second, we wanted to put a public stake in the ground on our commitment to continuous sustainability improvement.

What sustainability achievements were you most proud of in 2012?

DK: Setting our first voluntary public sustainability goals was an important accomplishment for International Paper. Bringing together a wide range of views and expertise from a diverse set of internal stakeholders - employees, senior leaders, customers, environmental nongovernmental organizations (ENGOs) and others - was key to the process. One year later, we have a common set of priorities that embrace our legacy accomplishments and define our sustainability vision going forward.

TS: IP has been continuously improving the sustainability of our forest management systems and wood procurement practices for over 100 years. When people use our products, they are part of sustaining millions of acres of forests. Recently, we have engaged in helping people understand sustainable forestry, creating awareness of the many environmental benefits that come from using forest-based products. At the same time, IP is gaining from rich and diverse stakeholder perspectives. Every person on the Earth has a vested interest in sustaining the world's forests for now and for future generations, and we live that every day.

One year later, we have a common set of priorities that embrace our legacy accomplishments and define our sustainability vision going forward.”

David M. Kiser, Vice President, Environment, Health, Safety and Sustainability

How does your sustainability agenda support International Paper’s business goals and customer needs?

TS: Many customers think proactively about sustainability. They want our advice about reducing their supply chain’s environmental and social footprint. And they want reassurance that buying our products will maintain and enhance their reputation with their customers. So being able to demonstrate our progress and our plans for continued improvement are considered essential from our customers’ perspective.

What obstacles do you face in achieving your 2020 goals? Which may be most difficult to reach?

TS: We are reasonably confident in the success of some goal areas, like the reduction of greenhouse gas emissions, where we are realizing meaningful progress. However, with some goals we have made commitments, such as our supply chain focus relating to our 100,000 global suppliers, without knowing how we will achieve results. While we don’t have all the answers, our newly appointed sustainability Goal Champions will be key to developing innovative solutions. We do believe we can get there.

Demonstrating our progress and our plans for continued improvement are considered essential from our customers’ perspective.”

Teri L. Shanahan, Vice President, Sustainability

What is your message to International Paper’s global stakeholders about your long-term commitment to a sustainable forest products industry?

DK: Managed responsibly, the forests products industry is sustainable. As the world’s largest paper and packaging company, International Paper is committed to extending and improving its corporate sustainability practices around the world. There will be challenges, especially in developing countries, but I am more confident than ever about the path we are on.



SUSTAINABILITY AT INTERNATIONAL PAPER

International Paper is dedicated to making people's lives better, today and for generations to come, by using renewable resources to make products people depend on every day.

We place the highest priority on employee health and safety, and we promote safety and responsibility in every phase of our supply chain. These core values are embodied in our sustainability goals, which aim to reduce our environmental impacts and influence positive social change. The IP Way – our company philosophy – focuses on delivering results to customers, shareowners and our global community. We believe this is critical to achieve our vision to be one of the most respected and successful companies in the world.

For more than 100 years, good citizenship has been our hallmark at International Paper. We have made strong environmental, safety and community commitments that govern our operations, building a strong reputation for integrity along the way. Today, sustainability policies and management are embedded across our global operations.

In 2012, we announced our first public sustainability goals, committing ourselves to continuous improvement across our company. We also placed new emphasis on expanding strategic initiatives with organizations that share our vision for a sustainable future.

As the largest paper and packaging company in the world, we have a strong interest in sustainable forestry. We buy millions of tons of wood each year from landowners on five continents. Ensuring that there are healthy, abundant forests from which to source our materials is critical to our future, so we closely monitor worldwide trends and encourage our suppliers to practice sustainable forestry. Read more about our efforts on page 36.

SUSTAINABLE FORESTRY

Most people realize that forests are critical for life on Earth, but the enormous benefits of sustainable forestry are not common knowledge. The average person's understanding of forestry is described in the United Nation's Food and Agriculture Organization (UN FAO) 2012 State of the Forests report:

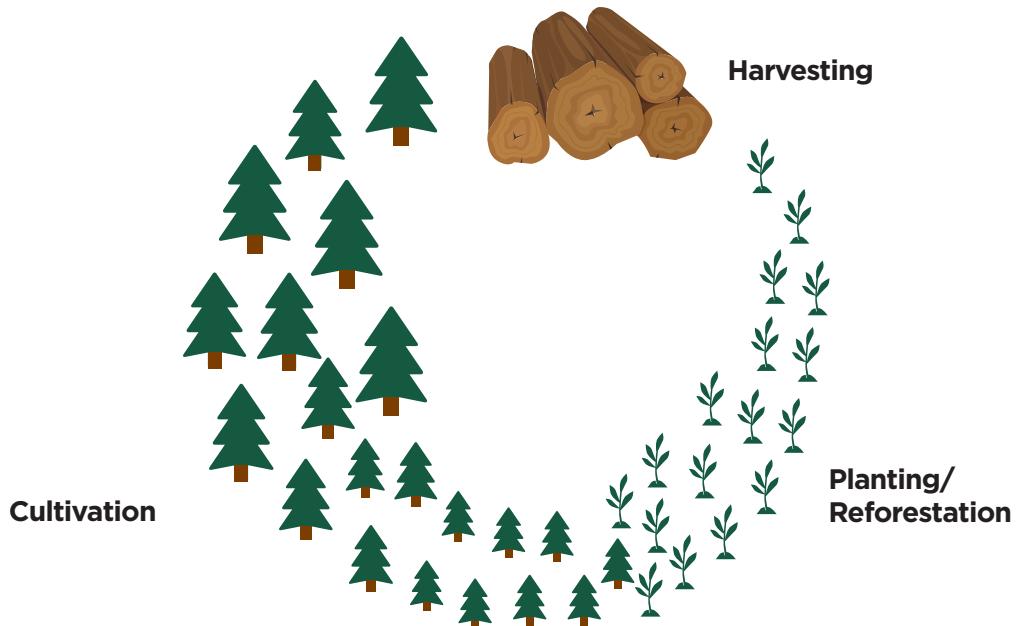
"Forestry is 'sandwiched' between two extreme and conflicting views: on one side are the superficial, mainly urban, perceptions of the felling of a tree or the hunting of forest wildlife as environmental offences; and on the other side are the poor practices and negative impacts on forests that generally come from outside forestry. **A significant challenge for the forestry profession is to communicate and demonstrate the simple idea that one of the best ways of saving a forest is to use it."**

What does "Sustainable Forestry" mean?

According to the UN FAO, "When sustainable forest management is practiced, the values of the natural forest can largely be maintained." This means that managed forests can continuously provide habitat, protect biodiversity and maintain clean water and economic and social benefits in a never-ending cycle.

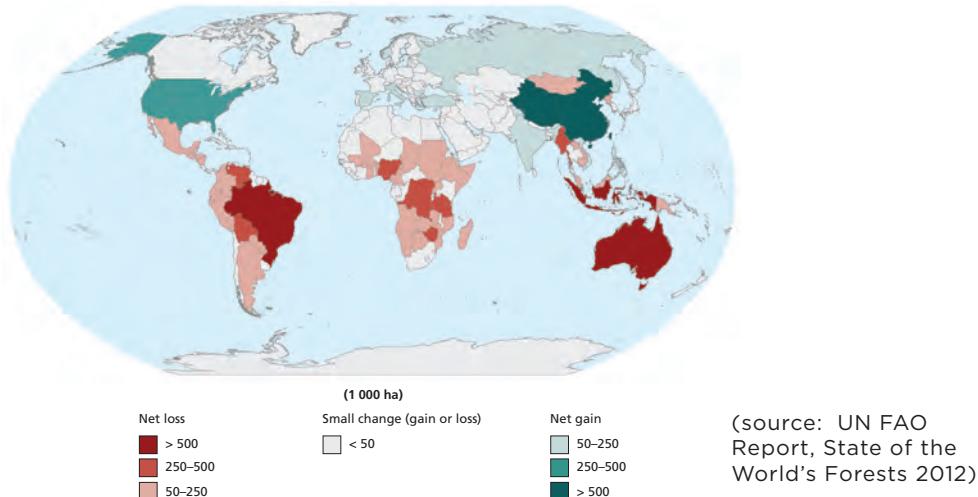
From a commercial perspective, growing forests is a long-term effort; the cycle is as short as four to seven years for eucalyptus plantations in tropical climates, about 35 years in temperate zones such as loblolly pine in the southeastern United States, and more than 100 years in colder zones such as spruce and fir species in Russia. As long as growing, harvesting and using wood fiber is economically viable, the cycle – no matter how long – can be infinitely repeated.

LIFE CYCLE OF A WORKING FOREST



While deforestation continues to occur – largely due to the conversion of land for agriculture – the FAO reports that the trend has been slowing. Most temperate zone forests (where advanced economies and healthy forest products industries exist) have stabilized and some countries, such as the United States, have even reported net gains in forest cover since 2005 (see map on page 18).

UN FAO Annual Change in Forest Area by Country, 2005 - 2010



STRATEGIC INITIATIVES FOR SUSTAINABILITY

We are aware that we cannot accomplish everything we need to on our own. We already collaborate with a number of organizations that share our vision for a sustainable future.

This collaboration will help us identify where we can most effectively advance our conservation and sustainability goals while building valuable relationships with leading companies, non-profit organizations, research institutions, trade associations and universities around the world.

In 2012, we worked to create new and extend existing relationships with globally recognized entities including:



- Corporate Eco Forum (CEF):** CEF is an invitation-only network of Global 500 executives driving innovation and forging “next practice” in corporate sustainability. Read more at www.corporateecoforum.com.



- Mercer/ORC Occupational Safety and Health Group:** Mercer/ORC’s Occupational Safety and Health Group is a unique, ongoing network of key health and safety leaders from major multi national corporations in a variety of industries. International Paper’s membership provides us with benchmarking and research to help us provide safe and healthy working conditions for our employees and contractors. Read more at www.orc-dc.com/node/810.



- The Dogwood Alliance:** The Dogwood Alliance is a non-profit organization that works with companies and consumers to change the way southern U.S. forests are managed. Our collaboration aims to help International Paper further our sustainable sourcing, Forest Stewardship Certification and conservation objectives. Read more at www.dogwoodalliance.org.



- The National Fish and Wildlife Foundation (NFWF):** NFWF is one of the largest U.S. non profit funders of wildlife conservation, and our Chairman, John V. Faraci, serves on its board. We are working with the foundation through a five-year, \$7.5 million program to fund restoration and habitat conservation in the coastal areas of North and South Carolina, the Cumberland Plateau in Kentucky, Tennessee, Alabama, Georgia and the Piney Woods of Texas and Louisiana. Read more at www.nfwf.org.



- The Nature Conservancy (TNC):** TNC is a conservation organization that works to protect ecologically important lands and waters. David Kiser, International Paper’s Vice President of Environment, Health, Safety and Sustainability, serves on the Tennessee board. Read more at www.nature.org.



• **The World Business Council for Sustainable Development (WBCSD):**

The WBCSD is a CEO-led organization of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society and the environment. International Paper has joined the WBCSD and the organization's Forest Solutions Group, which provides business leadership in expanding sustainable forest-based solutions. Read more at www.wbcsd.org.

• **World Environment Center (WEC):** WEC is a global non-profit, non-advocacy organization that advances sustainable development through

the business practices of member companies and in collaboration with governments, multi lateral organizations, non-governmental organizations and other stakeholders. Read more at www.wec.org.

• **World Wildlife Fund (WWF):** WWF is a global conservation organization.

International Paper has joined WWF's Global Forest and Trade Network (GFTN), which is focused on eliminating illegal logging and driving improvements in environmentally and socially responsible forest management. Read more at www.gftn.panda.org.

BUSINESS INITIATIVES

International Paper's corporate sustainability initiatives are important to helping us meet our goals. So are the initiatives developed by our individual businesses. For example, in 2012 our U.S. distribution business, xpedx, engaged the Environmental Defense Fund (EDF) to help create its sustainability supplier scorecard by joining xpedx's scorecard development panel.

Our Printing Papers business also expanded its membership in Two Sides, an independent non-profit that provides members of the graphic communications supply chain with a forum to promote the responsible production and use of print and paper. Previously only a member of Two Sides' UK arm, our Printing Papers business initiated U.S. membership to improve engagement with key customers and merchants on sustainability messaging.

LONG-STANDING CONSERVATION AND RESEARCH INITIATIVES

Our latest corporate sustainability initiatives listed above will complement our ongoing collaborative efforts, which aim to improve conservation and biodiversity around the world and to support research by trade organizations and academic institutions in our effort to improve our processes and products and to achieve our sustainability objectives.

In 2012, we worked with groups around the world to champion conservation efforts that support the sustainable use of forestlands and other natural resources, including:

- China Green Foundation (China)
- Conservation International (U.S.)
- Council for Research & Experimentation in Agriculture (Italy)
- Institute for Forest Biotechnology (U.S.)
- Institute for Forest Genetics and Tree Breeding (India)
- National Council for Air and Stream Improvement (U.S.)
- North Carolina State University (U.S.)
- Polish Forest Research Institute (Poland)
- U.S. State Forestry Associations
- St. Petersburg State Forestry University (Russia)
- SweTree Technologies (Sweden)
- University of Minnesota (U.S.)
- Von Thuringen Institute (Germany)

CONSERVATION AND RESEARCH GLOBAL HIGHLIGHTS

Brazil

International Paper manages nearly 132,000 hectares of Brazilian forestland, with 75 percent comprising eucalyptus plantations. One-quarter of these plantations are areas designated for nature conservation and have been converted to or retained in native vegetation. Fifteen years' worth of biodiversity surveys on International



Paper owned land in Brazil have identified over 400 species of animals and 350 different native tree species. Our forest management in Brazil is certified to a range of standards, including ISO 9001, ISO 14001, OHSAS 18001, the Program for the Endorsement of Forest Certification and the Forest Stewardship Council™. We collaborate on research and development with a range of universities and scientific institutions that aim to continuously improve forest productivity and ecological conservation on our plantations.

China

In 2012, International Paper Asia supported reforestation in the Jinshanling area near Beijing in collaboration with the NGO China Green Foundation. Our donation supported the planting of 10,000 additional seedlings in the International Paper Forest, which will help mitigate the impacts of sandstorms prevalent in the region. This is the third consecutive year we have supported the project.

United States

Investing in forest health and productivity makes sense for our business and for the planet. Our work with ArborGen is focused on unlocking the value of a uniquely vital resource – the purpose grown tree. Through innovations in both conventional breeding and biotechnology, ArborGen is developing high-value seedling products that dramatically improve the productivity of land. For more information, please visit www.arborgen.com.

In coordination with North Carolina State University's Forest Productivity Cooperative, we are studying techniques to improve forest productivity and sustainable practices in order to meet increasing demand for wood in the southern United States. We are also working with the university's Cold Hardy Eucalyptus Cooperative to identify and research genetic improvements in this species.

INTERNATIONAL PAPER BACKS RESEARCH TO HELP LANDOWNERS CREATE SPECIES-RICH FORESTS

International Paper is a member of the National Council for Air and Stream Improvement (NCASI), a non-profit research institute that focuses on forest-related environmental topics. In the United States, we support numerous NCASI research projects on biodiversity. For example, in 2012 through NCASI we supported developing a peer-reviewed publication summarizing birds' responses to early successional habitat provided by intensive forest management. This publication was a capstone covering ten years of efforts to study bird response to different intensities of stand regeneration practices in southern pine plantations. Mississippi State University professors and students contributed to the work.

Many animal species, such as rabbits, quail, wild turkey, deer, moose, elk and black bear require early successional habitat, created by tree harvesting and characterized by grass, herb and shrub growth. International Paper suppliers, many of which are small, private landowners, can provide this habitat and support biodiversity while producing wood and fiber for paper and packaging products.

Information from the NCASI research will help private landowners manage their forests after harvest to create suitable habitat for plants and animals of high-conservation value.

CUSTOMER INITIATIVES

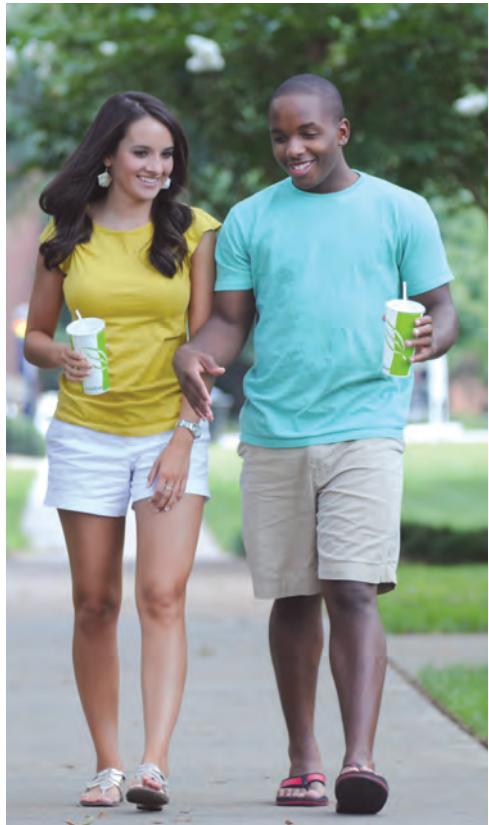
Our customers are a catalyst for a significant amount of sustainability innovation that goes into our products. They are placing more importance on sustainability issues when choosing a paper, pulp or packaging supplier, and asking for information on the sustainability performance of our products and operations.

To surpass our customers' expectations, we are finding new ways to incorporate innovative technology into our product design. For example, our ClimaSeries® boxes offer the same or better protection than traditional waxed packaging, and their recyclability makes them better for the environment.



• SUPPORTING ZERO-WASTE COMMUNITIES

- A number of cities, communities and corporate and college campuses around the United States are challenging themselves to become zero-waste communities. For example, in San Francisco and Seattle, local governments have bold initiatives on recycling and composting, and in some cases local governments have mandated initiatives to improve their waste performance.
- Packaging is a key challenge for these communities in achieving their zero-waste ambitions, particularly where recycling infrastructure is lacking. International Paper is working with customers – from “mom and pop” stores to large businesses and stadiums – to help provide solutions.
- Our paper-based ecotainer® packaging product is one such solution. The fully compostable packaging means that, when disposed of correctly, no waste is sent to a landfill. In many cases, the product line can also be recycled in an organization’s existing paper-recycling program.
- Where our customers are communities in themselves, such as large corporate or college campuses, our ecotainer® packaging products are a fast track to zero waste. We work closely with these groups to help them establish the right programs – and products – to eliminate waste.



ENVIRONMENTAL, HEALTH, SAFETY AND SUSTAINABILITY MANAGEMENT

International Paper is committed to excellence in environmental, health, safety and sustainability (EHS&S) practices and performance, and we continually work to better manage natural resources. Health and safety are fundamental values, and we strive to design, operate and maintain accident- and- injury-free workplaces for our employees, contractors and visitors around the globe.

Sustainable practices underpin our business, and we endeavor to minimize environmental, health and safety impacts during the design, manufacture, distribution, use and end-of-life phases of our many products. This effort includes a commitment to responsibly manage our forests, facilities and related businesses.

International Paper seeks to do business with customers, suppliers, vendors, contractors, joint-venture partners and other business associates who share our high standards of ethical business behavior, and we champion the innovative and ethical management of natural resources. We work with suppliers of responsibly grown fiber and routinely certify our fiber supply chain to widely recognized standards. Our commitment extends beyond forests to include manufacturing and supply chain excellence.

To fulfill these commitments globally, we hold our leaders responsible for engaging employees in complying with applicable laws and regulations, implementing our global EHS&S management system and performance standards and transparently reporting our EHS&S metrics and progress against our commitments.

During 2012 we did not pay any significant fines for environmental non-compliance. However, we do expect to pay significant fines in 2013 arising from an August 2011 wastewater discharge exceedance at the Bogalusa, Louisiana, paper mill that resulted in a significant fish kill in the Pearl River. At the time of the incident, the mill was owned by Temple-Inland. When International Paper acquired Temple-Inland in February 2012, we were aware of the matter and have worked closely with the Louisiana Department of Environmental Quality (LDEQ) in developing and implementing corrective measures at the mill. Under International Paper ownership, the Bogalusa mill has made significant progress in reducing its environmental footprint, and a comprehensive multi million-dollar improvement to the mill's wastewater treatment system is underway. The mill has reduced its boiler ash loading to the wastewater system by 85 percent, and the LDEQ has approved the mill's plan to develop a beneficial land reuse area that will receive the mill's waste residuals, including wood ash. This will reduce by almost 90 percent the volume of mill solid waste sent to off-site commercial landfills.

Global standards

All our mills in Brazil, Russia, Poland and France, as well as our U.S. fiber supply system, are certified to either ISO 14000 and/or 18000 standards. Many of our non-U.S. converters are also certified to ISO 9000 and ISO 14000.





SUSTAINABILITY MANAGEMENT

Public Policy and Environment Committee

This committee of the Board of Directors has oversight responsibility for sustainability at International Paper. It reviews and gives management input on issues related to public policy, legal, health and safety, technology, the environment and sustainability. The Board's Governance Committee also has oversight of certain public policy and sustainability matters.

Senior Lead Team

Within our EHS&S management system, sustainability is a key focus for International Paper's senior leadership team. In 2012, the appointment of a dedicated sustainability officer, and the addition of sustainability to our Chairman's list of priorities, underlined the importance we place on the issue.

Within our senior leadership team, separate councils oversee key sustainability-related issues. Designated staff at the corporate, business unit and facility levels help identify, prioritize and manage sustainability-related risks and opportunities. Business leaders are responsible for planning and managing business-specific sustainability issues.

Environment, Health, Safety and Sustainability Council

The Environment, Health, Safety and Sustainability Council is a cross-functional group of officers and other senior leaders that helps to:

- Establish short and long-term goals
- Select metrics and monitor performance
- Ensure that sustainability efforts across the company are consistent with International Paper strategies and goals
- Approve policies, performance standards and guidelines

Sustainability Steering Team (SST)

The SST is comprised of cross-functional members from each of our business units and includes representatives from marketing and communications, sales and operations, among other staff functions. Meeting monthly, the SST collaborates to drive sustainability initiatives throughout the company, share best practices between business units and provide insight to the Environment, Health, Safety and Sustainability Council on our corporate sustainability strategy.

Stakeholder engagement

International Paper engages with internal and external stakeholders to both educate and learn from them about key sustainability topics. We use their feedback to inform our sustainability strategy and reporting.

Examples of International Paper's 2012 Stakeholder Engagement		
Stakeholder group	Engagement type	International Paper's efforts
Customers	Sales relationships, regular visits, strategic meetings, customer service surveys, special events, online communications including www.internationalpaper.com and websites for company initiatives	Most of our businesses have established sustainability initiatives with key customers. The teams collaborate to support each other on common objectives and activities in the area of sustainability.
Employees	Diversity and functional forums, employee training, intranet sites, newsletters, presentations, sustainability champions engagement survey, International Paper Leadership Institute	International Paper includes sustainability training as part of our regular sales team training.
Governments and regulators	Education, discussions on trends and positioning, legislative and regulatory advocacy, participation in government associations and committees, plant tours	International Paper educates policymakers about our commitment to promote sustainable forestry, third-party certification, responsible natural resource management, efficient use of renewable biomass and our industry's recycling success story.
Investors	Analyst meetings, financial reports, www.internationalpaper.com , face-to-face meetings with institutional ranking organizations, press releases, webcasts and presentations	Continued to highlight International Paper's sustainability initiatives such as our various energy projects around the globe that are driving lower fossil fuel usage and our domestic recycling business.
Local communities	Economic and charitable partnerships, employee-led fundraising, plant tours, Community Advisory Councils, media, leadership in community organizations, volunteerism	Many of International Paper's mill locations have a Community Advisory Council that addresses critical issues. For example, at our Georgetown, South Carolina mill, we supported education through grants, donations, participating in career fairs and papermaking demonstrations as well as providing <i>National Geographic Kids Magazine</i> subscriptions to schools in the local area.
Non-governmental organizations (NGOs)	Corporate communications, www.internationalpaper.com , face-to-face meetings	International Paper has been actively engaged with a number of global non governmental organizations in 2012, formulating a number of new partnerships.
Suppliers	Supplier relationships, on-site visits, strategic meetings, request for information and scorecards for key suppliers	In 2012, we incorporated elements of sustainability into our strategic sourcing process and created messaging and talking points on sustainability for suppliers.



CASE STUDY: ENGAGING STAKEHOLDERS ON SUSTAINABLE FORESTRY AT BRAZIL PAPER MILLS

In 2012, International Paper Brazil held three stakeholder engagement events at our Luiz Antônio, Mogi Guaçu and Três Lagoas mills to educate community members, government officials and other stakeholders about our sustainable forestry practices. Attendees met with the mills' leaders and provided feedback on our reporting, environmental and community initiatives. One participant, a local government official, commented: "The session was very informative. International Paper's efforts around enhanced stewardship is a win for the environment."

Materiality

In 2012, International Paper conducted an assessment to help us better understand which sustainability issues are most material to our business. The assessment sought input from key external and internal stakeholders. Internal stakeholders included business leaders, supply chain and logistics staff, corporate attorneys and environmental, health, safety and sustainability professionals. This feedback highlighted certain issues as more significant to the environmental, social and financial impacts of our business, including:

- Business ethics
- Employee safety
- Energy
- Fiber sourcing, use and disposal
- Financial performance
- Natural resources

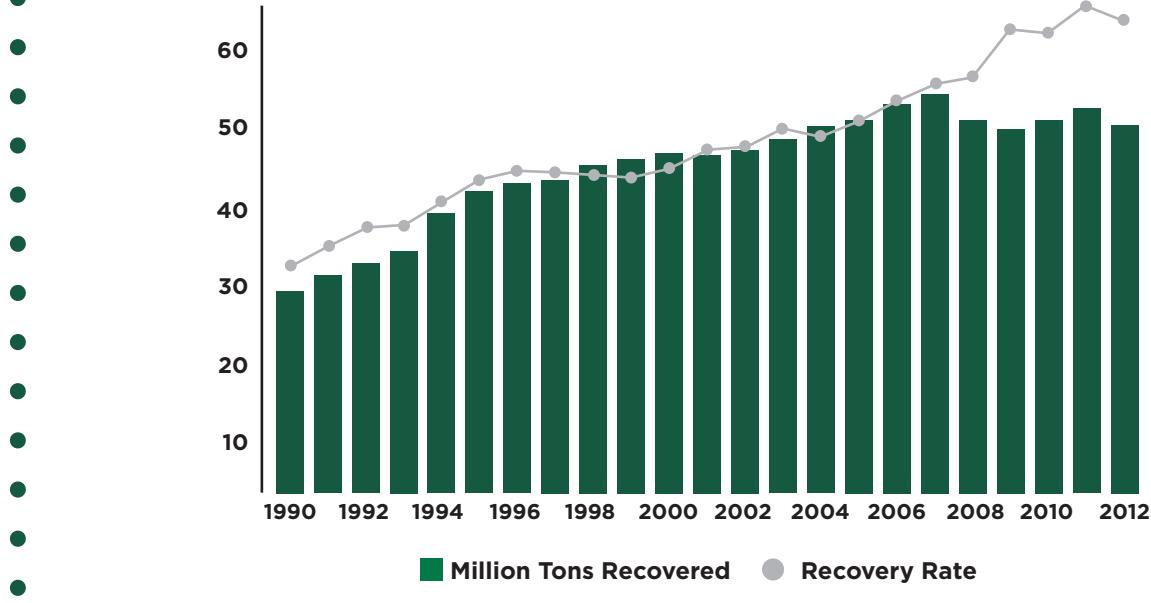
We believe these findings are consistent with the way that we have approached sustainability within our business to date, and we have reflected this materiality in developing this report. Our goal is to publish a more comprehensive materiality analysis in future reports.



INDUSTRY GOAL-SETTING SHOWS RESULTS

- The paper and packaging industry is demonstrating just how effective goal setting for sustainable practices can be. In 2012, the American Forest & Paper Association (AF&PA) provided the first update on its Better Practices, Better Planet 2020 goals.
- Progress has been strong, with 65.1 percent of all the paper consumed in the United States recovered. The AF&PA also reported a reduction of greenhouse gas emissions intensity by 10.5 percent among member companies since 2005, among other achievements.
- “Thanks to the efforts of our members, we have made substantial progress toward achieving our goals and have significantly raised the bar for defining sustainable manufacturing,” said AF&PA President and CEO Donna Harman.
- Read more at www.afandpa.org/sustainability.

Paper and Paperboard Recovery





Mogi Guaçu mill, Brazil

ENERGY AND EMISSIONS

ENERGY EFFICIENCY



2020 GOAL

15 percent improvement of energy efficiency in purchased energy use.

PROGRESS AGAINST GOAL
2 percent improvement.

CHALLENGES TO MEETING GOAL
As we continue to make improvements, and become more energy and GHG efficient, it will become increasingly difficult to generate reductions in energy and emissions.

GHG EMISSIONS



2020 GOAL

A 20 percent absolute reduction in fossil fuel GHG emissions from on-site combustion and purchased electricity and steam (Scope 1 and 2 emissions).

PROGRESS AGAINST GOAL
10 percent reduction.

CHALLENGES TO MEETING GOAL
As we continue to make improvements, and become more energy and GHG efficient, it will become increasingly difficult to generate reductions in energy and emissions.

AIR EMISSIONS



2020 GOAL

10 percent reduction in combined total emissions (SO_2 , NO_x , PM) from purchased fuels.

PROGRESS AGAINST GOAL
15 percent reduction; evaluating sustainable prospects for further reductions.

CHALLENGES TO MEETING GOAL
We achieved significant reductions in emissions this year due to energy savings projects and adjustments in our fuel mix. Economic factors may make this fuel mix hard to sustain going forward.

International Paper's manufacturing processes generate and consume large amounts of energy, resulting in atmospheric emissions, including greenhouse gases (GHGs). Improvements in energy efficiency reduce the amount of energy we consume to create our products, resulting in less resource consumption and fewer emissions. Therefore our strategy for reducing air emissions is connected to our management of energy, and we have set voluntary goals for each of these areas.

Approximately 70 percent of the energy required for International Paper's global mill system is met through the use of renewable carbon neutral biomass. Opportunity exists to further reduce the purchased fuels and particularly the fossil-based fuels and purchased steam and electricity portion of our consumption. Our converting operations, distribution business and non manufacturing operations also have an impact, but these entities comprise less than 1 percent of our total energy use.

STRATEGY

We have achieved significant company-wide reductions in energy use and GHG emissions over the past decade. We continue to evaluate and select improvement projects from across our global operations. In 2012, we approved 66 energy efficiency projects, which we expect will result in 3.3 billion cubic feet of natural gas reduction in fossil fuel use and a GHG emissions reduction of 270,000 metric tons each year. Energy efficiency considerations prompt us to make decisions regarding our fuel mix. Our 10 percent reduction in GHG emissions was achieved in part by reducing our energy requirements and thereby burning less coal and oil.

New acquisitions present additional opportunities for improvement. We are aggressively surveying our newly acquired facilities from Temple-Inland in order to apply energy efficiency best practices.

“ Improving energy efficiency and reducing emissions go hand-in-hand. Our commitment to invest in new projects allows us to improve our business while delivering continuing emissions reductions. Just one example is our recent installation of a new biomass boiler at our Mogi Guaçu plant in Brazil, which is expected to decrease our global fossil fuel GHG emissions by 200,000 tons per year.”

Kirt J. Cuevas, Vice President, Manufacturing Printing and Communications Papers and Energy, GHG and Air Emissions Goal Champion





International Paper is an exemplary leader in sustainable business practices. Their work on energy efficiency and greenhouse gas reductions sets them apart as a leader among industry peers and in the broader manufacturing community.”

Donna Harman, AF&PA President and CEO

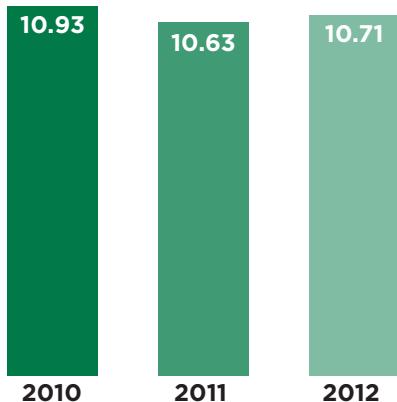


PERFORMANCE

In 2012 energy efficiency in our mills improved 2 percent compared to our 2010 baseline. We saw a year-over-year increase in efficiency between 2011 and 2012 due to increased self generation of electricity at some specific sites. One-fifth of our mills set new record lows for purchased energy consumption during 2012.

The reductions we achieved are in part due to adjustments in our fuel makeup. We have switched from fuel oil and coal to cleaner-burning natural gas at several U.S. mills where it has made economic sense. For example, our mills in Augusta, Georgia; Franklin, Virginia; Pensacola, Florida; Riegelwood, North Carolina; and Savannah, Georgia, reduced the amount of coal and fuel oil they burned. Our prior investments in energy efficiency positioned us to make these moves. At our Ticonderoga mill in New York - which currently burns fuel oil as a secondary source to wood residuals - we are developing plans to extend a natural gas pipeline to the facility.

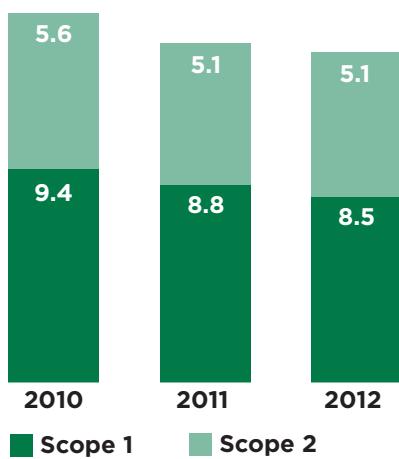
ENERGY EFFICIENCY* (million BTUs per metric short ton of production)



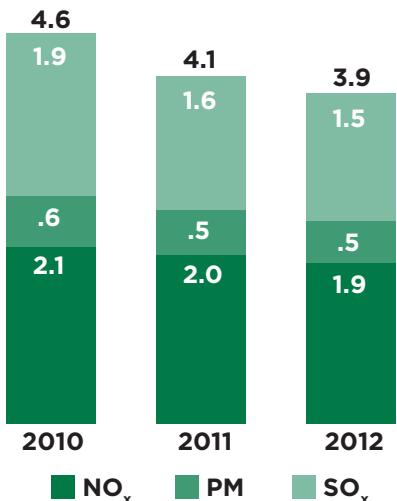
We invested \$53 million in various capital projects during 2012 to improve overall energy efficiency at our facilities and to reduce associated emissions.

*Includes IP-Sun Joint Venture

ABSOLUTE GREENHOUSE GASES*
(million tons of CO₂e)



TOTAL NO_x, PM and SO₂ EMISSIONS*
(metric tons per 1,000 metric tons
of production)



*Includes IP-Sun Joint Venture

Scope 1 (Direct) – emissions from sources that are owned or controlled by our company. Scope 2 (Indirect) – emissions that are a consequence of our manufacturing and converting activities, but occur at sources owned/controlled by another entity (purchased electricity, steam)

INTERNATIONAL PAPER JOINS DEPARTMENT OF ENERGY BETTER PLANTS CHALLENGE

In 2012, International Paper joined the U.S. Department of Energy (DOE) Better Plants program.

As a voluntary program partner, we committed to a goal of achieving at least a 15 percent reduction in energy intensity from a 2009 baseline, over 10 years, across our U.S. facilities.

We are proud to join more than 100 other companies working with the DOE to implement cost-effective energy efficiency improvements that are good for business, the economy and the environment.

As a Better Plants program partner, we have pledged to establish an energy use and energy intensity baseline, develop an energy management plan, and designate an energy leader within 12 months. We must also take concrete steps to reduce energy intensity and carbon emissions at our facilities and annually report energy data and progress against the 15 percent goal to the DOE.



2012 HIGHLIGHTS

- International Paper was one of 20 organizations, and the only forest products company, to win the Environmental Protection Agency's inaugural Climate Leadership Award in 2012. We were recognized for our leadership in achieving voluntary fossil fuel GHG reductions of more than 40 percent from 2000 to 2010.
- Our energy efficiency and GHG reduction efforts received the American Forest & Paper Association's (AF&PA) "Leaders in Sustainability" award. We were one of only five companies to be recognized at its inaugural Better Practices, Better Planet 2020 Sustainability Awards program.
- The biomass boiler at our Mogi Guaçu plant in Brazil, a \$90 million dollar investment, went through numerous rounds of testing in 2012 and became fully operational at the end of the year. We expect it will decrease our global fossil fuel GHG emissions by 200,000 tons per year.
- The combined heat and power (CHP) facility at Svetogorsk, Russia, became fully operational at the end of the 2012. We expect the unit to generate more than 180,000 MWh of electricity annually at efficiencies significantly higher than stand-alone power generation, displacing grid electricity.
- In response to increased demand for biomass energy in Poland, we are working with the University of Minnesota's Hybrid Poplar Research Cooperative, the Von Thüringen Institute in Germany and other research organizations to develop the energy potential of hybrid poplar and aspen varieties. We are leasing marginal land from Polish landowners to develop a steady supply of woody biomass fuel to reduce the use of coal at our Kwidzyn mill.
- In Russia, we are evaluating the possibility of using short rotation plantations near our Svetogorsk mill to replace a portion of the wood sourced from distant forests, thus reducing energy needed to transport raw materials to the mill.



**CLIMATE
LEADERSHIP
AWARDS**

2012 Excellence in GHG Management
(Goal Achievement) Award Winner

Energy and Emissions Reporting and Engagement

We track our global GHG emissions and report them annually through our participation in the Carbon Disclosure Project (CDP), the European Union Emissions Trading Scheme, U.S. EPA's Mandatory Greenhouse Gas Reporting Rule, and various state, regional and national reporting programs.

We participate in the debate on climate change policy at regional, national and international levels, and advocate a clearer regulatory framework. In 2012, we engaged with the World Business Council for Sustainable Development, the American Forestry and Paper Association, and National Council for Air and Stream Improvement on energy issues such as the carbon neutrality of biomass.





ENERGY USE AND EMISSIONS FROM OUR XPEDX BUSINESS

xpedx, an International Paper business, is a leading U.S. distributor of packaging, facility and printing supplies and equipment. When xpedx distributes our products, we have direct control over our impacts from distribution, since we are using our own drivers and trucks. In 2012, xpedx maintained certification as a partner in the U.S. Environmental Protection Agency's SmartWay® program for logistics companies and continued to use the SmartWay® Fleet Logistics Energy and Environmental Tracking (FLEET) performance system to track fuel consumption. The business is also a U.S. Energy Star partner.



In 2012, xpedx reduced total annual empty miles run by 20 percent or 1.7 million miles and improved capacity utilization by 2 percent through route optimization, advanced warehouse management solutions and onboard computer systems.

Working with Clean Energy and Ryder, xpedx is testing a new 13-liter engine that can run on compressed or liquid natural gas for selected routes from our Downey, California, facility. We are optimistic that the 13-liter engine will meet xpedx load requirements, thereby reducing our carbon footprint. We expect the engine to become available in mid-2013.

xpedx facilities

In 2012, xpedx surpassed its goal as an ENERGY STAR partner through the certification of 10 new warehouses and renewed ENERGY STAR qualification for 10 facilities certified in 2011. These 20 facilities – which cover more than 4 million square feet - use less energy, are less expensive to operate, meet strict energy performance standards and cause fewer GHG emissions than their peers.

xpedx experts also provide advice to help customers reduce impacts at their own facilities and meet green building standards, such as LEED® and the ISSA Cleaning Industry Management Standard.



xpedx's facility in Nashville, Tennessee, earned a two Green Globes® rating from the Green Building Initiative (GBI) for its sustainable commercial construction practices in 2012.



Franklin Mill, Virginia

WATER

WATER USE



2020 GOAL

Map water usage through our manufacturing locations by the end of 2013; develop site-specific plans by 2015 in strategic watershed areas to reduce footprint by 2020.

PROGRESS AGAINST GOAL

We have formed an international team and involved key internal and external resources to begin mapping our water use and the water stresses that exist in the regions where we operate.

CHALLENGES TO MEETING GOAL

Regional water issues are complex and require considerable evaluation in order to understand where our strategic investments to reduce water use can deliver the greatest positive impact to both the environment and our business.

WATER QUALITY



2020 GOAL

15 percent reduction in mill wastewater discharges of oxygen depleting substances (BOD & COD) to release environments.

PROGRESS AGAINST GOAL

We have achieved a 27 percent reduction in oxygen depleting substances to release environments and are working to establish a new target.

CHALLENGES TO MEETING GOAL

Wastewater treatment operations at integrated paper mills face unique challenges associated with the scale of our operations and individual facility constraints.

Water is essential to International Paper's manufacturing and operating facilities around the world, but we recognize that its value goes far beyond its use in papermaking. Reducing our water footprint, especially in strategic watershed areas, is important for International Paper and our sustainability agenda. We have therefore set goals to map our water use and evaluate opportunities to align our water use with local supplies, and to further improve the quality of the water we return to local release environments.

WATER USE

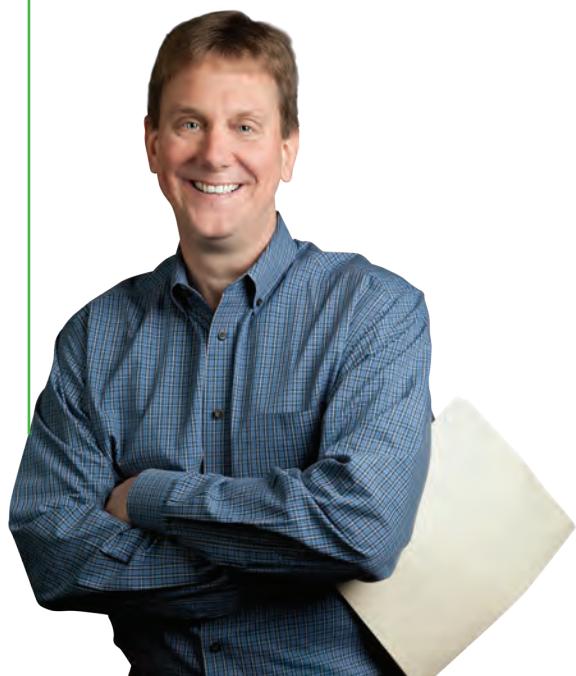
Most of the water we use in our operations – more than 90 percent – is returned to the environment after appropriate treatment, and much of the balance enters the atmosphere through evaporation. We will focus our efforts to reduce the water our plants and mills use, starting with regions of the world where pressure on water supplies is particularly acute. As a first step, in 2012 we began comprehensively mapping current water use and future water needs at all our manufacturing sites. We will consider our data in light of regional water stress indicators and select priority facilities to explore further water use reduction opportunities. Given the complex nature of regional water issues, it is challenging for us to identify projects and opportunities that will maximize the impact of our investments on our business, communities, and the environment. While water-scarce areas are likely to present these opportunities, we remain committed to using water wisely throughout our global manufacturing operations.

Performance

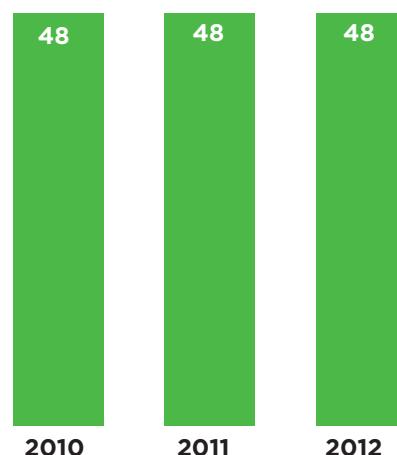
In 2012, the total volumes of influent and effluent per metric ton of production at our manufacturing sites did not change. This marks the third consecutive year that our rates have remained steady. As we move forward in setting targets and identifying opportunities, we expect to see more progress relative to our 2010 baseline.

“We are committed to using our water wisely, tracking our water use across our global operations and, developing plans for reducing our footprint, focusing first on strategic areas.”

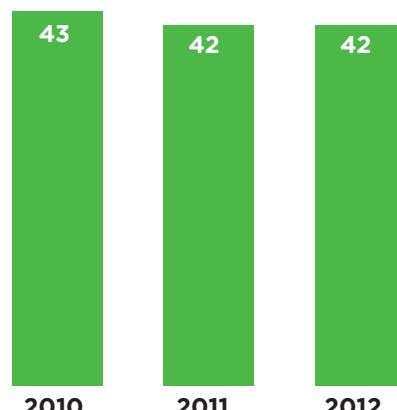
David R. Haynes, Director, Manufacturing Excellence, Repurposing and Strategic Projects and Water Use Goal Champion



WATER USE - INFLUENT*
(cubic meters per metric ton of production)



WATER USE - EFFLUENT*
(cubic meters per metric ton of production)



*Does not include Kenitra facility

WATER QUALITY

Since we return the majority of the water we use to release environments, we have a role to play in protecting local waterways near our mills. While we have already made good progress in recent years, we committed in 2011 to achieve a further 15 percent reduction in mill wastewater discharges of oxygen depleting substances to release environments by 2020.

Wastewater treatment operations at our integrated paper mills face unique challenges associated with both the scale of our operations and individual facility constraints. This means that it is often best to focus on minimizing process material losses, which reduces the amount of oxygen depleting substances that must be treated in the first place. Our existing wastewater treatment systems operate at high levels of removal efficiency. This requires significant investment in both process controls and wastewater treatment facilities to achieve these results.

“We work hard to ensure the water used in our global paper mill system is returned to the environment as clean as it can be. Improvements in our existing treatment plants and new plants, like our recycling mill in Kenitra – the first ever commercial wastewater treatment facility in Morocco – mean sizeable reductions in the oxygen depleting nature of our treated water. Surpassing our 2020 goal is a start, with the focus on sustaining accomplishments and identifying additional opportunities.”

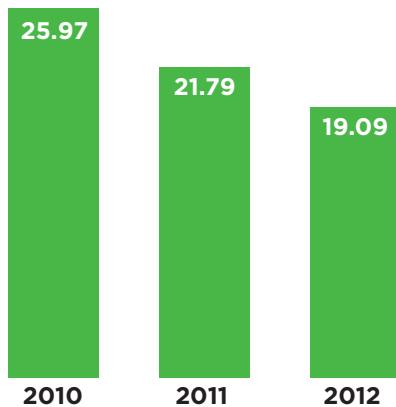
Roman B. Gallo, Vice President, Manufacturing
Containerboard West Industrial Packaging and
Goal Champion Water Quality



Performance

In 2012, we achieved a 27 percent reduction in oxygen depleting substances to release environments from our 2010 baseline. Much of this improvement can be attributed to facility efforts to minimize process material losses, improvements in reliability of both production processes and wastewater treatment operations, and implementation of targeted capital projects to improve performance.

OXYGEN DEPLETING SUBSTANCES TO RECEIVING STREAMS (BOD5, in million Kg)



“International Paper recently has made a substantial investment to improve its processes and protect and restore our area's wetlands, demonstrating a strong commitment to economic, social and environmental sustainability. They are doing the right thing for the Pensacola Bay Area.”

Jim Hizer, President and CEO, Pensacola Bay Area Chamber of Commerce

Accomplishments we were most proud of in 2012 include:

- A 64 percent reduction in the discharge of oxygen depleting substances to the Alabama River at our Riverdale mill as a result of efforts to minimize process material losses and optimize wastewater treatment system performance.
- A 55 percent reduction in the discharge of oxygen-depleting substances at our Mansfield mill due to installing aeration, increasing system capacity and raising employee awareness of process material losses.
- Third-party assessments of many of our U.S. wastewater treatment systems to help us optimize performance and improve effluent quality.
- Our wetlands project in Perdido Bay, Florida, which uses cleaned wastewater from our Pensacola mill to help rejuvenate coastal wetland areas, became fully operational in 2012.
- A new anaerobic water treatment facility for our recycle mill at Kenitra, Morocco, removes more than 85 percent of the chemical oxygen demand and provides biogas to partially offset other fuel use in the power boiler.



Dedication for the new Kenitra water treatment facility in Morocco



FIBER

FIBER CERTIFICATION



2020 GOAL

15 percent increase in the baseline 2010 percentage of third party certified fiber.

PROGRESS AGAINST GOAL

We have achieved an 18 percent increase from our 2010 baseline percentage and are in the process of establishing a new goal.

CHALLENGES TO MEETING GOAL
In the U.S., many of our suppliers are small landowners who are reluctant to pursue certification. Some see certification as an unnecessary cost or imposition on their individual rights.

FIBER EFFICIENCY



2020 GOAL

Reduce fiber loss in the manufacturing process by achieving world-class performance of less than 0.75 percent fiber loss.

PROGRESS AGAINST GOAL

We are in the process of establishing global standards for data collection on fiber loss and therefore are unable to report on our overall progress this year.

CHALLENGES TO MEETING GOAL
Given the scale of our global operations, eliminating all aspects of fiber loss to achieve our goal is a substantial challenge.

FIBER RECOVERY



2020 GOAL

15 percent increase in the recovery of Old Corrugated Containers (OCC) by exploring new sources and diverting useable fiber from landfills in the U.S.

PROGRESS AGAINST GOAL

In 2012, International Paper commissioned an organization to identify viable projects in meeting this goal.

CHALLENGES TO MEETING GOAL
Economic conditions can impact our recovery rates. We must consider environmental impacts associated with the transportation of recovered materials.

Trees are International Paper's primary raw material. Our large global demand for fiber is a key economic driver for the existence of millions of acres of forested land. In 2012, we purchased nearly 68 million tons of wood fiber in the United States, Brazil, Europe, the Middle East, Africa, Russia, China and India. In Brazil, we source our fiber primarily from company-owned land. In Russia, the fiber is sourced from government forestland either through third parties that have access to government leases or directly through International Paper's forestland leases with the Russian government. In the United States, our main source of fiber is from small, non-industrial private landowners and industrial suppliers.

We are committed to sourcing fiber from responsibly managed forests, especially through the state implementation committees of the Sustainable Forestry Initiative® (SFI®). We work with suppliers and landowners to encourage reforestation of harvested acres. We also encourage landowners to third-party certify their land to standards set by the Forest Stewardship Council, SFI® or the American Tree Farm System® to ensure that their land is managed on a sustainable basis. Our aggressive efforts working with suppliers and landowners have resulted in our exceeding our 2020 goal to increase third-party certified fiber on a global basis. Building on our success of achieving an 18 percent increase in certified fiber over the baseline percentage, we are now developing our next milestone to pursue.

International Paper will not knowingly accept fiber from illegally logged forests, forests where high conservation values are threatened by management activities or endangered forests - our participation in WWF's Global Forest and Trade Network reaffirms this commitment. To minimize fiber going to landfills, we are committed to working with our supply chain to increase fiber recovery.

“We have provided support to suppliers and landowners to encourage certification, which has increased the amount of certified fiber available for our purchase. It's a win-win situation that has resulted in our meeting our 2020 goal well ahead of schedule. We are currently recalibrating our goal in the spirit of continuous improvement.”

David A. Liebetreu, Vice President, Global Sourcing and Fiber Certification Goal Champion



FIBER CERTIFICATION

Using certified fiber in our products helps to improve forest management practices and reduces the chance that illegally harvested timber ends up in the fiber purchased for our operations. Our customers and consumers also value forest certification in helping them choose paper and packaging products from responsible sources. In the U.S., 26 percent of the fiber sourced to our mills is third party forest management certified (ATFS, FSC® or SFI®). Outside of our North American operations, approximately 58 percent of the combined fiber sourced to our mills is third-party certified. We are committed to expanding certification throughout our supply chain.

FOREST MANAGEMENT CERTIFICATION

Only around 10 percent of the world's forests are certified. Extending responsible stewardship is one of the keys to protecting global forestlands and ensuring a sustainable supply for our business. Globally, we follow a certification policy that recognizes **all** credible third-party standards. All of the forest leases we directly manage and harvest in Russia are certified according to FSC® national forest management standards, and in Brazil all the forests we own and manage are certified in accordance with the Programme for Endorsement of Forest Certification (PEFC). Approximately 90 percent of Brazilian land is also certified to FSC standards.

Strategy

Developing new sources of third-party certified fiber isn't easy. Landowners can be reluctant to take on the additional responsibility and costs associated with certifying their property. We work directly with suppliers and landowners to encourage them to make this investment, and we deploy significant resources in this effort. Professional foresters and wildlife biologists from International Paper provide technical support to suppliers and landowners to develop and document forest management plans required for certification audits.

In the U.S., more than 90 percent of our fiber supply comes from private forests that are often small and family owned.

In 2012, we helped facilitate group FSC® certification for landowners in the southeastern United States, a process by which a group of landowners certify their collective holdings under a single FSC certificate. Since many of our suppliers are small, private landowners, this is an attractive and financially viable option. We are also working directly with landowners and suppliers in the U.S. to achieve individual FSC certification. Since 2007, we added approximately 1.5 million tons of FSC-certified wood fiber to our U.S. paper and packaging manufacturing system. Our certification experts also encourage landowners to certify their land to the Sustainable Forest Initiative® and the American Tree Farm System®.

Our teams in Europe, Russia and Brazil have also made excellent progress in increasing certified fiber volume. In 2012, our Saillat mill wood-procurement organization expanded certification beyond PEFC to include FSC. The Saillat mill is now the only mill in France producing FSC-certified paper sourced from local forestland.

Our resource professionals also work with SFI's State Implementation Committees (SICs) to train logging professionals on best management practices. International Paper took the lead in publishing the manual *Sustainable Forestry Practices for Landowners in Oregon* (2012), under the authority of the Oregon SFI State Implementation Committee. The manual provides forest management best practices guidelines.

CERTIFICATION STANDARDS

International Paper recognizes and supports third-party forest certification standards that address forest management, covering issues such as sustainable harvest levels and prompt reforestation, conservation of biodiversity, protection of water quality and respect for indigenous people's rights.



- **American Tree Farm System® (ATFS)** - the oldest and largest sustainable family woodland system in the United States, internationally recognized, meeting strict third-party certification standards. www.treefarmsystem.org



The mark of responsible forestry

- **Forest Stewardship Council™ (FSC)** - a globally recognized system that uses regionally developed forest management standards and includes chain of custody. www.fsc.org



SFI-00006

- **Sustainable Forestry Initiative® (SFI®)** - a North American certification standard that includes provisions for forest management, fiber procurement and chain of custody and is endorsed by the PEFC. www.sfiprogram.org



- **Cerflor** - the Brazilian program certifies forest management along the entire supply chain, following criteria and applicable national indicators. www.inmetro.gov.br/qualidade/cerflor.asp



PEFC
PEFC29-31-11
Promoting Sustainable
Forest Management
www.pefc.org

- **Programme for the Endorsement of Forest Certification (PEFC)** - a global organization that endorses national certification standards and promotes sustainable forest management and chain of custody. www.pefc.org

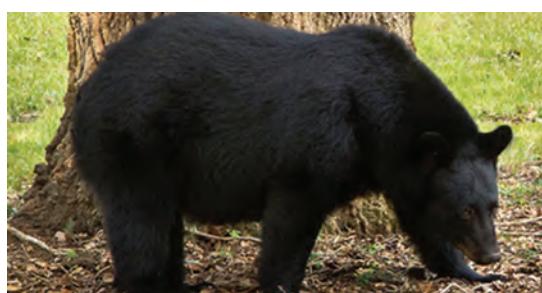
- **ISO14001** - the standards set out by the International Organization for Standardization (ISO) for environmental management systems. In regions lacking specific forest certification standards, International Paper aims to ensure that our wood procurement meets these ISO standards.



CONSERVATION LEGACY

International Paper has worked over time to protect approximately 200 sites and over 1.5 million acres through donations, easements and sales. This includes:

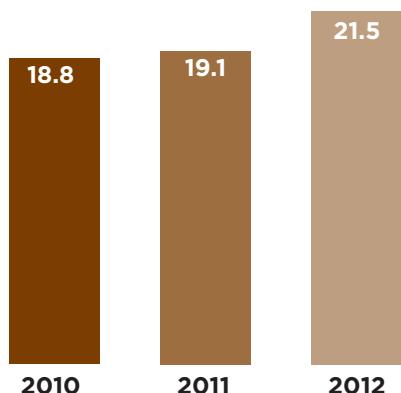
- 450 miles of southern rivers
- 60,000 acres along the Appalachian Trail
- 49,000 acres across the Great Dismal Swamp (NWR)
- 22,000 acres across the Okefenokee Swamp (NWR)
- 255,000 acres in Adirondack State Park



Performance

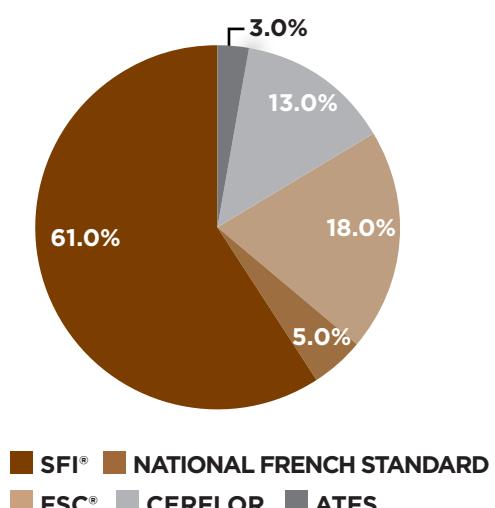
As a result of our extensive efforts to promote certification, International Paper added more than 2.74 million tons of additional certified fiber to its global system since 2010.

GLOBAL CERTIFIED FIBER PURCHASES* (million tons of round wood)



*Includes IP-Sun Joint Venture

IP GLOBAL CERTIFIED FIBER PURCHASES BY STANDARD – 2012*



*Based on the mutual recognition of different certification systems approximately 82% of our certified fiber could count PEFC.

Reporting and engagement

Global: We report the impacts of our global forestry operations through the Forest Footprint Disclosure (FFD) Project, now part of the Carbon Disclosure Project, which collects information for investors on how company operations potentially affect the world's forests. 2012 marked our third year participating in the FFD's annual review.



United States: International Paper's Global Sourcing Fiber Supply employees in the U.S. engage with stakeholders on the national level through the Forest Resource Association and American Forest & Paper Association. These employees are also actively involved in state forestry associations as board directors and committee members on forest management, timber harvesting, logger training, and public affairs.

France: International Paper's Saillat mill is a member of FSC France and involved in setting the future FSC French national standard. It is also a member of the French Technical Workgroup for the PEFC. International Paper is involved in FSC working groups, technical committees and/or consultative forums in all countries where we have paper mills.

Brazil: International Paper Brazil coordinates the CERFLOR Standardization Committee and represents the Brazilian Pulp and Paper Association in the CERFLOR Forest Management Committee. It is also a member of FSC Brazil and involved in the Brazilian FSC Committee for Standardization Development.

Customer Engagement: To provide customers with relevant information on our products, we provide a range of product certifications and documentation. These customer tools cover criteria such as regulatory status, suitability for intended use, chemicals of concern, recycled content, recyclability and compostability, as well as certification standards.

CHAIN OF CUSTODY CERTIFICATION

Certification of International Paper's operations to internationally recognized chain of custody (CoC) standards verifies that we have the policies, systems and procedures in place to track wood fiber as it moves from the forest, through the manufacturing and converting processes, and on to our customers.

As customer demand for certified products has grown, International Paper has not only increased the availability of certified products but also has become a global leader in CoC certification. Most of our pulp and paper mills and converting operations are now CoC certified to one or more recognized standards. In addition, all xpedx warehouses, U.S. Foodservice plants and products made at U.S. paper mills - apart from mills recently acquired from Temple-Inland - are CoC certified to FSC®, PEFC and SFI® standards. Temple-Inland mills are currently certified in line with the SFI Certified Sourcing claim and are on track to be CoC certified by the fourth quarter of 2013.

FIBER EFFICIENCY

Like all materials we use, we recognize the need to use fiber efficiently. That's why we committed in 2012 to further improving our manufacturing process in order to achieve world-class performance of less than 0.75 percent fiber loss by 2020. We are in the process of establishing global standards for data collection on fiber loss and look forward to reporting on our progress next year. We achieved significant success at individual mills in 2012. For example:

- At our Red River mill in Louisiana, we analyzed past yield audit data and developed maintenance plans for our equipment to ensure maximum efficiency. We also increased fiber efficiency by reducing water overflow and using the cleanest water possible. These efforts reduced fiber loss by 40 percent in 2012, a standard we are sustaining through daily monitoring.
- At our Mansfield mill in Louisiana, we achieved the lowest level of fiber loss in mill history. The mill operated at a 0.17 percent loss rate in 2012, a fraction of the 0.75 percent loss rate considered world-class performance.

We will draw on lessons learned from such successes to develop improvement plans at other locations across our operations. We are confident in our ability to achieve our 2020 goal.



At International Paper, we rely on fiber to make our paper and packaging products. It makes sense that we use it in the most efficient manner possible. We're proud of the progress we've made in reducing fiber loss at several of our mills and hope to replicate these successes elsewhere.”

Tom J. Macher, Director, Reliability Center of Excellence and Fiber Efficiency Goal Champion



FIBER RECOVERY

International Paper is the largest user of wood fiber in the world. We rely on a healthy, ongoing supply of wood through the careful management practices of our wood suppliers, and we also benefit from a supply of fiber that has been recovered. In the United States, International Paper recovers, processes or facilitates the sale of more than 6 million tons of recovered fiber each year, making us one of the larger recyclers of paper in the country.

We are proud of our recycling record but want to improve it. To this end, we have set a 2020 goal to increase recovery of Old Corrugated Containers (OCC) – often known as used cardboard boxes - by 15 percent. In 2012, we put strategies in place to boost recovery rates by building out our internal capacity, working with suppliers, and acquiring new sources of materials for recovery. The positive effects of such efforts will extend beyond cardboard box recovery rates, helping us to divert additional types of paper and packaging materials from landfill. Additional benefits include:

- Extending the useful life of fiber
- Prolonging landfill life
- Eliminating methane, a potent greenhouse gas generated when paper degrades in an oxygen-deprived landfill environment
- Providing fiber to countries that do not have sustainable sources of domestic wood

RECOVERY AND REUSE STRATEGY

Meeting our 2020 goal to recover 15 percent more Old Corrugated Containers (OCC) requires robust planning and realignments in our recycling business.

The first step we are engaged in is to establish a baseline rate of recovery for this goal. Our initial work indicates that our recovery of OCC has likely decreased since 2010. This may be due to economic conditions, which can affect our recovery rates. If fewer goods are shipped in boxes, fewer boxes are available to recover, and vice versa. However, demand for fiber is expected to grow and outstrip supply across the globe, creating opportunities for economically viable projects and collaborations that will increase corrugated box recovery.

Over the last two years, we have strategically aligned our recycling business with our core businesses and mobilized an internal team to identify landfill diversion opportunities, all with the aim of increasing recovery of OCC and paper and packaging material more broadly. Our plan for meeting our 2020 goal, developed in 2012, has three elements:

“

Wood fiber recovery in the U.S. is a significant environmental success story. Our Fiber Sourcing and Recycling teams continue to build upon that success by working with generators and suppliers to identify and capture new sources of recyclable materials. We're confident that these efforts will further increase our recovery rates in coming years.”

Thomas A. Cleves, Vice President and General Manager, Containerboard and Recycling and Fiber Recovery Goal Champion



Build

We are working to expand our internal capacity to recover materials by building new recycling facilities. We currently operate 18 recycling plants in the United States, two in Mexico, and three in Europe, the Middle East and Africa. We are researching economically viable locations for constructing new material recovery facilities, as well as looking for ways to increase capability at our existing plants.

Collaborate

Engaging suppliers will allow us to increase recovery rates beyond the capabilities of our own systems. We can provide economic incentives to suppliers including loans and long-term agreements to encourage material recovery facilities. For example, we work closely with an independent recycler in a large midwestern city to facilitate extraction of previously unrecovered OCC from commercial waste. We are also actively seeking opportunities to work with solid waste management companies to provide recovery capabilities at their landfills and transfer stations.

Acquire

We also seek to identify and acquire recovery facilities whose operations can be expanded to collect new sources of recovered fiber. These facilities may target small offices and retailers that do not currently collect OCC, allowing us to tap new sources of material and increase our recovery rate.

ENCOURAGING PAPER AND PACKAGING RECOVERY

There are a number of entities involved in successful paper recycling, including municipalities, environmental organizations, retailers, recycling companies and individual consumers. International Paper encourages the recovery of paper products even though we do not have direct control outside of our own operations. We work with industry peers through the American Forest & Paper Association to educate the public about the benefits of recycling. And as a founding member of the Foodservice Packaging Institute's Paper Recovery Alliance, we are working collaboratively with industry players to develop and promote the recovery and processing of used paper foodservice packaging.



In 2012, 91 percent of old corrugated containers was recycled.
- AF&PA



Composting and land application on eucalyptus plantations at the Mogi Guaçu mill in Brazil

SOLID WASTE



2020 GOAL

Assess options to reduce the generation and disposal of manufacturing waste from our processes by 2013; and develop an enterprise solid waste reduction goal by 2015 to achieve by 2020.

PROGRESS AGAINST GOAL

We have formed an international team and begun to evaluate solid waste generation, mitigation and beneficial uses focusing on reduction in landfill disposal.

CHALLENGES TO MEETING GOAL

Readily available beneficial use outlets affect the amount of waste we send to landfill. Finding new outlets for residual material beneficial uses is challenging. Our manufacturing processes have been optimized, thus eliminating or minimizing the generation of waste.

Effective waste management is important to fulfilling our goals for both world-class manufacturing and sustainability. International Paper plans to reduce the waste we send from our mills to landfill over the next few years.

In 2012, we established a 2020 solid waste goal and laid the groundwork to collect data on waste generation, disposal and reuse in 2013. This data, combined with an evaluation of waste-related economic and ecological factors, will inform a company-wide solid waste goal that we will set by 2015.

“ By making our manufacturing processes more efficient, we will reduce the generation of solid waste and realize cost-effective progress toward our goal.”

Marcio Bertoldo, Manufacturing Director for Brazil and Solid Waste Goal Champion



Our solid waste goal calls for an in-depth assessment of available options for reducing the amount of waste our manufacturing plants generate and dispose of worldwide. In 2012, we assembled an expert team with representatives from each manufacturing division across our global operations to advise on the goal's development. Team members will also share waste reduction best practices and innovations that can be replicated at other sites.

REUSING PAPER RESIDUALS

Paper production provides many opportunities for reusing waste, thereby generating environmental and cost benefits. We beneficially reuse about half of the solid waste we generate in integrated pulp and paper mills and most of what we generate in recycle mills. Paper mill residuals are commonly dewatered and burned in combined heat and power generation systems as a fuel to produce energy for our manufacturing processes. At some sites, they are used to cap landfills or are applied to forests or fields as a soil enhancer. Where possible, we use wood ash to augment soil and sell coal ash for use in construction materials or in making cement/concrete where a suitable manufacturing operation is nearby.

Our recycled paperboard mills reuse the majority of the residuals they generate, primarily as a soil enhancer. Our mill in Maysville, Kentucky, uses residual materials as a soil amendment that provides nutrient value to crops. The mill also reuses waste paper fiber and recycles items such as gloves, reflective vests, cans, plastic bottles, printer cartridges and even the wire used to bale old corrugated containers.



Crops fertilized by reprocessed wastewater at our recycle mill in Maysville, Kentucky

“ International Paper is dedicated to incorporating beneficial use projects when they cost-effectively contribute to community value.”

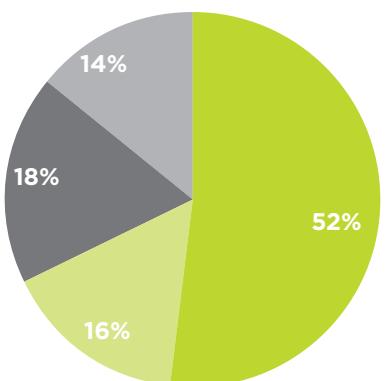
Elwood Black, Principal Associate, Advance Residuals Management



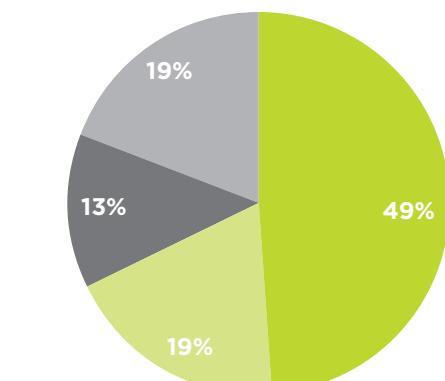
Performance

In 2012, the amount of solid waste generated company-wide decreased by about 3 percent compared to 2010. Waste generated per ton of product also declined by about 4 percent, perhaps indicating an improvement in process solid waste efficiency. The following charts of 2012 and 2010 solid waste disposition indicate that beneficial reuse increased slightly to 51 percent of waste generated (from 48 percent in 2010), and correspondingly solid waste landfilled decreased to 49 percent of waste generated (from 52 percent in 2010).

2010 SOLID WASTE BY DISPOSITION*



2012 SOLID WASTE BY DISPOSITION



■ Landfilled or Sent to Impoundments

■ Fuel Use

■ Beneficially Applied to Land

■ Additional Beneficial Use

* Does not include Kenitra facility

Some mills made significant improvements, while others declined in solid waste production and beneficial reuse metrics. This is to be expected as waste supply and waste demand opportunities are identified and “matched” in reasonable proximity to be cost effective.

- At our Pensacola mill in Florida, increased gas firing eliminated coal ash generation, and ash and wastewater treatment plant residuals were redirected from the landfill for beneficial use as landfill cover.
- At our Kwidzyn mill in Poland, ash and residuals were sold for construction materials and other uses.
- At our Mogi Guaçu mill in Brazil, fiber efficiency improvements in the manufacturing process resulting from our Manufacturing Excellence initiative decreased generation of wastes from the wastewater treatment plant and the associated costs of composting and land application. This last example is clearly a win-win situation – higher process efficiency and less waste.

We are developing a better understanding of our reported solid waste generation and disposition information and understanding more fully the practices and constraints at our mills that govern what opportunities exist for increasing beneficial use. Similarly, we are beginning to look at the solid waste component of ongoing efforts to improve the fiber efficiency of our processes and to understand and quantify the solid waste reduction brought by these efforts. Our past experience shows us that the uncertainties of the coal ash market and the reclassification of waste by regulatory agencies can pose a challenge as different types of waste need to be disposed of in different ways. Implementing waste management best practices wherever possible will help us overcome such challenges and drive progress on our goal.

BUENA PARK PLANT JOINS FORCES WITH ENVIRONMENTAL PROTECTION AGENCY PROGRAM TO MODEL WASTE BEST PRACTICES

Our paper bag plant in Buena Park, California – which already boasts an impressive waste diversion rate of 96 percent – has joined the U.S. Environmental Protection Agency's WasteWise program. As a WasteWise partner, the plant must establish three new waste prevention activities. In return, managers will receive access to state-of-the-art tools such as the WasteWise Data Management System, which analyzes and monitors solid waste data.

"The WasteWise program helps us reduce our on-site waste generation and associated costs by providing a lens into our waste management systems," explains Buena Park Plant Manager Ward Harker. "Through this partnership... we hope to become a model in waste management for other International Paper facilities."

Our bag plants in Dallas, Texas, and Beaverton, Oregon, are now collecting the baseline data required to enter the WasteWise program.

We Voluntarily Participate in





Global Sourcing meeting
Photo: Wayne Crook

SUPPLY CHAIN

SUPPLY CHAIN



2020 GOAL

Develop a strategy for our supply chain by 2013 and implement by 2015.

PROGRESS AGAINST GOAL

Organized our teams globally and committed people resources to our efforts to achieve the goal.

Engaged external thought leaders.

Began socialization of our sustainability expectations with the supply base.

CHALLENGES TO MEETING GOAL

Complexity of engaging our global internal and external stakeholders.

Assessing and understanding supplier sustainability capability.

Ensuring sustainability of approaches and processes.

At International Paper we collaborate with our suppliers on sustainability and also engage our employees in support of this important effort. Our initial focus is the supply base for critical direct and indirect purchases in support of our operations and service to our customers. We have more than 100,000 suppliers around the world and significant opportunities for engagement on sustainability throughout our supply chain with all stakeholders.

We have committed to establishing a supply chain sustainability strategy in 2013 and will begin implementing these plans by the end of 2015. Simply stated, this goal helps create an enterprise-wide common sustainability approach focused on transparent engagement with both internal and external stakeholders.

“

The close business relationships we have with our customers and suppliers place us in a unique position to strengthen our supply chain sustainability. The complex process of first understanding and measuring our supplier's supply chain sustainability performance is a key step in creating a meaningful path to real improvements.”

Fred A. Towler, Vice President, Supply Chain Operations and Supply Chain Goal Champion



We recognized the need for dedicated leadership in this arena, so in 2012, International Paper appointed a Director of Supply Chain Sustainability. In 2013, we introduced our Supplier Code of Conduct to our vast supplier community. We require our suppliers to share their sustainability policies and any related information as a condition of doing business with International Paper.

In 2012, our distribution business, xpedx, launched a Supplier Sustainability Scorecard for vendors representing more than 70 percent of all xpedx purchases. The scorecard addresses suppliers' sustainability performance, among other traditional business criteria, and is a component of the overall supplier review and selection process.



Our success with International Paper is a result of a partnership to deliver unique sustainable results. For instance, at one mill we installed remote telemetry to monitor inventory levels, whereas at other mills we installed new delivery equipment that reduced shipment costs by allowing the mill to accept product in bulk, thereby reducing freight costs.”

Shiv Kumar, President and Owner, Diversified Global Sourcing Inc.



ENERGY USE AND EMISSIONS FROM DISTRIBUTION

The most significant environmental impacts associated with our distribution network are emissions from the engine exhaust of transport fleets. Where we have control over distribution, we seek to mitigate our impacts by:

- **Exploring more efficient modes of transport**

In 2012, we continued to shift tons transported by truck and intermodal to rail transport. We increased the use of rail by 1.3 percent and decreased the use of truck and intermodal by 0.5 percent and 0.8 percent, respectively, which together reduced distribution-related carbon emissions.

- **Optimizing weight per unit**

In 2012, maximizing the weight and cube for each mode of transportation continued to be a key focus for transportation planning. This effort resulted in improved weights across all car types and effective maximum weights on truck and intermodal trailers. By increasing tons per car type and using a higher mix of larger car types, we effectively eliminated 2.1 million miles from our system in 2012.

Additionally, we increased payload of goods to ocean ports by optimizing container capacity and expanding use of tri-axle chassis. This measure resulted in a reduction of ocean vessel containers. Optimizing container weight increased payload potential by 6 percent, the equivalent of taking one load off the road for every 18 loads shipped.

- **Optimizing our routes**

By deploying advanced routing software and using local and regional distribution centers, we reduce the distances our products must travel to reach customers and consolidate loads. This minimizes fuel use and the number of deliveries.

Our REDD (Reliable, Enterprise, Dedicated, Delivery) Express program helps us manage our freight efficiently by coordinating transportation plans among our facilities and customers, thereby consolidating shipments and reducing the amount of empty miles a carrier has to travel. With better customer collaboration and careful network management, REDD's empty mile ratio declined 2 percent in 2012.

- **Advocating for improved transportation legislation**

We continue to support the Safe and Efficient Transportation Act (SETA) through our collaboration with the U.S. Coalition for Transportation Productivity. This legislation will increase the maximum weight allowed for 53-foot tractor-trailers fitted with an additional axle and brakes by 17,000 pounds. SETA would allow companies like ours to safely and more efficiently ship their products using fewer truckloads, while reducing fuel use, congestion, vehicle miles traveled, carbon emissions and road wear.

● SUPPLY CHAIN TALENT PIPELINE

- Since 1981, our Supply Chain internship program has played a key role in recruiting top talent.
 - Students gain valuable work experience and insights into the world's leading paper and forest products company, especially in the areas of sourcing, distribution, customer service, supply and demand planning, and sales and marketing. Outside their day-to-day responsibilities, our interns are encouraged to take part in the rich variety of cultural and community activities that Memphis has to offer. In 2012, 11 recruits took part in the program.

SUPPLIER DIVERSITY

Diverse suppliers reflect our customers, employees and communities. Having a diverse supplier base enables International Paper to contribute to the economic well-being of the cities and towns in which we live and work while also gaining from their unique perspective and experience.

Our supplier diversity program aims to promote the growth and development of diverse suppliers, enabling them to compete with our more established suppliers for our business. Our dedicated supplier diversity team works with our sourcing teams as well as with our businesses to improve direct and subcontracting opportunities for diverse suppliers. Our support helps them expand their market reach and, ultimately, create jobs.

In 2012, International Paper:

- Spent \$340 million with U.S. diverse suppliers
 - Held 25 educational sessions to educate employees on our supplier diversity strategy and process
 - Held five mentoring sessions per quarter

SUPPLIER PARTNERSHIP WITH WESCO PRODUCES ENVIRONMENTAL AND COST BENEFITS

We can help our suppliers improve their sustainability performance. Suppliers can also help us.

In 2012, one of our industrial maintenance suppliers, WESCO, helped International Paper complete a \$600,000 lighting upgrade at our mill in Georgetown, South Carolina. Benefits included:

- 5 million kWh saved per year, about 0.6 percent of the mill's electricity usage
 - 46 percent less energy used for lighting the facility
 - 4,500 tons of greenhouse gas (GHG) emissions saved per year
 - \$400,000 per year saved on our site energy and maintenance costs
 - 1.5 year return of investment





Earth Day poster contest, Riegelwood, North Carolina
Photo: Justin Smith

COMMUNITY



2020 GOAL

Measure and report on our charitable support for education, literacy and health and human services in the communities where we operate.

PROGRESS AGAINST GOAL

Secured regional global team members who will provide input and ideas on how to capture and report volunteer hours from a worldwide perspective.

CHALLENGES TO MEETING GOAL

Developing a centralized system for registering employee volunteer hours and capturing all International Paper volunteer efforts.

We believe strongly in being a good neighbor and responsible corporate citizen. In 1952, the International Paper Foundation was created to support non profit organizations that brought about positive change in the communities where International Paper employees live and work. Sixty years later, we continue this mission through our philanthropic giving and volunteer efforts around the world. To ensure we are maximizing our impact, we have set a 2020 global sustainability goal to measure and report on our charitable work.

“We're making steady progress toward our 2020 sustainability goal of measuring and tracking International Paper's global philanthropic efforts. Improvements in our data collection – specifically in the area of volunteer hours - will help us fully capture and strengthen the impact our employees make in the communities where they live and work.”

Patty L. Neuhoff, Director, Global Communications; President, International Paper Foundation; and Philanthropy Goal Champion



PHILANTHROPY

Our long history of charitable giving has allowed us to develop local relationships, establish strategic initiatives and encourage employee volunteerism in countless projects and programs.

We conduct our global philanthropic activities through International Paper Foundations in the United States and Poland, the International Paper Institute in Brazil and through business contributions and donations made through the International Paper Employee Relief Fund (ERF). In 2012, International Paper Foundation grants, ERF donations, business contributions and in-kind contributions totaled more than US\$12.3 million worldwide. We target our philanthropic activities across four key focus areas: employee involvement, environmental education, health and human services, and literacy.

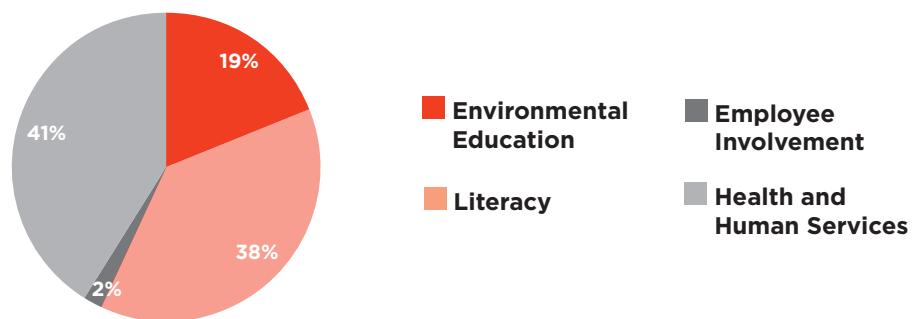
The International Paper Foundation provides grants to non-profit charitable organizations that align with these focus areas and operate in the communities where our employees live and work.

In 2011, as part of our voluntary sustainability goals, we committed to measuring and reporting our charitable support and volunteer hours. In 2012, we made progress by establishing specific giving teams for each of our regions. Members of these global giving teams are responsible for measuring, tracking and reporting their region's charitable giving dollars and establishing new systems to capture and track employee volunteer hours.

International Paper uses a combination of data systems to track philanthropic business contributions and International Paper Foundation grants. We are exploring various systems to centralize and track our volunteer activities and to further increase transparency in our philanthropic efforts.

2012 HIGHLIGHTS

PHILANTHROPIC DISTRIBUTION (International Paper Foundation's Focus Areas)



Coins 4 Kids – Our work with the World Food Program USA provides nutritious school meals to nearly 630,000 pre-school and elementary-aged children living in impoverished areas of Nairobi, Kenya. In 2012, International Paper donated nearly \$800,000 to the program, as well as manufacturing and distributing paper collection cups for the program's fundraisers globally.



“ Almost a decade ago, International Paper first partnered with the World Food Program USA to pioneer Coins 4 Kids, an innovative program that empowers employees to help feed hungry children in the slums of Nairobi, Kenya. To date, International Paper has raised more than US\$6.5 million – that’s 26 million meals – for United Nations World Food Program school meals in Kenya. Through Coins 4 Kids, International Paper’s leadership is helping to break the cycle of hunger and poverty.”

Richard Leach, President and CEO, World Food Program USA



Employee Relief Fund - Our Employee Relief Fund (ERF) provides grants to our employees and communities affected by natural disasters, personal tragedy or other events beyond their control. In 2012, 57 employees at our San Felice box plant were temporary displaced by an earthquake and were awarded assistance totaling more than \$97,000. International Paper matches each employee dollar donated to the ERF, allowing employees and the company to quickly pool resources to help stricken colleagues and neighbors. In total, the International Paper ERF paid out more than \$128,000 to 84 employees across the globe in 2012.

John Dillon Park – In collaboration with Paul Smith College, International Paper built and currently manages International Paper John Dillon Park in Long Lake, New York. Named in honor of our former chairman and chief executive officer, John Dillon, a Paul Smith College alumnus, the park is the Adirondacks' first fully accessible wilderness trail and facility for people with disabilities.

National Civil Rights Museum – Since 1991, International Paper has worked with the globally recognized National Civil Rights Museum based in Memphis, Tennessee. Our most recent commitment includes acting as the presenting sponsor of the annual Public Forum and National Freedom award, as well as making a \$250,000 contribution to the museum's *Keys to the Future* expansion project. The donation will be used for renovations and the restoration of outdated exhibits.

United Way – For more than three decades, we have supported the United Way, an organization that supports education, income stability and healthy living globally. We encourage employees to participate in the United Way's annual Day of Caring activities, and we match 60 percent of employee contributions to the United Way Campaign. In 2012, total United Way contributions - including employee pledges, fundraisers and the company match - totaled approximately \$3.3 million.

“International Paper employees are involved. They provide leadership on United Way of the Mid-South's Board of Directors, Campaign Cabinet, Allocations and Strategic Planning Committees as well as “hands-on workers” in our Day of Caring activities. I believe this engagement and involvement among employees is a major reason the financial commitment from International Paper employees ranks among the highest of all firms in the Mid-South.”

Bryce D. Haugsdahl, President, United Way of the Mid-South



REGIONAL GIVING AROUND THE WORLD

Facilities across our global business use employee-led committees to select and manage their own philanthropic activities according to our corporate guidelines. Employees define the mission and vision of their regional programs, enabling local teams to focus on contributions most needed by their communities. For example, International Paper Brazil established the International Paper Institute to help drive social projects and positive change in areas where our mills operate.

Other 2012 global highlights include:

- Belgium: Continued support as a Gold partner contributor of the United Food Bank (part of the United Way) in Brussels.
- Brazil: Continued support for Projeto Guardiões das Águas (Water Guardians Project), which raises awareness among teachers and students about water scarcity and resource conservation. In 2012, the project won the “National Highlight Award in Sustainable Development and Social Responsibility” from Brazil’s Biosphere Environmental Institute.
- China: International Paper Asia committed RMB300,000 (US\$48,000) to the Yangfan Project to support efforts to provide free books to poor school children (see case study on page 57).
- Russia: Support for building projects including the construction of a 1,800-square-meter children's playground in Svetogorsk's Central Park, a hockey rink and the renovation of a secondary school gymnasium.

EMPLOYEE VOLUNTEERING

Employee volunteer programs help maintain the vitality of our communities around the world. International Paper employees volunteer for charitable causes such as the United Way Day of Caring, Meals-on-Wheels and Adopt-A-School programs.

We encourage our employees to engage in their communities through local volunteer programs run in conjunction with local non profit entities. In some cases, we offer employees paid time off (with management approval) to volunteer for International Paper-endorsed community programs. Although these nonprofit organizations generally fall under our key focus areas of environmental education and literacy, we encourage employees to volunteer for causes that touch all aspects of their communities.

We promote volunteer opportunities via company emails, newsletters and IPTV, International Paper's internal broadcasting system. Around the world, 19 International Paper senior officers serve on the boards of philanthropic organizations.

2012 HIGHLIGHTS

- Brazil: More than 100 employees from the Mogi Guaçu mill participated in a volunteer tree-planting event.
- China: Employees from our Shanghai office teamed with colleagues from the Chengdu Box Plant to give away gift bags filled with winter clothing, books and sports equipment to the Jintang Special Education School.
- India: Employees helped distribute school supply kits to students at four local schools in coastal Andhra Pradesh.

COMMUNITY INVOLVEMENT

International Paper's approach is to support the communities where our employees live and work through the Foundation, Employee Relief Fund, in-kind contributions and corporate donations.

2012 HIGHLIGHTS

- Our Kwidzyn mill in Poland organized its third 10K "Kwidzyn Papermaker's Run" in collaboration with local authorities and industry peers. The highly successful annual event is part of the mill's efforts to promote healthy living through low-impact sports such as running. Participation increased from approximately 250 runners in 2010 to nearly 1,000 runners in 2012. Polish media rank the event among the top three 10K runs in the country. (See photo at right.)
- In the United States, we sponsored the "Read to Achieve" program with National Basketball Association (NBA) team, the Memphis Grizzlies. International Paper also presented the Grizzlies' Fourth Annual "Go Green Game" in April 2012 as part of NBA Green Week.
- Our annual sponsorship of the Susan G. Komen Race for the Cure drew support for breast cancer research from over 200 International Paper employees, family members and friends. Together, we contributed more than \$73,000 to the Susan G. Komen Memphis Mid-South Chapter.



EDUCATIONAL OUTREACH

We believe education can be a powerful tool for improving access to economic opportunities. In 2012, 19 percent of our foundation giving went to environmental education and literacy projects.

We continued to promote our two U.S. national educational initiatives - the award-winning *National Geographic Society's Kids Explorer* magazine and the Earth's Birthday Project – which build children's knowledge and appreciation of the world's natural forestlands and wildlife habitats. In 2012, International Paper distributed more than 16,000 *National Geographic* magazine subscriptions – equivalent to \$55,000 - to more than 140 schools nationwide. In support of our Coins 4 Kids program, we launched a series of lesson plans through *National Geographic Explorer* magazine to help students at various grade levels learn about world hunger, good nutrition and the goodwill generated from helping others in need.

Through the Earth's Birthday Project, we donated Environmental Education Butterfly Kits to approximately 36,000 students in more than 1,800 classrooms. Students used the kits to observe the life cycle of a butterfly.

Following the launch of our educational initiative with the Public Broadcasting Service in 2011, we provided teaching materials and related resources for their website EcolInvestigators, which we helped create to provide environmental resources for educators of students in grades three to five. Find out more at www.pbs.org/teachers/EcolInvestigators.

\$3.9 million was donated to literacy programs in 2012.

In Brazil, we continued our work with the lochpe Foundation to assist at-risk teenagers with educational and professional development at the Formare School. The program provides students with the opportunity to pursue a certificate of technical education from the Ministry of Education through a series of specialized trade classes over a period of 10 months.

CASE STUDY: INTERNATIONAL PAPER FOUNDATION LAUNCHES PHILANTHROPIC INITIATIVE TO DELIVER BOOKS TO RURAL SCHOOLS IN CHINA

In August 2012, International Paper launched an initiative with the Yangfan Project - a prominent Chinese philanthropic organization supporting children's education. At our Shanghai office's International Paper Asia Regional Headquarters Family Day, International Paper Asia's President Cecilia Ho presented a company donation of RMB300,000 (approximately US\$48,000) to the Siyuan Foundation to support the IP-Yangfan Book Donation Project.

Since the project's launch, more than 220 of our employees have donated approximately 5,500 books to 10 schools in poor, remote areas of China.



Read more about the Yangfan Project at: www.yangfan.org.hk/en.

CASE STUDY: ANDHRA PRADESH PAPER MILLS LAUNCH BID TO "GREEN" INDIAN CITY

In November 2012, our Andhra Pradesh Paper Mills launched a sapling plantation drive named "Green Wave" to promote conservation and improve tree canopy cover in the city of Rajahmundry. The initiative is part of International Paper's long-standing commitment to provide seedlings to small tree-farming communities in India. Since 1989, we have helped more than 40,000 tree farmers plant over 1 billion saplings. The saplings cover more than 150,000 hectares and have provided over 75 million days of employment for the region.

Seema Nallani, General Manager of Corporate Social Responsibility at International Paper India, joined local government and community leaders at the "Green Wave" launch event. Local school children planted saplings near the mill and learned from facility employees how trees can benefit the environment.





"Why We Work" LIFE safety campaign

SAFETY



2020 GOAL Accident-free workplace.

PROGRESS AGAINST GOAL

In 2010 we launched our global Life-changing Injury and Fatality Elimination (LIFE) initiative, a multi year effort to reduce serious life-changing injuries and fatalities.

While the vast majority of global employees worked accident-free in 2012, 40 employees and 11 contractors suffered life-changing injuries, including three fatalities.

CHALLENGES TO MEETING GOAL

Given the scale of our global operations, eliminating every accident is a substantial challenge, though we are making significant progress in this area.

Safety has been a core value at International Paper for years. In line with our ambitious goal of creating an accident-free workplace, we have recently supplemented our company-wide focus on workplace safety with our Life-changing Injury and Fatality Elimination (LIFE) initiative. While we are making progress, we still have much work to do to achieve an injury-free workplace.

“ Keeping our employees safe is the most important thing we do as a company. When a person comes to work for International Paper, we make a commitment that they will go home safely each and every day of their career. We are committed to creating an accident-free workplace, and we will not stop until this is achieved and then sustained.”

Pat Wilczynski, Vice President, Manufacturing EMEA and Safety Goal Champion



HEALTH AND SAFETY

At International Paper, the safety of our employees is paramount. Through our comprehensive health and safety programs, we seek to effectively manage potential hazards, prevent accidents, promote safety awareness and hazard recognition and achieve our goal of zero injuries. We work with every location to develop health and safety programs for all employees, including those in offices and distribution centers.

APPROACH

Our approach to health and safety covers seven key elements:

- **Annual Plans** - We develop annual plans at both the location and business level to address priorities, based on a review of safety-incident trends and potential risks.
- **Corporate Standards** - We are developing global safety requirements that define expectations for managing common health and safety hazards across our global operations. Our philosophy is “one company, one standard, one set of expectations globally.”
- **Employee Involvement and Engagement** - The success of our Life-changing Injury and Fatality Elimination (LIFE) initiative (see page 61) depends on the full engagement of our employees. As more employees take ownership of safety, we will achieve better safety performance.

- **Leadership** - Senior management lead our safety programs, providing frequent communications and support of LIFE and other high-profile safety initiatives (see page 63). Leadership accountability is a key part of our safety efforts.
- **Metrics, Goal-Setting and Accountability** - We promote safety performance improvement by setting annual safety goals for each of our locations and businesses. Progress against these targets is considered in performance evaluations. We report safety incidents consistently on a global basis. Data are reported to and reviewed by management and incorporated in the goal-setting process.
- **Risk Elimination** - We use hazard risk assessments and audits to identify and eliminate potential unsafe behavior and conditions. Doing so encourages employees to identify and address potential safety concerns and to monitor their work activities and environments.
- **Training and Awareness** - We conduct safety training to equip employees with the knowledge and skills to manage safety hazards in line with corporate standards, and to promote our safety culture. Empowering employees to recognize hazards and help correct unsafe behaviors and conditions is a key driver for improving our safety performance.

MAJOR MILESTONES IN PLANT SAFETY

Dozens of our facilities around the globe were recognized for safety-related accomplishments in 2012, and many recorded safety milestones. Two of the most impressive achievements came from the Industrial Packaging Group's Container the Americas (CTA) plants.

Our Ashland City, Tennessee, CTA plant reached seven years without a recordable injury, while our Decatur, Alabama, CTA plant completed 15 years and over 4.5 million hours without a lost time injury.

Achievements like these are celebrated in news updates distributed to all International Paper employees.



HEALTH AND SAFETY STANDARDS

Our workplace safety goal requires that we maintain high standards for our facilities. Many of our facilities around the world have been recognized for having excellent safety management systems in compliance with internationally recognized health and safety standards, such as:

- Occupational Health and Safety Assessment Series (OHSAS) 18001 – a widely adopted international occupational health and safety management system specification.
- The U.S. OSHA Voluntary Protection Program (VPP) – recognizes exemplary worksites that have comprehensive and successful safety and health management systems, and maintain injury rates below average for their respective industry.

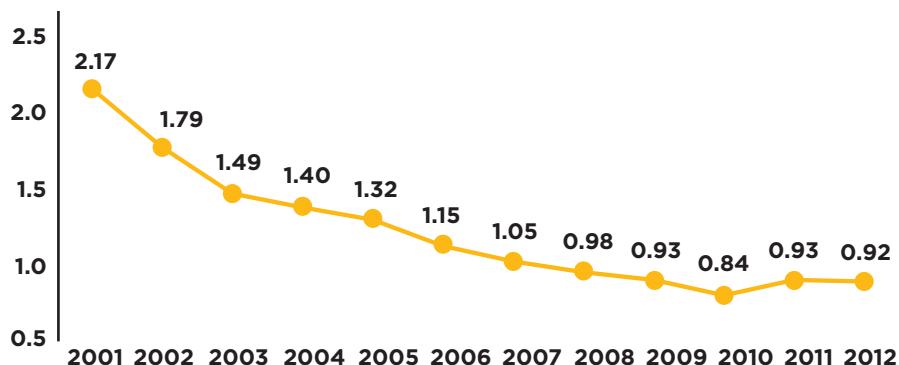
HEALTH AND SAFETY AUDITS AND SELF-ASSESSMENTS

All International Paper sites are internally audited using both site self-assessments and a formal corporate-driven health and safety audit. When deficiencies are detected, corrective action plans are developed and implemented.

PERFORMANCE

We track our performance using recognized safety metrics. The Total Incident Rate (TIR) measures the number of incidents (those requiring medical attention beyond first aid) per 100 full-time employees. In 2012, our TIR was 0.92. We anticipate a downward trend for our TIR as we focus our safety resources on recent acquisitions and fully integrate all new facilities into our safety-first culture.

TOTAL INCIDENT RATE



*Includes IP-Sun Joint Venture

LIFE-CHANGING INJURY AND FATALITY ELIMINATION (LIFE)

We also measure our performance against progress in our LIFE initiative. 2012 marked the third year of the initiative, which focuses on eliminating fatalities and serious injuries. We define a LIFE incident as a fatality or a serious injury such as a concussion, fracture, serious burn or amputation.

Our LIFE initiative involves the evaluation and elimination of hazards. Project teams utilize our company's manufacturing excellence tools, communications efforts, LIFE case investigations, employee engagement, training, and education to improve workplace safety. LIFE is designed to make everyone in the company - from the leadership level down to operating personnel - aware of the risks of serious injury. The initiative is focused on identifying the causes of the most serious injuries, and implementing sustainable systems to prevent future incidents.

The LIFE program has five major focus areas:



Driver safety



Machine
safeguarding



Exposure to
harmful
substances or
environments



Motorized
equipment
on the
manufacturing
site



Falls

The five focus areas are primarily targeted toward our employees, but we are also focused on contractor safety and have begun efforts to improve contractor safety performance.

In 2012, we focused our LIFE efforts extensively on machine safeguarding. At the end of 2011, almost half of all LIFE incidents stemmed from interactions with moving or energized machines. To improve safety in this area, we strengthened our safeguard inspection programs and began developing new guarding specifications for equipment with increased risk potential. International Paper facilities performed a comprehensive machine guarding evaluation to ensure that no guards were damaged or missing. Safeguards on equipment with increased risk potential were documented in an inventory so that they can be re-evaluated regularly. The inventory for this strengthened inspection program now includes over 70,000 machine guards at our paper mills and some 150,000 at our converting facilities.

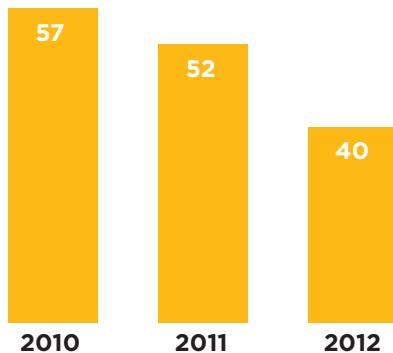
Other LIFE initiatives that were launched in 2012 include our comprehensive driver safety program, which emphasizes the hazards of distracted driving and includes an enterprise-wide ban on cell phone use while driving; our fall-prevention efforts, which began by targeting falls from height during the tarping and untarping of chip delivery trucks; and the new emphasis on contractor safety. Training efforts related to motorized equipment, a 2011 special focus area, continued in 2012 and involved a record number of participants.

LIFE PERFORMANCE

Our goal remains zero serious injuries and fatalities.

While the vast majority of our global employees worked accident free in 2012, we experienced 40 employee and 11 contractor LIFE injuries. Our efforts will continue in 2013 as we strive to make all of our facilities accident-free.

EMPLOYEE LIFE INCIDENTS



We deeply regret the fatalities of two employees and one contractor from work accidents in 2012. Each incident was thoroughly investigated and actions were taken to help prevent future incidents from occurring (see Chairman's message, page 8). Lessons learned from these incidents were shared throughout the enterprise using our "LIFE Lesson" communications tool.

OTHER SAFETY TRAINING INITIATIVES

Our facility employees and environmental health and safety professionals took part in a wide range of additional safety training programs in 2012. Topics included human performance, hazard recognition, record keeping, OSHA standards, audiometric testing and blood-borne pathogen control. In Brazil alone, 2,635 International Paper employees logged 35,810 hours of safety-related training.

Our training programs allow employees and company leaders to gain ongoing expertise on diverse safety-related topics so that International Paper can continue to follow best practices in employee health and safety. Training has also been a key tool in the integration of recently acquired facilities in the United States, Brazil and India, in order to ensure that these new businesses meet our global safety expectations.

SAFETY AND CELL PHONES

One of our key 2012 safety initiatives was an enterprise-wide ban on cell phone use by all International Paper employees while operating a motor vehicle. We believe the studies on distracted driving firmly support this policy, which will improve employee and public safety.

**WHY WAIT?
HANG UP + DRIVE
NOW.**

Starting January 1, 2013, International Paper introduces Mobile Phone Ban while driving. Become an early adopter.

It's about...
LIFE LIFE-CHANGING
INJURY AND
FATALITY
ELIMINATION

WORKPLACE SAFETY AWARDS AND MILESTONES

In 2012, International Paper received a Theodore Roosevelt Workers' Compensation and Disability Management Award from *Risk & Insurance Magazine* in recognition of our company-wide efforts to reduce the number and cost of injuries to workers.

Numerous facilities also recorded safety milestones throughout 2012. As of January 2013, 92 of our global manufacturing facilities had maintained an active streak of one year or longer without a single recordable injury.



Donna Harman, President and CEO, AF&PA; John V. Toeldte, Chairman and CEO, International Paper; Alexander Toeldte, President and CEO, Boise Inc., and former AF&PA Board Chairman

International Paper was honored with "Leaders in Sustainability" awards for greenhouse gas reduction ("Climate Leadership Initiative") and for safety ("It's about... LIFE"). International Paper was one of only five companies to be recognized as part of AF&PA's inaugural Better Practice, Better Planet 2020 Sustainability Awards Program.



First Line Leader Training, Memphis, Tennessee
Photo: Michael Baldwin

OUR PEOPLE

Our employees are experts in engineering, manufacturing, sales and business support. This talented group, nearly 70,000 strong, spans five continents and speaks more than 20 languages. Our entire team is united around our vision to be one of the most respected and successful companies in the world. We seek to foster employee well-being and performance through a world-class people-development process that includes engagement, health and wellness programs, training and development, business/region specific people councils and a globally inclusive work environment.

International Paper employees by the numbers (2012)

Total employees 69,954

U.S.-based employees

Percentage of employees located in the U.S. (excluding joint ventures) 60 percent

New hires in 2012 1,914

Hourly employees 27,600

Salaried employees 14,400

EMPLOYEE ENGAGEMENT

We want every employee to be actively involved in making our workplaces better. We understand the importance of listening to and supporting our staff so they can achieve their full potential. Our engagement mechanisms include:

- Bi-annual global employee pulse survey
- Company-wide CEO communications and newsletters
- Employee-development programs
- Global webcasts
- Intranet sites focusing on engagement
- Team meetings, including on-site meetings at manufacturing facilities
- Monthly one-on-one meetings between supervisors and employees
- Annual senior lead team people review

Business-led action plans

Each business, facility, or team is responsible for developing a specific action plan to improve engagement. Action planning is done at the team level by design, to ensure that all employees receive adequate focus.

Employee engagement survey

In 2012, 95 percent of our employees took part in our bi annual engagement survey. This survey assesses whether our work environment is adequately encouraging employees to contribute their ideas and

efforts each day. Compared to our 2010 survey, employees showed a 17-point improvement in the manufacturing database percentile ranking, with positive trends for all survey questions. Employee feedback stood out as the area with the greatest improvement, with 69 percent of employees claiming to have discussed personal progress in the previous six months and 61 percent agreeing that they had received recognition in the previous seven days. While we have recognized and celebrated these promising results, we will continue to look for ways to increase engagement, starting with an emphasis on team-level action plans and tools to help supervisors conduct quality one-to-one sessions with employees.

Employee wellness

Our focus on employee wellness helps ensure that our most valuable assets – our employees – remain healthy and available to contribute to our company's progress. We also believe that investing in employee wellness and disease management is the first step to reducing rising health care costs.

HealthyLife is International Paper's voluntary benefit program for U.S. employees and their spouses or domestic partners. The program begins with a personal Health Risk Assessment to identify opportunities for improved health, then offers a variety of wellness and disease management programs, including exercise, nutrition, smoking cessation and weight management. Within each of these categories, employees and dependents may choose their level and type of participation. In addition to enterprise-wide wellness challenges, many facilities can opt to run their own wellness activities.

We also provide an Employee Assistance Program (EAP) for many employees worldwide. This gives employees and their immediate families access to professional counseling resources that can address wide-ranging issues including substance abuse and depression, work-life balance, and child and elder care.

In the United States we introduced premium credits for salaried employees in 2011. These credits allow an employee and his or her spouse or domestic partner to reduce their monthly health care premiums by actively participating in wellness activities. In 2013 we increased the credit to \$75 per month for each participant, resulting in a total potential credit of \$1,800 for employees and their spouses or domestic partners, if they participate in HealthyLife initiatives throughout the year.

In Brazil, recent wellness efforts have included menu changes at employee cafeterias to offer healthier food, wellness publications on the company intranet site, and sponsorship of employee sports teams and a 10k run to promote physical fitness.

WORKPLACE DIVERSITY

International Paper is a global company with a global workforce. Fostering an environment of diversity and inclusion is a key ingredient in our success. "Many Voices, One Vision: A Blueprint for Success" – our overarching initiative around diversity and inclusion – outlines our plan to provide a progressive, flexible and inclusive workplace.

We believe we have made good progress toward the initiative's objectives. Some highlights for 2012 include:

- A new Mentoring Excellence program, which provides mentors and mentees with tools, guidelines and processes to facilitate information sharing and focused learning opportunities
- Weekly, monthly and quarterly communications, such as newsletters, current events and internal promotion kits to educate and increase employee awareness of diversity and inclusion-related history, recognitions and community celebrations
- Virtual mentoring group events in which more than 500 employees participated

- Diversity forums for African American and Asian/Pacific Islander employees in order to increase awareness of our Diversity and Inclusion strategy and share management tools that support individual development and career growth

While our overarching diversity and inclusion strategy is the same across the enterprise, our focus and approach vary by region. In Asia, attracting and retaining talent is a priority. In Brazil, generational issues and government-related diversity initiatives are important. In Europe, promoting women in the workforce is a key goal. Policies are crafted to meet these regional goals - in Brazil, for example, we developed a strategy to hire more women and people with disabilities. Our efforts have also included targeted advertising for specific candidate pools and training to enhance employees' interactions with disabled coworkers.

CHAIRMAN'S DIVERSITY COUNCIL

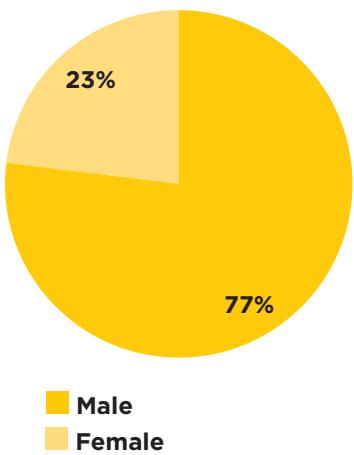
Our commitment to diversity starts at the top with the Chairman's Diversity Council. The Council, which meets each quarter, is a representative group of senior leaders focused on creating and maintaining a culturally rich and collaborative work environment. The Council is also increasing the attention on inclusion in order to create global cultural alignment.

The Council achieved a number of notable accomplishments in 2012, including:

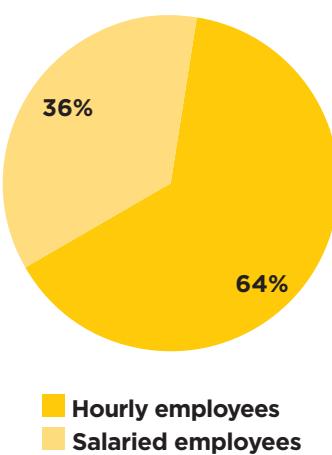
- **Leadership** - Over one-third of International Paper's officers are diverse (female, minority or multi-national). Female representation among mill managers has increased significantly, climbing to 23 percent globally.
- **Mentoring** - Voluntary interest in the Hispanic, African American and Women in International Paper Mentoring Boards continues to gain momentum; these boards now have over 700 members combined.
- **Publications** - The Council published over 40 articles, communication materials and management newsletters to raise awareness and recognize employees who champion diversity and inclusion in the workplace.
- **Sponsorship program** - Our sponsorship program continues to yield positive results. The program is designed to groom future leaders by promoting the learning, development, exposure, cultural and business acumen of promising employees.
- **Workplace Flexibility program** - This program, launched in the U.S. in 2011, highlights guidelines to support employees' work-life balance by offering such options as telecommuting and job sharing.

INTERNATIONAL PAPER EMPLOYEE DEMOGRAPHICS

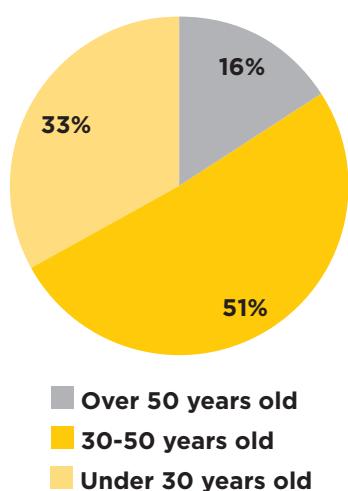
BY GENDER



BY EMPLOYMENT TYPE



BY AGE



Demographic data from India were not available at the time of publishing and therefore have been excluded from information above.

TRAINING AND DEVELOPMENT

A highly skilled workforce is imperative to sustain our success. Through a variety of training and development efforts, we work to build the skills of our employees and help them grow professionally.

Developing leaders is particularly crucial for the long-term success of our company. We work hard to create and sustain a leadership culture with high ethical standards. We also identify employees with leadership potential and help them develop the skills to advance within our company.

Our leadership development efforts fall into three key areas:

- On-the-job experiences and assignments
- Coaching and mentoring
- Formal classroom training

Since 2005, more than 1,700 employees have participated in our Leadership Institute programs.

Leadership Institute

International Paper's Leadership Institute provides interactive learning and growth opportunities for promising employees so they can develop skills that help them engage employees, execute our operational strategies and exceed our business objectives. The Institute offers programs, instruction, services and resources that align with our key business strategies and initiatives and promotes leadership development through observation, assessment, feedback and coaching. These efforts support International Paper's leadership philosophy while introducing employees to new trends and leadership approaches. Since 2005, over 1,700 employees have participated in our Leadership Institute programs.

In 2012 over 330 leaders participated in one of 14 Institute programs. Senior leaders, including the Chairman/CEO, played an active part, often leading sessions and sharing personal leadership lessons from their own careers with International Paper.



**LEADERSHIP
INSTITUTE**

First Line Leader Development

First Line Leaders (FLLs) are responsible for supervising teams of employees within our manufacturing operations. Our work with FLLs exemplifies International Paper's development of talented leadership within the company. We dedicated significant resources in 2012 to launch a new First Line Leader Development program for global application. The redesigned program incorporates a variety of learning tools, including classroom sessions, e-learning, self-study and one-to-one coaching between the FLL and his or her manager. The training will be available in seven languages. One hundred and fifty FLLs from five countries participated in the first year of the new program.

We provide training and development opportunities for employees through numerous channels. Our Performance and Development Roadmap process includes regularly scheduled personal development meetings between individuals and their managers (usually monthly or quarterly) as well as formal yearly performance reviews. The International Paper Learning Management System gives all employees access to on-demand courses. Business groups also provide specific development opportunities through leadership meetings and conferences, individualized development training programs, and group team-building activities.

Outside professional education is encouraged, and International Paper provides a comprehensive tuition reimbursement assistance program for employees wishing to pursue specialized training or an educational degree. Employees have used this resource to enroll in specialized courses as well as bachelor's and master's degree programs.

Our online 360 feedback tool allows employees to receive feedback on specific skills from internal and external colleagues. Those making use of this tool meet with a trained facilitator who explains the final feedback report, and helps to devise a development plan based on the feedback. These plans are then shared with the employee's manager. In 2012, more than 150 employees used the feedback tool.

Our employees are free to join unions if they are legally permitted to do so in their countries. We collaborate with unions on many programs, including our LIFE workplace safety initiative.

In 2012, we integrated four new mills and 23 converting locations into Master Agreements with unions and continued to promote open and regular dialogue with international union leaders.



LEADERSHIP DEVELOPMENT IN ACTION

With a range of leadership development programs and resources, International Paper excels at helping promising employees grow their careers within the company.

Mandi Gilliland, currently Manager of Customer Service for International Paper's Coated Paperboard Business, was an intern in International Paper's IT department during the summer of 1997. Hired in a full-time role the following year, she has since taken on a series of leadership roles at the company, thanks in part to her participation in multiple International Paper leadership development activities that aided her professional growth.

Mandi has participated in International Paper's Leadership Institute throughout her career, attending a program for high-potential employees in 2005 as well as a Strategic Leadership program in 2011 and the International Paper Chairman's Forum in Gettysburg, Pennsylvania, in 2012. "Leadership Institute classes helped me better connect to other groups within International Paper and opened my eyes to roles outside IT," said Gilliland. "I was able to apply suggestions from others, think differently and build confidence."

Gilliland has also benefited from participation in International Paper's Leadership Conference, the International Paper Women's Forum, numerous trainings and International Paper's mentorship program, which pairs her with a leader from outside her direct chain of command to provide guidance on career development.

Performance evaluations from peers, managers, direct reports and customers have helped her identify strengths and blind spots as she continually hones her personal development plan. Gilliland is currently pursuing her MBA while working to further develop her business skills, and she looks forward to continuing her career growth at International Paper.





GOVERNANCE AND ETHICS

At International Paper, we understand that people like to work for and do business with ethical companies. Honesty and integrity are at the core of our culture. We uphold the highest ethical standards and keep everyone accountable to them, from our Board of Directors to our 70,000 global employees.

CODE OF CONDUCT

Since 1998, International Paper has followed a Board-approved Code of Conduct that sets out the ethical standards and practices that guide everything we do. This Code applies to all employees of International Paper and our subsidiaries worldwide.

In 2012, we revised our Code of Conduct for the fourth time, reflecting changes in laws, regulations and compliance risk. The new, more simply written version will be distributed to employees in the spring of 2013. Specific changes include:

- Expansion of the conflicts-of-interest section to include political, social and financial interest
- Expansion of the gifts section to include entertainment and hospitality expenses
- New guidance on the appropriate use of company assets
- New examples (“Ethics in Action”) to provide employees with guidance for dealing with ethical dilemmas posed by conflicts of interest, political activity, acceptance and provision of gifts and entertainment, safety and other areas
- A new statement that we expect our business partners to share our commitment to advancing human rights
- Stronger language on our zero tolerance of retaliation against employees who raise ethical concerns in good faith

For the seventh consecutive year, International Paper was named as one of the World's Most Ethical Companies by the Ethisphere Institute.



CORPORATE GOVERNANCE POLICIES

We have a strong track record of sound corporate governance policies and practices that provide transparency as well as accountability of the Board of Directors to our shareowners.

- Majority voting – We have majority voting in uncontested elections, and all directors are elected annually.
- Presiding Director – The board's independent directors annually appoint a presiding director. This individual presides at executive sessions of independent directors, has authority to call meetings of independent directors, approves schedules and agendas for Board meetings, may add agenda items and approves meeting materials for distribution to and consideration by the Board.
- No super majority voting – Our governance documents do not contain any super majority voting requirements.
- No “poison pill” – The company has no shareowner rights plan or “poison pill.”
- Clawbacks – Our compensation recovery policies go beyond the U.S. Sarbanes-Oxley legislation and other minimum regulatory requirements. These policies are described in our proxy statement.
- Shareowner outreach – We engage with shareowners to discuss corporate governance practices, executive compensation and shareowner proposals.

ETHICS AND COMPLIANCE GOVERNANCE

Our updated Code of Conduct was approved and adopted by our Board of Directors and will be introduced to employees in 2013. The Board, chief executive officer and leadership stand firmly behind it.

To translate this ethical foundation into action, results and operational excellence, we set strict standards of business behavior, policies and procedures. In addition to these internal rules, all our employees are subject to the laws and regulations of the countries in which they work. In consultation with International Paper, our non-U.S. partners Ilim Holdings S.A. and International Paper-Sun Paper have adopted their own codes of conduct, modeled on ours.

Oversight of our corporate ethics and compliance program lies ultimately with our Board, and, on a day-to-day basis, with our Office of Global Ethics and Compliance and with regional compliance committees. We frequently review our compliance program based on input from our Board of Directors, auditors and legal counsel as well as best practice benchmarking from organizations such as the Society of Corporate Compliance and Ethics.

2012 HIGHLIGHTS

In 2012, we significantly strengthened our enterprise-wide compliance activities:

- We restructured our Global Ethics and Compliance office, doubling the number of full-time employees. The U.S.-based Chief Ethics and Compliance Officer position became dedicated solely to compliance program management, and we added new full-time positions in India and in the EMEA region.
- We awarded greater autonomy and responsibility to regional compliance committees. In addition to helping headquarters with regional investigations and helpline communications, new tasks include:
 - Conducting regional risk assessments
 - Developing regional training and communications plans
 - Drafting regional compliance policies
 - Approving gifts and entertainment
 - Approving corporate donations by regional businesses

Made up of attorneys and human resources, finance and business leaders, these committees often have greater credibility with regional employees than their U.S. corporate counterparts and are familiar with regional customs and issues.

- We revised our primary compliance standards to make them more readable and relevant to employees, and to drive home the message that compliance is the core of our corporate culture.

ETHICS AND COMPLIANCE TRAINING

All International Paper's salaried global employees undergo mandatory, job-related ethics and compliance training. New hires must complete courses within 90 days, and all employees take refresher training every year. This training is tracked through the company's Learning Management System.

- Our comprehensive courses cover universal workplace issues including discrimination and harassment, prevention of workplace violence, records management, and anti retaliation policies that protect employees who report wrongdoing. Our training program also has a strong focus on anti corruption and bribery. Learning modules cover compliance with the U.S. Foreign Corrupt Practices Act, anti corruption standards, prevention of insider trading and issues related to antitrust and anti competitive price fixing.
- In addition, we provide training on fair labor practices and ways to prevent slavery and human trafficking in International Paper's supply chain.
- In 2012, we adopted a new compliance training process to better target different risk situations. We employ nearly 70,000 people in more than 24 countries, and there is a wide regional disparity in the training technology at our disposal. Our new process first assesses the primary and secondary compliance risks for each region and each business unit. Training on secondary risk topics is then delivered via online modules and/or written guidelines. Training on primary risk topics is delivered through live, scenario-based online sessions.
- We also use newsletters, videos, and executive memos to reinforce our culture of compliance with employees.

ETHICS VIOLATIONS

We practice zero tolerance for behavior that violates the law or company policy and use various means to detect and investigate such behavior. We also work with the management of our Ilim and International Paper-Sun joint ventures to ensure each maintains similar practices.

The center of our detection efforts is our company HelpLine. This is operated by a third-party vendor and is available 24/7 to anyone inside or outside the company. Callers can make anonymous reports by phone, over the Internet or by e-mail in the native languages of every country where we operate. In 2012, we upgraded to a new HelpLine service provider better suited to

serve a large international workforce. This will allow us to better analyze trends in reported violations and communicate these to senior management.

During 2012, we received 613 HelpLine reports, up from 560 in 2011 (though the number of reports per employee was lower in 2012 than in 2011). All reports were investigated under the leadership of the Global Ethics and Compliance Office. The investigations were conducted by human resources professionals, internal and external auditors, attorneys, and corporate security.

HUMAN RIGHTS

As we pursue our global operations, International Paper is committed to protecting and advancing human rights. We will not tolerate child labor, forced labor, and physical punishment or abuse in the workplace. We comply with local employment laws and recognize lawful employee rights of free association and collective bargaining.

Our Human Rights statement is publicly available at www.internationalpaper.com/US/EN/Company/Governance/HumanRights.html.

- Our Supplier Code of Conduct clearly states our commitment to protect human rights. Compliance with the Code is incorporated into International Paper's purchase order terms and conditions and in our sourcing and supply chain contracts. International Paper endeavors to work with reputable businesses that conduct their business in a manner that shows commitment to high ethical standards, safe and healthy working environments, protection of human rights and dignity, protection of the environment, and legal compliance. Suppliers are expected to monitor and document their own compliance records and efforts to support compliance within their supply chains. We train our own supply chain and sourcing directors as well as relevant managers and employees on human trafficking and slavery, particularly focusing on supply-chain risk. Our Supplier Code of Conduct is publicly available at www.internationalpaper.com/documents/EN/SupplierDiversity/Supplier_COC_11.2012.pdf.
- In December 2012, International Paper issued a detailed disclosure statement in response to the California Transparency in Supply Chain Act. This is published at www.internationalpaper.com/documents/EN/California_Transpare.pdf.

PUBLIC POLICY

As a leading global paper and packaging company, we are actively engaged in areas of public policy relevant to our industry. These include national and international forest certification standards and a variety of other public policy initiatives. In 2012, we focused on:

- ***Support for the Lacey Act*** - This U.S. law helps reduce illegal logging and its associated global trade. We worked to oppose changes to the law that would weaken the Act and allow illegally harvested wood to enter the United States.

- ***The USDA's Paper and Paper-Based Packaging Promotion, Research and Information Order***

- We actively supported the creation of this program, which allows the paper and packaging industry to pool resources to develop and strengthen markets, conduct research and engage in promotional activities.

- ***Support for Biomass Carbon Neutrality*** - The long-standing assumption that biomass is a carbon-neutral energy source has been challenged, and in 2011 EPA imposed a three-year deferral of biogenic CO₂ regulations pending a scientific review. More than 70 percent of the energy we use at our mills comes from renewable biomass, and we continue to educate policymakers on the efficient manner in which we use biomass for energy and the importance of treating industry biomass use favorably in regulations.

- ***USDA's Biobased Product Programs*** - These programs allow manufacturers and vendors to use a "USDA Certified Biobased Product" mark, and provide a preference for the purchase of biobased products by the federal government. Although well-intentioned, the programs currently exclude many forest products, creating a market disadvantage by implying the biobased attributes of competing products are environmentally superior, which generally is inaccurate. We are educating policymakers on this issue, and we support legislation that would clarify the eligibility of forest products for these programs.

We also work with governments, industry associations and other stakeholders to improve our industry's governance and operational effectiveness while striking a balance among environmental, social and financial performance.

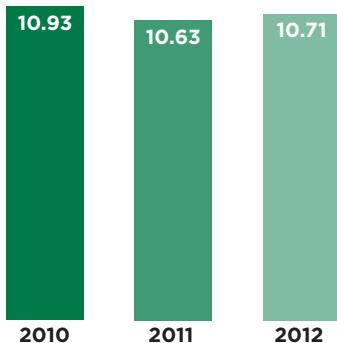
We are members of several dozen industry organizations in countries where we operate, including the American Forest & Paper Association (AF&PA), the Brazilian Association of Pulp and Paper (Bracelpa), the Central Pulp & Paper Research Institute of India, the China Paper Industry Chamber of Commerce and the Russian Association of Pulp and Paper Organizations and Enterprises (Bumpprom).

We also engage with broader stakeholder groups including non-profit organizations, sustainability associations and research institutions. These include the Forest Stewardship Council™ (FSC®), the Sustainable Forestry Initiative® (SFI®), the Sustainable Packaging Coalition, the World Wildlife Fund and the World Business Council for Sustainable Development (WBCSD). For more on stakeholder engagements, see page 24.

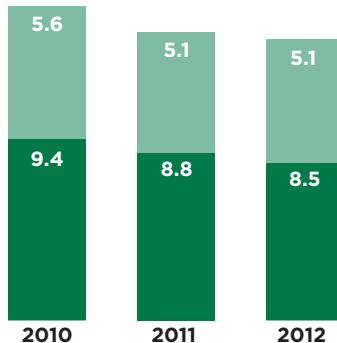
REPORT CARD

All data are reported as of December 31, 2012, unless otherwise stated. Data is included from all global operations, including International Paper Brazil; International Paper Asia; and Europe, the Middle East and Africa (EMEA). We have also included data from the 2012 acquisition of Temple-Inland. Data from our late 2011 acquisition of Andhra Pradesh Paper Mills in India is currently being collected and analyzed and has not been included in the report. Where appropriate, our 2010 baseline data has been restated to reflect these acquisitions and divestitures. The report includes limited information from joint ventures where applicable.

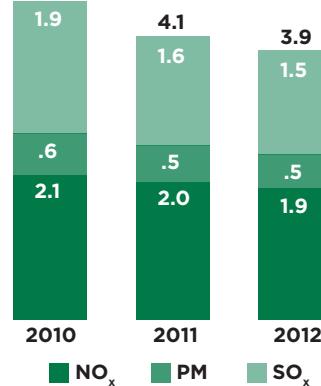
ENERGY EFFICIENCY* (million BTUs per metric short ton of production)



ABSOLUTE GREENHOUSE GASES* (million tons of CO₂e)

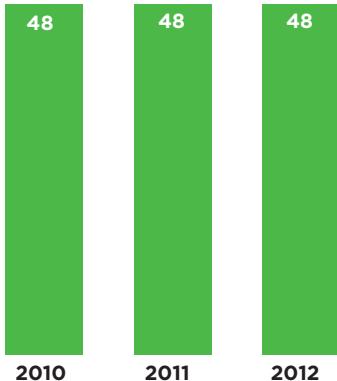


TOTAL NO_x, PM and SO₂ EMISSIONS* (metric tons per 1,000 metric tons of production)

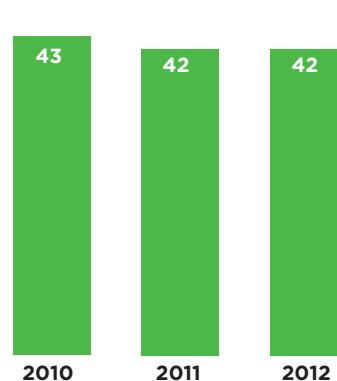


*Includes IP-Sun Joint Venture

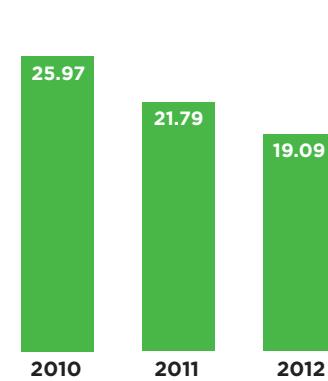
WATER USE - INFLUENT* (cubic meters per metric ton of production)



WATER USE - EFFLUENT* (cubic meters per metric ton of production)

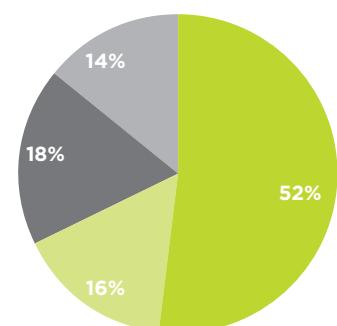


OXYGEN DEPLETING SUBSTANCES TO RECEIVING STREAMS* (BOD5, in million Kg)

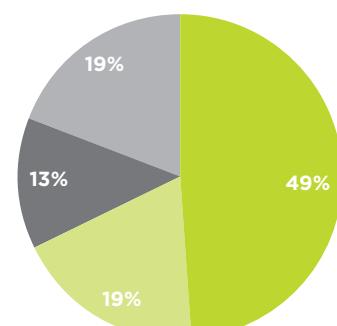


*Does not include Kenitra facility

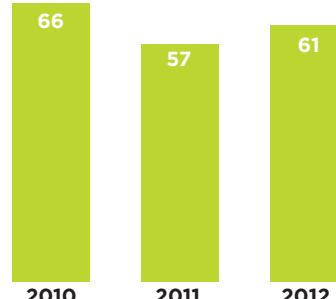
2010 SOLID WASTE BY DISPOSITION*



2012 SOLID WASTE BY DISPOSITION



SOLID WASTE LANDILLED OR SENT TO POOLS/PONDS (metric tons per 1,000 metric tons of production)

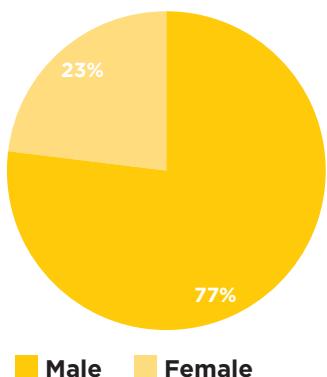


█ Landfilled or Sent to Impoundments
█ Fuel Use
█ Beneficially Applied to Land
█ Additional Beneficial Use

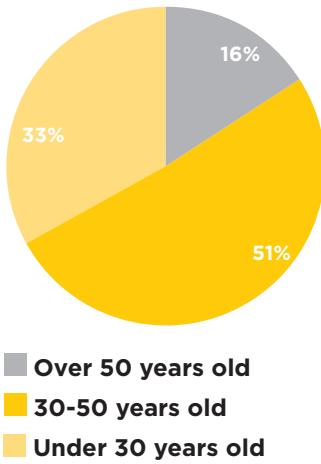
*Does not include Kenitra facility

INTERNATIONAL PAPER EMPLOYEE DEMOGRAPHICS (Total Employees: 70,000)

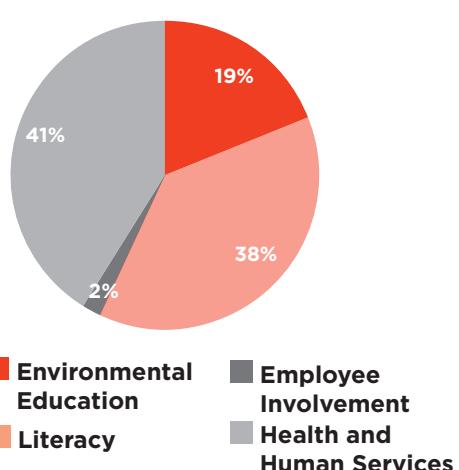
BY GENDER



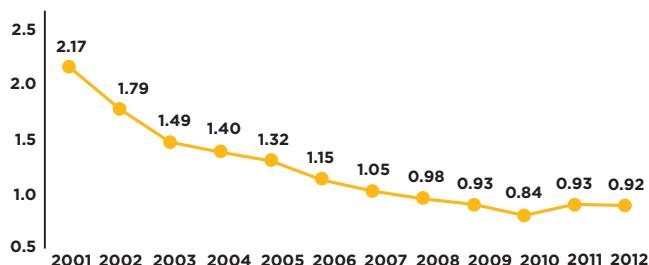
BY AGE



PHILANTHROPIC DISTRIBUTION (International Paper Foundation's Focus Areas)

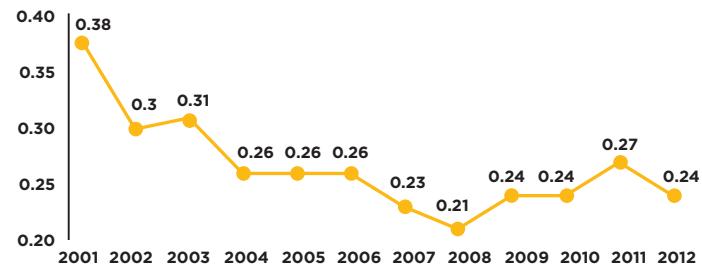


TOTAL INCIDENT RATE



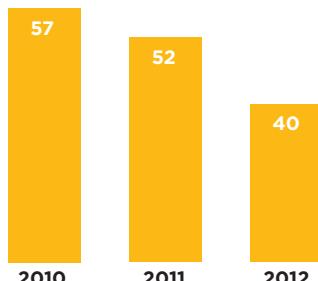
*Includes IP-Sun Joint Venture

LOST WORK DAY INCIDENT RATE

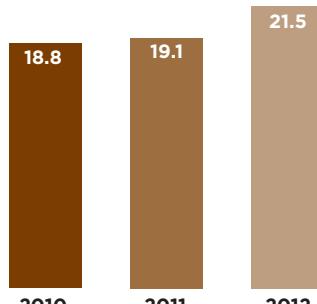


*Includes IP-Sun Joint Venture

EMPLOYEE LIFE INCIDENTS

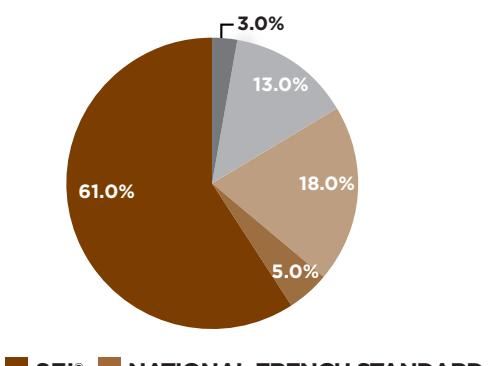


GLOBAL CERTIFIED FIBER PURCHASES (million tons of round wood)



*Includes IP-Sun Joint Venture

IP GLOBAL CERTIFIED FIBER PURCHASES BY STANDARD – 2012



*Based on the mutual recognition of different certification systems approximately 82% of our certified fiber could count towards PEFC.



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