INTERNATIONAL PAPER

2000

ANNUAL REPORT

Financial Highlights

Dollar amounts and shares in millions, except per share amounts	2000	1999
Financial Summary		
Net Sales	**$28,180**	$24,573
Operating Profit	**2,712**[a]	1,808[a]
Earnings Before Income Taxes, Minority Interest and Extraordinary Items	**723**[b]	448[d]
Net Earnings	**142**[b,c]	183[d,e]
Total Assets	**42,109**	30,268
Common Shareholders' Equity	**12,034**	10,304
Return on Investment Before Extraordinary Items	**3.3%**[b]	2.6%[d]
Return on Investment Before Special and Extraordinary Items	**5.3%**	4.0%
Per Share of Common Stock		
Earnings Before Extraordinary Items	**$ 0.82**[b]	$ 0.48[d]
Earnings—Assuming Dilution	**0.32**[b,c]	0.44[d,e]
Cash Dividends	**1.00**	1.01[f]
Common Shareholders' Equity	**24.85**	24.85
Shareholder Profile		
Shareholders of Record at December 31	**39,486**	32,881
Shares Outstanding at December 31	**484.2**	414.6
Average Shares Outstanding	**449.6**	413.0

(a) See the operating profit table on page 30 for details of operating profit by industry segment. Results of equity investees are not included in operating profit.

(b) Includes a charge before taxes and minority interest of $949 million ($589 million after taxes and minority interest) for asset shutdowns of excess internal capacity, cost reduction actions, and additions to existing Masonite legal reserves, a $54 million pre-tax charge ($33 million after taxes) for merger-related expenses and a $34 million pre-tax credit ($21 million after taxes) for the reversals of reserves no longer required.

(c) Includes an extraordinary gain of $385 million before taxes and minority interest ($134 million after taxes and minority interest) on the sale of our investment in Scitex and Carter Holt Harvey's sale of its share of COPEC, an extraordinary loss of $460 million before taxes ($310 million after taxes) related to the impairment of our Zanders and Masonite businesses to be sold, an extraordinary pre-tax gain of $368 million ($183 million after taxes and minority interest) related to the sale of Bush Boake Allen, an extraordinary loss of $5 million before taxes and minority interest ($2 million after taxes and minority interest) related to Carter Holt Harvey's sale of its Plastics division, and an extraordinary pre-tax charge of $373 million ($231 million after taxes) related to impairments of our Argentine investments, as well as the Chemical Cellulose pulp business and Fine Papers businesses to be sold.

(d) Includes a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for merger-related expenses, a $298 million charge before taxes and minority interest ($180 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves and a $36 million pre-tax credit ($27 million after taxes) for the reversals of reserves no longer required.

(e) Includes an extraordinary loss of $26 million before taxes ($16 million after taxes) for the extinguishment of high-interest debt that was assumed in the merger with Union Camp.

(f) The International Paper dividend was $1.00 per share in 1999. However, dividends on a per share basis were restated to include dividends paid by Union Camp which merged with International Paper during 1999 in a transaction accounted for as a pooling-of-interests.

To International Paper Shareowners

I believe this past year at International Paper can best be characterized by our FOCUS. We focused on our three core businesses—Paper, Packaging and Forest Products—further defining and strengthening these businesses.

The course for 2000 and beyond was set in mid-1999, when we announced our long-term strategy to investors following our Union Camp acquisition. We said then that International Paper is a company on the move, changing and improving in ways we never have before. We said that we are dedicated to strengthening our businesses and improving shareowner value. Specifically, we made a commitment in 1999 to make strong businesses stronger, shut down excess capacity and achieve non-price improvement.

Today, as we look back on the year 2000, it's clear that we did what we said we would do. First, we narrowed the portfolio of International Paper to paper, packaging, and forest products, and, in turn, achieved the necessary focus to win in these core businesses. The Champion International acquisition in mid-2000 was a key component in providing this focus and strengthening of our businesses. Second, in October we took aggressive and bold steps to improve our returns through a rationalization and realignment program, which addresses our commitment to improve competitiveness. Third, we not only proceeded with a $3 billion divestiture program, we increased the target to $5 billion, including timberland sales. Through February of this year, we have made major progress toward our non-price improvement target. In fact, $.66 per share, or 31%, of our 2000 EPS before special and extraordinary items came from results in this area.

Acquisitions

Successful acquisitions during the past few years have provided the platform for focusing on our core businesses. As a consequence of acquiring Federal Paper Board in 1996, we were able to build a world class consumer packaging business. With the addition of Union Camp in 1999, we gained world class assets and a very strong position in uncoated papers and industrial packaging. The Champion International acquisition in mid-2000 significantly strengthened our coated papers position, while also giving us a strategically important printing papers business in Brazil, low-cost U.S. uncoated assets, and the Weldwood business in Canada. Both Union Camp and Champion strengthened

xpedx—our distribution business. And all three companies brought major timberlands and important wood products operations.

In terms of results, the Union Camp integration continues to progress very well, is ahead of our plan, and is considered a real home run. Our merger with Champion International is also doing very well. This move allowed us to take major actions to bring our cost structure down and significantly sharpen our focus on core businesses. There is a lot more to do and we have a plan to get the results this year. In fact, the Champion merger synergies target has been increased by nearly 20 percent, from $425 million to $500 million.

Overall, our focus on core businesses is dramatically different from just a few years ago. In 1997, for example, 78% of our invested capital was directed at the paper, packaging, and forest products businesses. Today, almost 95% of our invested capital is directed to these core businesses.

Capacity Rationalization and Realignment

On another positive front, International Paper's capacity rationalization and realignment initiatives are right on schedule. As a result of the Union Camp and Champion acquisitions, we added further uncoated paper capacity to our manufacturing system in the United States. The contribution of these assets allowed us to re-evaluate our manufacturing system, which resulted in some important decisions to rationalize and realign capacity in order to improve our cost position, enrich the customer/product mix, increase production efficiencies, and improve our financial performance.

In fourth quarter 2000, we announced that we were taking 1.2 million tons of capacity out of the International Paper system. Our actions removed 18% of our U.S. uncoated papers capacity and 7% of our U.S. market pulp capacity. This was accomplished through an indefinite shutdown of our Mobile, Alabama mill; the staged closure of our Lock Haven, Pennsylvania facility; and the downsizing of the Courtland, Alabama mill. In addition, by closing our Camden, Arkansas facility and realigning our Kraft papers production, we reduced our U.S. containerboard system capacity by 5%.

To sum up, the 2000 rationalization and realignment activities are a significant step in improving the competitiveness of the International Paper system for printing papers and containerboard. It takes excess

capacity out of our system and allows us to fully concentrate our resources on very competitive facilities. In short, these actions ensure a more profitable company.

At International Paper, we believe that we must manage capacity to meet customer demand without building inventory. And we continued to take downtime to keep production in line with demand. International Paper effectively balanced our supply to meet the demands of our customers in 2000, and took about 1.7 million tons of market-related downtime. As we move through 2001, we will continue to manage our system consistent with the orders that we receive from our customers.

Divestitures

As with all other activities in 2000 and this year to date, our divestiture program allows for increased focus on our core businesses. The businesses that we sold, and are in the process of selling, are very good businesses—but don't fit with our focused strategy.

Originally, we set a goal for asset divestitures of $3 billion, excluding timberlands. In December, after further study, we revised our goal upward to $5 billion in asset divestitures, including timberlands.

Non-price Improvements

When we established our non-price improvement program in 1999, we set a target to achieve ROI improvement of 400 basis points, excluding the impact of price, by year-end 2002. Included in this program are non-price initiatives, such as our FAST (Focus, Align, Simplify, and Time) change initiative, other business-specific performance improvement initiatives, and our merger synergies from Union Camp and Champion.

In 2000, even with increased raw material and energy costs, we were able to make significant strides toward reaching our target. Indeed, we are about halfway to our target as we enter the second half of the program, and are in an excellent position to continue our efforts and achieve our goal.

2000 Financial Performance

Earnings for the year 2000 were $969 million ($2.16 per share) before special and extraordinary items, compared with 1999 full year net earnings of $551 million ($1.33 per share) before special and extraordinary items. Sales in 2000 of $28.2 billion were up from $24.6 billion

in sales for 1999 primarily due to the Champion acquisition. Full year 2000 net earnings after special and extraordinary items were $142 million ($.32 per share). Net earnings for 1999 after special and extraordinary items were $183 million ($.44 per share).

Financial Flexibility

International Paper is committed to regaining financial flexibility, using proceeds from the divestiture program and free cash flow to pay down debt. In fact, International Paper has paid down over $1 billion in debt since the Champion acquisition and will continue to use this discipline in 2001.

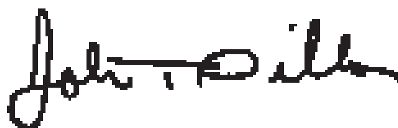
Looking Ahead

As we move forward, I am confident that we are on the right course. The number one goal at International Paper is to improve our profitability. We remain dedicated to improving shareowner value at a rate faster than our competition.

I am convinced that the hard decisions we have made, and continue to make, are resulting in a stronger and more profitable International Paper. They are the right decisions for our future. The achievements of last year not only reflect this, but also serve as a catalyst for 2001 as we strive to improve performance.

I've said this before, but it bears repeating that I believe we have the most engaged, the most focused—in short, we have the best employees in our industry. The value of their contributions on a daily basis is terrific. As we continue our efforts to build a diverse employee community, it is clear we could not reach our objectives without such a dedicated team of employees.

At International Paper, the key word is focus. As we continue to focus on our three core businesses and our success drivers—People, Customers and Operational Excellence—we will continue our march to improve profitability. And in so doing, we will become the world's best paper and forest products company.



John T. Dillon
Chairman and Chief Executive Officer
March 1, 2001

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Management's Discussion and Analysis

Corporate Overview

Results of Operations

International Paper's 2000 results of operations include Champion International Corporation (Champion), a company acquired on June 20, 2000 in a transaction accounted for as a purchase from the acquisition date.

Earnings per share before special and extraordinary items in 2000 were 62% above 1999 and 157% above 1998. Although markets during the first half of 2000 were stable, the U.S. economy slowed at an accelerating rate during the second half of the year, which adversely impacted demand for our products. As a result, through market related downtime, we curtailed production during 2000 by 1.7 million tons throughout our mill system in order to align production with our customer demand. In addition, we are realigning our production to increase efficiency and reduce costs. To this end, we have announced the closures of our Mobile, Alabama, Lock Haven, Pennsylvania, and Camden, Arkansas paper mills and the downsizing of our Courtland, Alabama mill. These actions will permanently remove over 1.2 million tons of capacity per year from our system.

Rapidly rising energy costs increased our manufacturing costs and eroded profit margins throughout our North American system. Where possible, mills switched to less costly alternative fuels. However, overall energy costs were more than $200 million above 1999 levels and continue to be high as we enter 2001.

During 2000, International Paper increasingly focused on its three core businesses—paper, packaging and forest products. In support of this strategy, we announced a $5 billion divestiture program to exit those businesses that are considered to be non-core or do not meet our return on investment criteria. As of March 1, 2001, we have completed the dispositions of our interests in Bush Boake Allen, Zanders Feinpapiere AG (Zanders), the Argentine packaging assets, the oil and gas assets, the Hamilton, Ohio mill, and the former Champion headquarters building. We have entered into agreements to sell our Masonite business and certain western forestlands, and we are exploring strategic alternatives for, including the possible sales of, the Arizona Chemical, Flexible Packaging, Decorative Products, Fine Papers and Chemical Cellulose pulp businesses, and our hydroelectric assets. Nonstrategic timberlands in east Texas are also planned for sale and are included in our $5 billion divestiture target. Approximately $740 million in proceeds were received during 2000 from these divestitures, and we expect to complete most of the remaining dispositions by the end of 2001.

Our 2000 net sales of $28.2 billion increased 15% and 18% over 1999 and 1998 net sales of $24.6 billion and $24.0 billion, respectively. The increase was due primarily to the Champion acquisition. Excluding contributions from Champion, 2000 sales increased about 2% over 1999 sales and about 4% over sales reported in 1998.

International net sales (including U.S. exports) totaled $7.6 billion, or 27% of total sales in 2000. This was well above sales of $6.9 billion in 1999 and $6.8 billion in 1998. These increases are attributable mainly to contributions from Brazilian and Canadian operations from the Champion acquisition. Export sales from the U.S. increased slightly in 2000 to $1.6 billion compared with $1.5 billion in both 1999 and 1998.

Earnings before special and extraordinary items in 2000 improved to $969 million, or $2.16 per share, compared with earnings before special and extraordinary items of $551 million, or $1.33 per share, in 1999, and $345 million, or $.84 per share, in 1998. Special charges after taxes and minority interest totaled $601 million, or $1.34 per share, in 2000, $352 million, or $.85 per share, in 1999, and $98 million, or $.24 per share, in 1998. About 85% of the 2000 special charges related to facility rationalizations. Extraordinary items were a loss of $226 million, or $.50 per share, in 2000, and $16 million, or $.04 per share, in 1999. After special and extraordinary items, net earnings were $142 million, or $.32 per share, in 2000, $183 million, or $.44 per share, in 1999, and $247 million, or $.60 per share, in 1998.

Operating profit of $2.7 billion in 2000 was up 50% from the $1.8 billion in 1999, and almost double the 1998 level of $1.4 billion. Profit contributions from Champion accounted for approximately $325 million of the increases compared with both 1999 and 1998. Additionally, $400 million of operating improvement was driven mainly by enhanced sales mix and lower costs resulting from our profit improvement initiatives and merger benefit programs. These improvements were partially offset by sharply rising domestic energy costs, which reduced profits by about $200 million in 2000 compared with 1999. Improved prices increased operating profit by almost $500 million in 2000 compared with 1999. This increase was offset, in part, by a $200 million reduction due to market related downtime. Excluding special and extraordinary items, return on investment was 5.3% in 2000, 33% above the 4.0% in 1999 and 89% above the 2.8% in 1998.

The integration of International Paper and Champion is proceeding well. We realized approximately $70 million in merger benefits in the fourth quarter of 2000 and are on schedule to meet our annualized target of $500 million by the end of 2001. We realized our Union Camp integration goal of $425 million in annualized merger benefits by year-end 2000.

International Paper is committed to improving return on investment by 400 basis points through non-price improvements by the end of 2002 as compared to the first quarter of 1999. In addition to our announced asset sales, we have budgeted 2001 capital spending at $1.2 billion, down from $1.4 billion in 2000.

Description of Industry Segments

Printing Papers

International Paper is the world's leading producer of printing and writing papers. These products include uncoated and coated papers. Bristols and market pulp are other major products included in this segment.

Uncoated Papers: This business includes office papers for use in desktop printing and copiers, offset paper used in commercial printing, and a variety of papers that are converted by our customers into such products as envelopes, forms and file folders. Our brands include:

U.S.	Office Papers	*Hammermill*
		Great White
	Commercial Printing	*Williamsburg*
	Bristols	*Carolina*
Europe	Office Papers	*Reylux*
		Polspeed
		Ballet

The mills producing uncoated papers are located in the U.S., Scotland, France, Poland, and Russia. These mills have uncoated paper production capacity of 5.7 million tons annually.

Coated Papers: Coated papers are used in a variety of printing and publication end uses. Products include coated free sheet, coated groundwood and supercalendered groundwood papers. These products are used in catalogs, magazines, inserts and commercial printing.

International Paper's position in this business was significantly expanded with the acquisition of Champion. Production capacity in the U.S. amounts to 2.2 million tons annually.

In January 2001, International Paper sold its interest in Zanders, a German producer of high-quality coated papers. The results of Zanders are included in this segment for 2000.

Market Pulp: Market pulp is an intermediate product used by non-integrated paper mills and synthetic fiber makers, and in the production of sanitary products such as diapers. International Paper is a major supplier of market pulp. Products include softwood pulp, both northern and southern, birch, northern and southern hardwood paper pulp as well as fluff pulp. These products are produced in the U.S., Canada, France, Poland and Russia, and are sold around the world. These facilities have annual pulp capacity of about 2.2 million tons.

Brazil: Through the Champion acquisition, we have added operations in Brazil, which function through International Paper do Brasil, Ltda. These operations have an annual production capacity of 670,000 tons of coated and uncoated papers. We own or manage 1.5 million acres of forestlands.

Industrial and Consumer Packaging

Industrial Packaging: With a capacity of about 5 million tons annually, International Paper is the second largest manufacturer of containerboard in the U.S. Nearly one-third of our production is specialty grades, such as *PineLiner*, *SunLiner*, *Polarboard*, *Coastliner*, *BriteTop* and *Spra White*. About 60% of our production is converted into corrugated boxes and other packaging by our 53 U.S. container plants. In Europe, our operations include one recycled fiber mill in France and 23 container plants in France, Ireland, Italy, Spain and the United Kingdom. Our global presence also includes operations in Puerto Rico, Chile, Turkey, and China. Our container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives. We also have the capacity to produce over 600,000 tons of kraft paper each year for use in multiwall and retail bags.

Consumer Packaging: With annual production capacity of 2 million tons, International Paper is the world's largest producer of bleached packaging board. Our *Everest* and *Starcote* brands are used in packaging applications for juice, milk, food, cosmetics, pharmaceuticals, computer software and tobacco products. Approximately 40% of our bleached board production is converted into packaging products in our own plants. Our Beverage Packaging business has 17 plants worldwide offering complete packaging systems, from paper to filling machines, using fresh and aseptic technologies including *Tru-Taste* brand barrier board technology for premium long-life juices. Shorewood Packaging Corporation (Shorewood), acquired in March 2000, operates 20 plants worldwide, producing packaging with high-impact graphics for a variety of consumer markets, including tobacco, cosmetics and home entertainment. The Foodservice business offers cups, lids, cartons, bags, containers, beverage carriers, trays and plates from seven domestic plants and through six international joint ventures.

Industrial Papers: We produce 370,000 tons of specialty industrial papers annually used in applications such as pressure-sensitive labels, food and industrial packaging, industrial sealants and tapes and consumer hygiene products.

Distribution

Through xpedx, our North American merchant distribution business, we supply industry wholesalers and end users with a vast array of printing, packaging, graphic arts, maintenance and industrial products. xpedx operates over 116 warehouses, 138 sales offices and 139 retail stores in the U.S. and Mexico. Overseas, Papeteries de France, Scaldia in the Netherlands, and Impap in Poland serve European accounts. About 22% of our worldwide distribution sales are products manufactured by International Paper's own facilities.

Forest Products

Forest Resources: International Paper owns or manages about 12 million acres of forestlands in the U.S., mostly in the South. About 26% of our wood requirements in 2000 were supplied by these forestlands.

Wood Products: International Paper owns and operates 38 U.S. plants producing southern pine lumber, oriented strand board (OSB), plywood and engineered wood products. The majority of these plants are located in the southern U.S. near our forestlands. We can produce up to 2.8 billion board feet of lumber, 1.8 billion square feet of plywood and 950 million square feet of OSB annually.

Canadian Wood Products: Weldwood of Canada Limited produces about 1.1 billion board feet of lumber and 410 million square feet of plywood annually. We have, through licenses and forest management agreements, harvesting rights on government-owned timberlands in Canada.

Masonite: From eight locations in North America, Europe and Korea, Masonite manufactures and markets *CraftMaster* door facings and other molded products for residential and commercial construction, as well as a broad line of hardboard exterior siding, industrial hardboard and a wide range of softboard products for the home and office. Our worldwide capacity for door facings is approximately 1.2 billion square feet annually.

Decorative Products: We produce high- and low-pressure laminates, particleboard and graphic arts products from 13 facilities. Our customers include residential and commercial construction, furniture, store fixtures and graphic arts businesses as well as customers with specialty niche applications.

Chemicals and Petroleum

Chemicals: Arizona Chemical is a leading processor of crude tall oil and crude sulfate turpentine, natural by-products of the papermaking process. Products also include specialty resins used in adhesives and inks made at 15 plants in the U.S. and Europe. In addition, we produce chemical specialty pulp, primarily utilized in cigarette filters and fabrics.

Bush Boake Allen: International Paper sold its 68.2% interest in Bush Boake Allen on November 8, 2000. During our ownership, Bush Boake Allen, which conducted operations on six continents and had locations in 39 countries, supplied flavors and fragrances for use in foods, beverages, cosmetics and toiletries.

Petroleum: In January 2001, International Paper conveyed its oil and gas properties and royalty interests to a third party. We have retained management of other mineral rights on company-owned and leased lands. During 2000, our petroleum business managed mineral rights and explored and developed oil and gas reserves, generally by establishing partnerships with other independent oil and gas producing companies.

Carter Holt Harvey

Carter Holt Harvey is approximately 50.4% owned by International Paper. It is one of the largest forest products companies in the Southern Hemisphere, with operations mainly in New Zealand and Australia. The Australasian region accounts for approximately 84% of its sales. Asian countries, particularly Japan, Korea and China, are important markets for its logs, pulp and linerboard. Carter Holt Harvey's forest operations include ownership of 820,000 productive acres of predominantly sustainably managed radiata pine plantations located in New Zealand, currently yielding 7.4 million tons of logs annually. This yield is expected to increase to over 7.9 million tons by 2002. About 50% of the harvest is processed through Carter Holt Harvey's wood products and pulp and paper businesses. Their access to one of the largest low-cost softwood fiber bases in the Southern Hemisphere is a key strength.

Carter Holt Harvey is the largest Australasian producer of lumber, plywood, laminated veneer lumber and panel products. It has over 600 million board feet of lumber capacity. The panels business is comprised of two medium density fiberboard mills and six particleboard facilities with approximately 605 million square feet of annual capacity. Carter Holt Harvey is New Zealand's largest manufacturer and marketer of pulp and paper products, with overall annual capacity of 825,000 tons at three mills. Its major products are linerboard and pulp. Carter Holt Harvey produces 140,000 tons of tissue products from two mills and eight converting facilities and is the largest manufacturer of tissue in Australia. *Sorbent* is the most recognized local tissue brand in this market. Carter Holt Harvey also produces corrugated boxes, cartons and paper bags with a focus on the horticulture, primary produce and foodservice markets in New Zealand and Australia. It is a leading producer of cups in Australia through its Continental Cup joint venture with International Paper. Its distribution business comprises Carters, a building supplies chain in New Zealand, and paper merchants B.J. Ball Papers in New Zealand and Raleigh Paper in Australia. In January 2000, Carter Holt Harvey sold its equity interest in Compania de Petroleos de Chile (COPEC).

Industry Segment Results

Printing Papers

Printing Papers posted sales of $8.0 billion compared with $5.8 billion in 1999 and 1998. About $2.0 billion of the increase in sales was a result of the Champion acquisition. Operating profit rose to $959 million in 2000 from $254 million in 1999 and $178 million in 1998, due mainly to contributions from Champion in the second half of 2000. Excluding Champion, operating profit increased 170% over 1999 due to significant price improvements, favorable mix and cost reduction actions.

Printing Papers

In millions	**2000**	1999	1998
Sales	**$7,960**	$5,840	$5,815
Operating Profit	**$ 959**	$ 254	$ 178

Uncoated Papers sales were $4.9 billion in 2000, up from $4.1 billion in 1999 and $4.0 billion in 1998. The increase in sales was due both to a 13% rise in domestic shipments, primarily as a result of the Champion acquisition mid-year, and an increase in pricing year-over-year. Paper prices averaged 8% higher than in 1999 and were strongest in the first half of 2000. As demand softened mid-year, we significantly curtailed production at our mills to balance production with orders and control our inventories. Operating profit was up 156% over 1999 and nearly three times the 1998 level. Our profit improvement and cost reduction initiatives have been effective and have positively impacted earnings. However, the continued strengthening of the U.S. dollar in 2000 depressed the translated value of our non-U.S. sales and increased pulp costs. Additionally, raw material and energy price increases in 2000 continue to negatively impact earnings. Our continued expansion in Central and Eastern Europe, coupled with low-cost production, resulted in another strong performance from our Kwidzyn facility in Poland and a successful year for Svetogorsk, our Russian operation.

Coated Papers sales were $1.9 billion, $575 million of which resulted from the Champion acquisition in the second half of the year, compared with $1.2 billion in 1999 and $1.3 billion in 1998. Operating profit was up about 80% compared with 1999 and 1998. Excluding Champion, results of operations rose about 16% in 2000 from both the 1999 and 1998 level. Average prices in 2000 were up about 13% in the U.S., but down slightly in Europe compared with 1999. In addition to price improvement, enhanced mix also contributed to the increase. The increase was offset somewhat by higher pulp and raw material costs, driven mainly by the cost of energy.

Market Pulp sales from our U.S., European and Canadian facilities were $925 million in 2000 compared with $535 million and $480 million in 1999 and 1998, respectively. While Champion sales of $270 million were a factor, a 32% market pulp price improvement over the 1999 level also contributed to the increase. After incurring operating losses in 1999 and 1998, an operating profit was realized in 2000.

Brazil is included since the date of the Champion acquisition, June 20, 2000. The Brazilian business reported sales of $270 million.

Looking ahead to 2001, we expect profits in U.S. Printing Papers to improve as we continue to drive our profit improvement initiatives and balance our production to our orders. We expect uncoated markets to experience some pressure on pricing while maintaining stable volumes. European sales volumes are also expected to remain solid. With the sale of Zanders, our strategy will be to focus on value-added uncoated grades. With this focus and ongoing cost improvements, our outlook is good.

Industrial and Consumer Packaging

Industrial and Consumer Packaging sales totaled $7.6 billion in 2000, 9% better than the two previous years' sales of $7.0 billion. Operating profit of $773 million in 2000 improved 38% from the $562 million of 1999, mainly due to additional benefits from synergies realized from the Union Camp merger and manufacturing and commercial initiatives implemented across all of the businesses. Improved pricing during the first half of the year was offset by softer second half demand that resulted in significant mill production slowdowns to match our supply with demand. Higher fourth quarter energy costs also adversely affected results. Sales were $7.0 billion in 1998 and operating profit was $334 million.

Industrial and Consumer Packaging

In millions	**2000**	1999	1998
Sales	**$7,625**	$7,050	$7,010
Operating Profit	**$ 773**	$ 562	$ 334

Industrial Packaging revenues were $4.0 billion in 2000, up from $3.8 billion the previous year and $3.7 billion in 1998. Profits in 2000 improved 67% over 1999, after substantial improvement from 1998. While improved pricing benefited operating results, internal initiatives coupled with further savings from the Union Camp merger and the 2000 acquisition of Champion were the major reasons for the year-to-year profit gains. Demand remained healthy through the first half of 2000, but weakened progressively over the balance of the year. Domestic box shipments were about the same as 1999, but were slightly better than experienced across the industry despite the closure of four unprofitable facilities during the year. Second half mill production cutbacks were necessary to counter the market softness. Published domestic linerboard prices, after increasing in February, remained steady through the remainder of the year despite softer demand. Markets for our European converting operations improved during 2000, with volumes slightly better than 1999. The strong U.S. dollar, however, adversely impacted results reported by our non-U.S. operations, and detracted from our competitiveness in containerboard export markets. The inclusion of Champion's Roanoke Rapids, North Carolina, manufacturing facility in the second half of 2000 also contributed to the year-over-year earnings improvement.

During 2000, the Industrial Packaging business took more than one million tons of market related downtime in containerboard, representing more than 20% of our system capacity. Most of the downtime was taken during the third and fourth quarters as demand weakened significantly. Going forward, we expect continued softness in demand for the domestic business beyond the seasonally weak January/February time frame. Although the strong dollar has now retreated somewhat, it will take considerable time to regain our former position in export markets. Mill production will be managed as needed to keep our inventories in line with customer demand.

Consumer Packaging sales were $3.6 billion, up from $3.2 billion in 1999 and $3.3 billion in 1998. The revenue increase was mainly due to the acquisition of Shorewood in March 2000. Consumer Packaging's 2000 operating profit was comparable with both 1999 and 1998. Our internal process improvement program, which began in the mill system during 1999 and expanded into the converting businesses during 2000, has proven to be a major success and continues to add to earnings. However, weaker market conditions for most of the Consumer Packaging businesses and higher input costs offset most of the progress in 2000. Overall, bleached board prices were 5% higher than 1999. However, softening demand during the second half of the year resulted in production curtailments in the fourth quarter to balance internal supply with customer demand. A restructuring of the converting business in 2000, along with the addition of Shorewood, allowed us to move more quickly away from commodity grades. We closed or offered for sale certain facilities producing retail and beverage packaging, and are exploring strategic alternatives for our Flexible Packaging business, including its possible sale.

Looking ahead, markets are expected to remain under pressure in the short term. Success in 2001 will come from a focused execution of marketing and manufacturing initiatives, as well as from realignment in our converting businesses.

Distribution

North American and European distribution sales totaled $7.3 billion in 2000 compared with $6.9 billion in 1999 and $6.3 billion in 1998. Operating profit in 2000 increased 14% from 1999 and 40% from 1998. Sales margins increased from 1.5% in 1999 to 1.7% in 2000 due largely to operating efficiencies. Market conditions were highly competitive throughout the year.

Distribution

In millions	**2000**	1999	1998
Sales	**$7,255**	$6,850	$6,280
Operating Profit	**$ 120**	$ 105	$ 86

xpedx, our North American distribution operation, posted sales of $6.9 billion, up 6% from 1999, and 17% from 1998. The increase over 1999 was driven primarily by the acquisition of Nationwide, Champion's distribution operation. Excluding Nationwide, xpedx had sales of $6.5 billion in 2000, up 3% from 1999, reflecting slightly higher product prices and volumes. In 1999, xpedx and Alling & Cory, the distribution company acquired with Union Camp, were combined. Our integration strategy was to retain market segments that met our strategic and financial objectives. This strategy, coupled with a highly competitive pricing environment in 2000, and an economic slowdown in the fourth quarter resulted in a reduction in sales. However, operating profits rose as a result of cost reductions, which helped offset weaker market conditions in the second half of 2000.

In 2000, xpedx and Nationwide employed the same successful integration strategies used in the earlier Alling & Cory and Zellerbach acquisitions. By the end of 2000, integrations were complete in 21 of 28 metropolitan areas, eliminating duplicate facilities and causing a reduction of over 350 employees. Integrations at the remaining seven sites are targeted for completion in early 2001.

Our European distribution operations—Papeteries de France, Scaldia in the Netherlands and Impap in Poland—posted sales of $370 million, increasing 6% from 1999 and 9% from 1998. Operating profit increased 44% over 1999 and 81% over 1998.

Looking ahead, we expect pricing pressure and a continuing economic slowdown to negatively impact our business.

Forest Products

Forest Products sales were $3.5 billion, up from $3.2 billion in 1999 and $2.9 billion in 1998. Operating profit in 2000 of $602 million was down from $724 million in 1999 and $622 million in 1998. This decline was attributable to lower average building materials prices and sales volumes.

Forest Products

In millions	**2000**	1999	1998
Sales	**$3,465**	$3,205	$2,930
Operating Profit	**$ 602**	$ 724	$ 622

Forest Resources sales in 2000 were $848 million compared with $653 million in 1999 and $553 million in 1998. Operating profit was 23% higher than 1999 and 14% higher than 1998 primarily due to the inclusion of Champion results in the second half of 2000. While harvest volumes in 2000 were higher than 1999 and 1998, average prices declined from 1999, which were below the record levels seen in 1998. Average pine sawtimber and pulpwood prices in 2000 were lower than 1999 average prices by about 5% and 11%, respectively. Stumpage prices entering 2001 are well below comparable prices at the beginning of 1999. Furthermore, customer wood inventory levels at pulp and paper mills and wood products plants are generally at or near targeted levels. As a result, we do not expect any significant price improvement in early 2001, and we anticipate full-year prices will average less than 2000, and well below 1999. Harvest volumes in 2001 are also projected to be lower than the record volumes in 2000.

Wood Products sales in 2000 of $1.3 billion were off slightly from $1.4 billion in 1999, but higher than 1998 sales of $1.2 billion. This business reported a loss for the current year following a strong performance in 1999. The loss was due largely to significant pricing pressure and weak demand resulting from lower housing starts and increasing interest rates. Prices in 2000, compared with 1999, were off 21% for lumber, and about 26% in panels. We expect similar market conditions early in 2001 and will continue to manage capacity to keep supply in line with customer demand.

Canadian Wood Products, a former Champion business operated through Weldwood of Canada, reported sales of $190 million for the second half of 2000. By year-end, lumber prices had dropped significantly versus 1999. High inventories and low prices are expected to continue to negatively impact this business in 2001.

Masonite sales were $465 million in 2000, 9% below 1999 sales of $512 million and 7% below 1998 sales of $499 million. The sales decline was principally the result of a lower demand for siding and hardboard products as well as increased global competition in the molded door facings market. Prices for molded door facings continued to decline in 2000. Shipments in all business lines declined in the second half of the year as market conditions slowed. Operating profits for the year declined due to lower sales volumes, lower prices and higher input costs. Masonite is included in our program to divest non-strategic assets. In September 2000, we reached an agreement to sell Masonite to a third party.

Decorative Products sales were $619 million, down slightly from 1999 sales of $624 million and 6% from 1998 sales of $658 million. The decline in sales from 1998 reflects the closure and sale of several facilities in late 1998 and early 1999. Although sales were relatively flat in 2000, operating profits declined due to higher raw material, energy and manufacturing costs. Demand in the second half of the year was weak, particularly in particleboard, resulting in reduced operating schedules at several locations. We are exploring strategic alternatives for this business, including its possible sale.

Chemicals and Petroleum

Chemicals and Petroleum sales were $1.4 billion in 2000, down slightly from $1.5 billion in 1999 and 1998. Earnings were $161 million in 2000, up about 30% from the $124 million in 1999 and 18% from $136 million in 1998. Petroleum operations drove the improvements, which were offset, in part, by declines in the other businesses.

Chemicals and Petroleum

In millions	**2000**	1999	1998
Sales	**$1,395**	$1,455	$1,465
Operating Profit	**$ 161**	$ 124	$ 136

Chemicals sales were $845 million in 2000, compared with $885 million and $905 million in 1999 and 1998, respectively. Operating profit declined 23% from 1999 and 39% from 1998. The decline was primarily due to increased costs in the Chemical Cellulose pulp business. Offsetting this decline somewhat was an improved sales mix of higher valued products and a reduction of manufacturing costs from facility rationalizations in the commodity chemical and specialty adhesive resins businesses. These positive business strategies reduced the unfavorable impact of higher energy costs, higher raw material costs, and unfavorable foreign exchange rates. We are exploring strategic alternatives for our commodity chemical and specialty adhesive resins businesses and our Chemical Cellulose pulp business, including their possible sales.

Bush Boake Allen results are included up to November 8, 2000, the date we sold our interest in the company. Sales included for 2000 were $425 million compared with full year 1999 and 1998 sales of $500 million and $485 million, respectively. The 2000 partial year operating profit was about 12% higher than the full year 1999 operating profit, but about 15% lower than in 1998.

Petroleum sales of $125 million were well ahead of the $70 million in 1999 and $75 million in 1998. Operating profit was almost 150% higher than 1999 and nearly four times 1998 profits. Higher oil and gas prices had a positive impact on this business. Year-over-year average prices for oil and gas rose about 70%. Our exploration program, generally operated through joint ventures, was focused on West Texas, the Gulf Coast and the Gulf of Mexico and generated additional reserves that were slightly higher than production in 2000. On January 31, 2001, the oil and gas assets were conveyed to a third party.

Carter Holt Harvey

International Paper's results for this segment differ from those reported by Carter Holt Harvey in New Zealand in four major respects:

1. Carter Holt Harvey's reporting period is a fiscal year ending March 31. Our segment results are for the calendar year.
2. Our segment earnings include only our share of Carter Holt Harvey's operating earnings. Segment sales, however, represent 100% of Carter Holt Harvey's sales.
3. Carter Holt Harvey reports in New Zealand dollars but our segment results are reported in U.S. dollars. The weighted average currency exchange rate used to translate New Zealand dollars to U.S. dollars was 0.46 in 2000, 0.52 in 1999 and 0.54 in 1998.
4. Carter Holt Harvey reports under New Zealand accounting standards, but our segment results comply with U.S. generally accepted accounting principles. The major differences relate to cost of timber harvested (COTH), land sales, equity investment in COPEC and start-up costs. These differences reduced segment earnings by about $20 million in 2000, $50 million in 1999 and $40 million in 1998.

Carter Holt Harvey

In millions	**2000**	1999	1998
Sales	**$1,675**	$1,605	$1,505
Operating Profit	**$ 71**	$ 39	$ 20

Carter Holt Harvey's segment sales were $1.7 billion in 2000 compared with $1.6 billion in 1999 and $1.5 billion in 1998. Operating profit of $71 million was up over 80% from the $39 million in 1999 and more than triple the $20 million reported in 1998. The increase was mainly due to improved demand in Asia and Australia, improved operational performance at the Kinleith pulp and paper mill, increased harvest volumes and added contribution from an Australian panels business acquired in May 2000.

Forests sales were up 27% due to increased harvest volumes and some price improvement in both domestic and export markets. Wood Products net sales improved by 37%, due to the acquisition of an Australian panels business during the year. The slowdown in residential construction led to lower timber sales volumes while log costs were higher than 1999. Net sales for the pulp, paper and tissue business were up 20%, and operating profit was significantly higher than a year ago. The enhanced performance was driven by rising prices for pulp and linerboard, while the Kinleith mill operations improved due to the completion of a major mill modernization. A number of production records were set at the Kinleith mill during the year including total annual output. The 24,000-ton Mataura fine paper mill was shut down during the year for an indefinite period. The tissue business was adversely impacted by higher pulp prices, while markets remained very competitive. Although packaging markets in New Zealand and Australia also remained highly competitive, some price improvement helped to offset higher linerboard costs. The packaging operations reported a profit for the year. The plastics packaging business was sold during the fourth quarter.

The outlook is mixed with pricing for export logs, pulp and linerboard dependent upon the overall level of economic activity in Asia. Construction markets in Australia and New Zealand, which slowed during 2000, appear to have leveled but we are not expecting early improvement.

Liquidity and Capital Resources

Cash Provided by Operations

Cash provided by operations totaled $2.4 billion for 2000, compared with $1.7 billion in 1999 and $2.1 billion in 1998. The largest factor in the increase in operating cash flow in 2000 was higher earnings before special and extraordinary items. Excluding special and extraordinary items, after taxes and minority interest, net earnings for 2000 increased $418 million from 1999. The largest factors in the decrease in operating cash flow in 1999 were payments related to the Union Camp merger and restructuring and legal reserves. Excluding special and extraordinary items, after taxes and minority interest, net earnings for 1999 increased $206 million compared with 1998. An increase in working capital reduced 2000 operating cash flow by $146 million. Working capital changes decreased 1999 operating cash flow by $32 million and increased 1998 operating cash flow by $74 million. Depreciation and amortization expense was $1.9 billion in 2000 and $1.7 billion in 1999 and 1998.

Investment Activities

Capital spending was $1.4 billion in 2000, or 71%, of depreciation and amortization as compared to $1.1 billion, or 68%, of depreciation and amortization in 1999, and $1.3 billion, or 80%, of depreciation and amortization in 1998. The increase in spending in 2000 was the result of capital projects for Champion and Shorewood. As part of our program to improve return on investment, we plan to continue to hold capital spending well below depreciation and amortization. We plan to spend $1.2 billion in capital in 2001. The following table presents capital spending by each of our business segments for the years ended December 31, 2000, 1999 and 1998.

In millions	**2000**	1999	1998
Printing Papers	**$ 447**	$ 382	$ 302
Industrial and Consumer Packaging	**333**	287	391
Distribution	**24**	16	19
Forest Products	**262**	189	222
Chemicals and Petroleum	**90**	104	170
Carter Holt Harvey	**100**	99	166
Subtotal	**1,256**	1,077	1,270
Corporate and other	**96**	62	52
Total	**$1,352**	$1,139	$1,322

On June 20, 2000, International Paper completed the previously announced acquisition of Champion, a leading manufacturer of paper for business communications, commercial printing and publications with significant market pulp, plywood and lumber manufacturing operations. Champion shareholders received $50 in cash and $25 worth of International Paper common stock for each Champion share. The acquisition was completed for approximately $5 billion in cash and 68.7 million shares of International Paper common stock with a market value of $2.4 billion. Approximately $2.8 billion of Champion debt was assumed.

On March 31, 2000, we acquired Shorewood, a leader in the manufacture of premium retail packaging, for approximately $640 million in cash and the assumption of $280 million of debt.

On April 28, 2000, Carter Holt Harvey purchased CSR Limited's (CSR) medium density fiberboard and particleboard businesses and its Oberon sawmill for approximately $200 million in cash.

The Champion, Shorewood and CSR acquisitions were accounted for using the purchase method. Their results of operations are included in International Paper's consolidated statement of earnings from their respective dates of acquisition. The accompanying consolidated balance sheet as of December 31, 2000, reflects preliminary purchase price allocations for Champion, Shorewood and CSR to the fair value of the assets and liabilities acquired.

In connection with the Champion acquisition, we announced a divestment program that we now estimate will generate gross proceeds of approximately $5 billion by the end of 2001. As of March 1, 2001, about $1.2 billion of proceeds have been realized under the program, primarily from the dispositions of Bush Boake Allen, the oil and gas interests, Zanders and the former Champion headquarters building. It is possible that additional charges will be required in 2001 as specific businesses are identified for sale. See Note 7–Businesses Held for Sale for information related to the planned sales under this program.

Also, at the time of the Champion acquisition, Moody's lowered our long-term debt rating to Baa1. At December 31, 2000, outstanding debt included approximately $2.1 billion of borrowings with interest rates that fluctuate based on market conditions and our credit rating.

The merger with Union Camp was completed on April 30, 1999. Union Camp shareholders received 1.4852 International Paper common shares for each Union Camp share held. The total value of the transaction, including the assumption of debt, was approximately $7.9 billion. International Paper issued 110 million shares for 74 million Union Camp shares, including options. The merger was accounted for as a pooling-of-interests.

Also in April 1999, Carter Holt Harvey acquired the corrugated packaging business of Stone Australia, a subsidiary of Smurfit-Stone Container Corporation. The business consists of two sites in Melbourne and Sydney, which serve industrial and primary produce customers.

During 1998, International Paper acquired the Zellerbach distribution business from the Mead Corporation for $261 million in cash, Weston Paper and Manufacturing Company through the exchange of 4.7 million International Paper common shares valued at $232 million, and Svetogorsk AO, a Russia-based pulp and paper business. Carter Holt Harvey and International Paper jointly acquired Marinetti S.A.'s paper cup division based in Chile, and Australia-based Continental Cup. Carter Holt Harvey separately acquired Riverwood International, an Australia-based folding carton business. We also entered into a joint venture with Olmuksa in Turkey to manufacture containerboard and corrugated boxes. Finally, a wholly owned subsidiary of International Paper purchased all of the publicly-traded Class A depository units of IP Timberlands, Ltd. for $100 million in cash.

All of the above acquisitions were accounted for using the purchase method, with the exception of the Union Camp acquisition, which was accounted for as a pooling-of-interests. The operating results of those acquisitions accounted for under the purchase method have been included in the consolidated statement of earnings from the dates of acquisition.

In November 2000, International Paper sold its interest in Bush Boake Allen for $640 million, resulting in an extraordinary gain of $183 million after taxes and minority interest. This transaction was completed as part of our asset sale program. Bush Boake Allen, which had been included in the Chemicals and Petroleum segment, contributed sales of $425 million, $500 million and $485 million and operating earnings of $31 million, $28 million and $37 million for each of the three years ended December 31, 2000, 1999 and 1998, respectively.

In January 2000, International Paper sold its equity interest in Scitex for $79 million, and Carter Holt Harvey sold its equity interest in Compania de Petroleos de Chile (COPEC) for just over $1.2 billion. These sales resulted in a combined extraordinary gain of $134 million after taxes and minority interest. The gains on these sales are recorded as extraordinary items pursuant to the pooling-of-interests rules.

Financing Activities

Financing activities during 2000 included $6.3 billion of debt issuance. This increase included $4.3 billion in long-term debt and $2 billion of short-term debt instruments (largely commercial paper) issued mainly to finance the Champion and Shorewood acquisitions. In addition, we assumed approximately $3 billion of debt associated with acquisitions, and subsequently reduced the acquired debt balances by $450 million. We repaid $600 million of maturing long-term debt and $1.0 billion in short-term debt from divestiture proceeds and operating cash flows, as well as $700 million of Carter Holt Harvey debt from proceeds received on the sale of their interest in COPEC.

Financing activities during 1999 included an early extinguishment of $275 million of high interest debt that was assumed in the acquisition of Union Camp, at an after tax cost of $16 million, which is reflected as an extraordinary item in the 1999 statement of earnings. Other debt, primarily short-term, was reduced by $540 million.

Financing activities during 1998 included $1.9 billion in net reductions, primarily of short-term debt, and the issuance of $1.5 billion of preferred securities of subsidiaries.

Dividend payments were $447 million, $418 million and $431 million in 2000, 1999 and 1998, respectively. On a per share basis, dividend payments were $1.00 in 2000, $1.01 in

1999, and $1.05 in 1998. The International Paper dividend remained at $1.00 per share during the three-year period. However, dividend payments on a per share basis for 1999 and 1998 have been restated to include dividends paid by Union Camp.

At December 31, 2000, cash and temporary investments totaled $1.2 billion compared to $453 million at December 31, 1999. This increase was due primarily to $500 million remaining from Carter Holt Harvey's sale of COPEC. The balance of the increase was related to the operations in Brazil and Canada that were acquired through the Champion acquisition.

Capital Resources Outlook for 2001

Our financial condition continues to be strong. We anticipate that cash flow from operations, supplemented by proceeds from sales of our divested businesses and certain other assets and short- or long-term borrowings as necessary, will be adequate to fund our capital expenditures, to service and reduce existing debt, and to meet working capital and dividend requirements during 2001.

Other Financial Statement Items

Net interest expense increased to $816 million in 2000 compared with $541 million in 1999 and $614 million in 1998. The increase reflects the net increase in total debt outstanding, after adjusting for the effects of currency translation, from December 1999 to December 2000. Proceeds received from the sale of assets in 1998, 1999 and 2000, as well as proceeds from the issuance of preferred securities, were used to reduce debt and for other general corporate purposes.

Minority interest increased to $238 million of expense in 2000, compared with $163 million in 1999 and $87 million in 1998. The increase in 2000 was mainly due to the minority shareholders' portion of the gain on the sale of Carter Holt Harvey's investment in COPEC in January 2000. The increase in minority interest expense from the year ended December 31, 1998, to the year ended December 31, 1999, was primarily due to an increase in earnings at Carter Holt Harvey in 1999, and the fact that preferred securities of subsidiaries issued during 1998 were outstanding for the full year in 1999.

Net periodic pension results for the U.S. defined benefit plans were income of $101 million, $49 million and $77 million in 2000, 1999 and 1998, respectively. The variation between pension income in 2000 and 1999 was primarily due to the acquisition of Champion. The variation between pension income in 1999 and 1998 was primarily due to the expiration of International Paper's transition asset amortization that reduced 1999 pension income by $26 million as compared to 1998.

On June 1, 1999, International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by $179 million.

Special Items Including Restructuring and Business Improvement Actions

2000: Special items reduced 2000 net earnings by $601 million, 1999 net earnings by $352 million and 1998 net earnings by $98 million. The following table and discussion presents the impact of special items for 2000:

In millions	2000	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$1,692	$ 969
Merger-related expenses	(54)	(33)
Restructuring and other charges	(824)	(509)
Provision for legal reserves	(125)	(80)
Reversals of reserves no longer required	34	21
After special items	$ 723	$ 368

During 2000, special charges before taxes and minority interest of $969 million ($601 million after taxes and minority interest) were recorded. These special items included a $54 million pre-tax charge ($33 million after taxes) for merger-related expenses, an $824 million charge before taxes and minority interest ($509 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $125 million pre-tax charge ($80 million after taxes) for additional Masonite legal reserves and a $34 million pre-tax credit ($21 million after taxes) for the reversals of reserves no longer required. A further discussion of the Masonite legal reserves, can be found in Note 11–Commitments and Contingent Liabilities.

The merger-related expenses of $54 million consisted primarily of travel, systems integration, employee retention, and other one-time cash costs related to the Champion acquisition and Union Camp merger.

The $824 million charge for the asset shutdowns of excess internal capacity and cost reduction actions consisted of a $71 million charge in the second quarter of 2000 and a $753 million charge in the fourth quarter of 2000.

The second quarter charge of $71 million consisted of $40 million of asset write-downs and $31 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$22	$ 7	$29
Consumer Packaging	(b)	7	9	16
Industrial Papers	(c)	9	4	13
Other	(d)	2	11	13
		$40	$31	$71

(a) The Printing Papers business shut down the Millers Falls, Massachusetts mill in August 2000 due to excess internal capacity. Charges associated with the shutdown included $22 million to write down the assets to their estimated fair market value of zero, $2 million of severance costs covering the termination of 119 employees, and other exit costs of $3 million. The Millers Falls mill had revenues of $33 million, $39 million and $44 million in 2000, 1999 and 1998, respectively. The mill had no operating income in 2000 and operating income of $3 million in both 1999 and 1998. At December 31, 2000, all 119 employees had been terminated.

Also, a severance charge of $2 million was recorded covering the elimination of 108 salaried positions at the Franklin, Virginia mill in a continuing effort to improve its cost effectiveness and long-term competitive position. At December 31, 2000, 103 employees had been terminated.

(b) The Consumer Packaging business implemented a plan to reduce excess internal capacity and streamline administrative functions at several of its locations as a result of the Shorewood acquisition. As a result, the Richmond, Virginia facility was shut down in June 2000. Charges associated with this shutdown included $6 million to write down assets to their fair market value of zero, $2 million of severance costs covering the termination of 126 employees, and other exit costs of $1 million. This facility had revenues of $8 million, $23 million and $37 million in 2000, 1999 and 1998, respectively. The Richmond facility had operating losses of $2 million and $1 million in 2000 and 1999, respectively, and operating income of $3 million in 1998. At December 31, 2000, 125 employees had been terminated.

Management also permanently idled the lithographic department of the Clinton, Iowa facility. This action will allow the Retail Packaging business to better focus its resources for further profit improvement. Related charges included $1 million of asset write-downs, $3 million of severance costs covering the termination of 187 employees, and $2 million of other exit costs. At December 31, 2000, 151 employees had been terminated.

A severance reserve of $1 million was also established to streamline the Consumer Packaging business. This reserve covers the termination of 17 employees. At December 31, 2000, all 17 employees had been terminated.

(c) Industrial Papers shut down the Knoxville, Tennessee converting facility in December 2000 to reduce excess internal capacity. Assets were written down $9 million to their estimated fair market value and a severance charge of $1 million was recorded to terminate 120 employees. Other exit costs totaled $3 million. The Knoxville facility had revenues of $46 million, $62 million and $56 million in 2000, 1999 and 1998, respectively. This facility had operating income of $2 million in 2000 and 1999, and an operating loss of $2 million in 1998. At December 31, 2000, the head count had been reduced by 106 employees.

(d) Other includes $8 million related to Industrial Packaging, primarily for the shutdown of the Tupelo, Mississippi sheet plant. The Industrial Packaging charge included $2 million of asset write-offs, $5 million of severance costs covering the termination of 221 employees and $1 million of other cash costs. At December 31, 2000, 212 employees had been terminated.

Other also includes $5 million related to the indefinite shutdown of Carter Holt Harvey's Mataura paper mill. This charge included $3 million of severance costs covering the termination of 158 employees and $2 million of other cash costs. At December 31, 2000, all 158 employees had been terminated.

The fourth quarter charge of $753 million consisted of $536 million of asset write-downs and $217 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$293	$103	$396
Consumer Packaging	(b)	86	7	93
Industrial Packaging	(c)	114	46	160
Chemicals and Petroleum	(d)	16	18	34
Forest Products	(e)	15	20	35
Distribution	(f)	3	19	22
Carter Holt Harvey	(g)	1	4	5
Other	(h)	8	–	8
		$536	$217	$753

(a) The Printing Papers business announced the indefinite closure of the Mobile, Alabama mill and permanent closure of the Lock Haven, Pennsylvania mill. The announcement was in conjunction with the business's plan to realign and rationalize papermaking capacity to benefit future operations. Charges associated with the Mobile shutdown included $223 million to write assets down to their salvage value, $31 million of severance costs covering the termination of 760 employees, and other exit costs of $41 million. The Mobile mill had revenues of $274 million, $287 million and $258 million in 2000, 1999 and 1998, respectively. This mill had operating earnings of $34 million and $8 million in 2000 and 1999, respectively, and an operating loss of $43 million in 1998. Charges associated with the Lock Haven shutdown included $70 million to write the assets down to their salvage value, $16 million of severance costs covering the termination of 589 employees, and other exit costs of $15 million. The Lock Haven mill had revenues of $267 million in 2000 and $225 million in each of 1999 and 1998. This mill had an operating loss of $21 million in 2000, and operating earnings of $12 million and $27 million in 1999 and 1998, respectively.

(b) The Consumer Packaging business announced shutdowns of the beverage packaging converting plant in Jamaica and the packaging facility in Cincinnati, Ohio. Production at the Jamaica plant was moved to Venezuela to increase plant utilization. The Cincinnati facility was closed in order to better align our manufacturing system with customer demand. Charges associated with these shutdowns included $6 million of asset write-downs, $5 million of severance costs covering the termination of 239 employees, and other exit costs of $2 million. The Consumer Packaging charge also included an $80 million asset impairment due to continuing losses in its aseptic business. The aseptic assets were written down to their estimated fair market value based on expected future discounted cash flows.

(c) The Industrial Packaging business charge of $160 million is related to the closure of the Camden, Arkansas mill, the shutdown of the Pedemonte, Italy container plant and the write-down of the Walsum No. 10 paper machine. The Camden mill, which produced unbleached kraft and multiwall paper, was closed due to the declining kraft paper market, excess internal capacity and shrinking customer demand. The mill's assets were written down $102 million to their salvage value, and severance costs of $24 million were recorded to cover the termination of 613 employees. Other exit costs totaled $15 million. The Camden mill had revenues of $151 million, $162 million and $153 million and operating earnings of $14 million, $22 million and $18 million in 2000, 1999 and 1998, respectively. Charges associated with the Pedemonte plant shutdown included $2 million of asset write-downs, $3 million of severance costs covering the termination of 83 employees, and $4 million of other exit costs. The Pedemonte plant had revenues of $9 million, $11 million and $15 million in 2000, 1999 and 1998, respectively. This plant had operating losses of $2 million in 2000 and 1999 and $1 million in 1998. The business also wrote down the Walsum No. 10 paper machine acquired in the Union Camp merger by $10 million to its estimated fair market value.

(d) The Chemicals and Petroleum business charge of $34 million was related to the announced closure of the Oakdale, Louisiana plant. This is part of the business's Asset Rationalization Program to increase earnings, improve plant efficiencies and reduce excess internal capacity. A portion of the facility was shut down at the end of 2000, with the remainder to be closed by the end of 2001. The charge included $16 million to write the assets down to their estimated fair market value of zero, $1 million of severance costs covering the termination of 61 employees, and $17 million of other exit costs. The Oakdale plant had revenues of $31 million, $30 million and $32 million and operating earnings of $3 million, zero and $6 million in 2000, 1999 and 1998, respectively.

(e) The Forest Products business charge of $35 million was primarily related to the announced shutdown of the Washington, Georgia lumber mill and restructuring costs associated with the Mobile mill closure. The Washington lumber mill will be closed due to unfavorable market conditions and excess internal capacity. The mill had revenues of $54 million, $66 million and $62 million in 2000, 1999 and 1998, respectively. This facility had an operating loss of $6 million in 2000, operating income of $2 million in 1999, and an operating loss of $3 million in 1998. The total Forest Products business charge included $15 million of asset write-downs, $7 million of severance costs covering the termination of 264 employees, and $13 million of other exit costs.

(f) xpedx, our distribution business, implemented a restructuring plan to consolidate duplicate facilities, eliminate excess internal capacity and increase productivity. The $22 million charge associated with this plan included $3 million of asset write-downs, $15 million of severance costs covering the termination of 433 employees, and $4 million of other cash costs.

(g) The Carter Holt Harvey charge of $5 million is related to cost reduction actions primarily associated with the tissue and packaging businesses. This charge included $1 million of asset write-downs and $4 million of severance covering the termination of 145 employees.

(h) This $8 million charge relates to the write-down of our investment in PaperExchange.com, an online provider of e-commerce for the paper industry, to its estimated fair market value.

Also, a pre-tax credit of $28 million was recorded for excess 1999 second and fourth quarter restructuring reserves no longer required, and a pre-tax credit of $6 million was recorded for excess Union Camp merger-related termination benefits reserves no longer required.

The following table presents a roll forward of the severance and other costs included in the 2000 restructuring plans:

In millions	Severance and Other
Opening Balance (second quarter 2000)	$ 31
Additions (fourth quarter 2000)	217
2000 Activity	
Cash charges	(19)
Balance, December 31, 2000	$229

The severance charges recorded in the second and fourth quarters of 2000 related to 4,243 employees. As of December 31, 2000, 991 employees had been terminated.

1999: The following table and discussion presents the impact of special items for 1999:

In millions	1999	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$1,005	$ 551
Union Camp merger-related termination benefits	(148)	(97)
Merger-related expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversals of reserves no longer required	36	27
After special items	$ 448	$ 199

During 1999, special charges before taxes and minority interest of $557 million ($352 million after taxes and minority interest) were recorded. These special items included a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for merger-related expenses, a $298 million charge before taxes and minority interest ($180 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves, and a $36 million pre-tax credit ($27 million after taxes) for the reversals of reserves that were no longer required.

The merger-related expenses of $107 million consisted of $49 million of merger costs and $58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses included costs related to employee retention, such as stay bonuses, and other cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefits charge related to employees terminating after the effective date of the merger under an integration benefits program. Under this program, 1,218 employees of the combined company were originally identified for termination. An additional 346 employees left the company after the merger was announced, but were not eligible for benefits under the integration benefits program completed in the third quarter of 2000. Benefits payable under this program for certain senior executives and managers were paid from the general assets of International Paper. Benefits for remaining employees were primarily paid from plan assets of our qualified pension plan. In total, 1,062 employees were terminated. Related cash payments approximated $71 million (including payments related to our nonqualified pension plans). The remainder of the costs incurred primarily represented an increase in the projected benefit obligation of our qualified pension plan. Upon termination of the program in the third quarter of 2000, $6 million of the original reserve of $148 million was reversed to income.

The following table is a roll forward of the Union Camp merger-related termination benefits charge:

Dollars in millions	Termination Benefits
Special charge (1,218 employees)	$ 148
1999 incurred costs (787 employees)	(116)
2000 incurred costs (275 employees)	(26)
Reversal of reserve no longer required	(6)
Balance, December 31, 2000	$ –

Note: Benefit costs are treated as incurred on the termination date of the employee.

The $298 million charge for asset shutdowns of excess internal capacity consisted of a $113 million charge in the second quarter of 1999 and a $185 million charge in the fourth quarter of 1999.

The second quarter $113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions included $57 million of asset write-downs and $56 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$ 6	$ 27	$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12	–	12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		$ 57	$ 56	$113

(a) International Paper recorded a charge of $24 million for severance related to the second phase of the Printing Papers business plan to improve the cost position of its mills. The charge, pursuant to an ongoing severance program, covered a reduction of approximately 289 employees at several mills in the U.S. At December 31, 2000, 258 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill due to excess internal capacity. Both machines have now been shut down. The machines were written down by $6 million to their estimated fair market value of zero. Severance costs of $3 million were recorded to cover the termination of 147 employees. At December 31, 2000, 142 employees had been terminated.

(b) The charge for European Papers, which covered the shutdown of two mills, consisted of $3 million in asset write-downs, $6 million in severance costs and $1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess internal capacity. The Lana mill produced high-end uncoated specialty paper that was shifted to the La Robertsau mill in Strasbourg, France. The mill's fixed assets were written down $3 million to their estimated fair market value of zero. Costs of $1 million related to the site closure and severance of $4 million related to the termination of 42 employees were also recorded. The Lana mill had revenues of $12 million and an operating loss of $2 million for the year ended December 31, 1999. At December 31, 2000, all 42 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The assets at this plant had been considered to be impaired in 1997 and were written down at that time because of a decline in the market for thermal fax paper. A $2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of $6 million and an operating loss of $3 million for the year ended December 31, 1999. At December 31, 2000, all 81 employees had been terminated.

(c) The Consumer Packaging business implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan was the shutdown of the No. 3 paper machine, which produced labels. This production was transferred to the Hudson River mill. The machine was written down $6 million to its estimated fair market value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine totaled $10 million and covered the elimination of 360 positions. At December 31, 2000, 331 employees had been terminated.

Consumer Packaging also shut down the Beverage Packaging facility in Itu, Brazil in an effort to reduce excess internal capacity in Latin America. The related assets were written down $13 million to their estimated fair market value of zero, and a severance charge of $1 million covering the elimination of 29 positions was recorded. Other exit costs totaled $1 million. At December 31, 2000, 27 employees had been terminated.

(d) With the merger of Union Camp, International Paper negotiated the resolution of contractual commitments related to an Industrial Packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A $12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

(e) As a result of an overall reduction in demand for dissolving pulp, a decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction totaled $10 million and included the shutdown of several pieces of equipment. A severance charge of $3 million was recorded to eliminate 89 positions. At December 31, 2000, all 89 employees had been terminated.

(f) The Industrial Papers business implemented a plan to reduce excess internal capacity at several of its locations. The Toronto, Canada plant was closed. Equipment at the Kaukauna, Wisconsin, Knoxville, Tennessee and Menasha, Wisconsin facilities was taken out of service. The total amount related to the write-down of these assets was $7 million. Severance costs related to these shutdowns were $5 million, based on a personnel reduction of 81 employees. Other exit costs totaled $2 million. At December 31, 2000, 73 employees had been terminated.

The $185 million fourth quarter charge for shutdowns of excess internal capacity and cost reduction actions included $92 million of asset write-downs and $93 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$ 7	$ 5	$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		$ 92	$ 93	$185

(a) The Printing Papers charge encompassed a $2 million severance charge related to a production curtailment at the Erie, Pennsylvania mill due to lower demand, a $3 million write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system, and a $7 million impairment of our investment in the Otis Hydroelectric plant. In November 1999, the Erie mill changed from a seven-day, four-crew schedule to a three-crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in the termination of 99 employees. At December 31, 2000, all 99 employees had been terminated. We wrote down our investment in the Otis Hydroelectric partnership to the approximate fair market value of the investment based upon our offer to acquire the other partner's interest.

(b) The Consumer Packaging charge of $36 million was related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant was shut down in June 2000 and the Edmonton, Alberta plant was shut down in April 2000. Charges associated with these shutdowns included $7 million of asset write-downs, $1 million of severance costs covering the termination of 194 employees, and other exit costs of $5 million. At December 31, 2000, all 194 employees had been terminated. Charges related to eliminating excess internal capacity included $7 million of asset write-downs and a severance charge of $11 million for the termination of 512 employees. The capacity reductions related to the aseptic and flexible packaging businesses. At December 31, 2000, 381 employees had been terminated. The business also discontinued the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system was $5 million.

(c) The Industrial Packaging business shut down the following plants and shifted production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina was also closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business totaled $21 million and included $7 million of asset write-downs, a $12 million severance charge covering the termination of 426 employees, and other exit costs of $2 million. At December 31, 2000, 309 employees had been terminated.

(d) The Chemicals and Petroleum charge of $50 million related to the partial shutdown of the Chester-le-Street plant located in northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-le-Street plant was a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site were closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant totaled $30 million. A severance charge of $3 million covered the termination of 83 employees. Other costs of $12 million included demolition and contract cancellations. At December 31, 2000, all 83 employees had been terminated. We also recorded an additional charge of $5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of $16 million included $3 million for a program to improve the profitability of the decorative surfaces business and $13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business developed an improvement plan to consolidate certain manufacturing activities and streamline administrative functions. As a result, a reserve was established to cover asset write-offs totaling $2 million, and severance charges of $1 million were recorded related to the reduction of 65 employees. At December 31, 2000, 38 employees had been terminated.

International Paper announced in October 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. Softboard production was moved to our Ukiah, California and Lisbon Falls, Maine facilities. The related charge included $8 million of asset write-downs, a $2 million severance charge covering the termination of 155 employees, and $3 million of other exit costs. At December 31, 2000, 149 employees had been terminated.

(f) xpedx implemented a plan to consolidate duplicate facilities and eliminate excess internal capacity. The $23 million charge associated with this plan included $6 million of asset write-downs, a severance charge of $5 million for the termination of 211 employees, and other costs of $12 million. Other costs consisted primarily of lease cancellations. At December 31, 2000, 197 employees had been terminated.

(g) This charge related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down by $18 million to its estimated salvage value. Also, severance costs of $9 million were recorded to cover the costs of terminating 300 employees. At December 31, 2000, all 300 employees had been terminated.

The $30 million pre-tax charge to increase existing legal reserves included $25 million added to the reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11–Commitments and Contingent Liabilities.

The $36 million pre-tax credit for reserves no longer required consisted of $30 million related to a retained exposure at the Lancey mill in France and $6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, with the reserve returned to income in the second quarter.

The following table presents a roll forward of severance and other costs included in the 1999 restructuring plans:

In millions	Severance and Other
Opening Balance (second quarter 1999)	$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
2000 Activity	
Cash charges	(75)
Other charges	(13)
Reversals of reserves no longer required	(14)
Balance, December 31, 2000	$ 13

The severance reserves recorded in the second and fourth quarters of 1999 related to 3,163 employees. At December 31, 2000, 2,793 employees had been terminated. Reserves of $14 million were determined to no longer be required and reversed to income in the fourth quarter of 2000. The remaining $13 million of reserves represents costs to be incurred or severance to be paid in the first quarter of 2001.

1998: The following table and discussion presents the impact of special items for 1998:

In millions	1998	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 598	$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	$ 429	$ 247

During 1998, International Paper recorded $111 million of oil and gas impairment charges ($68 million after taxes); $56 million ($35 million after taxes) in the fourth quarter and $55 million ($33 million after taxes) in the third quarter. International Paper had oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of International Paper's properties was written down through these noncash charges.

Also in 1998, International Paper recorded a $145 million pre-tax restructuring charge ($82 million after taxes and minority interest) consisting of $64 million of asset write-downs and $81 million of severance costs, and recorded pre-tax charges of $16 million ($10 million after taxes) related to International Paper's share of write-offs taken by Scitex, a then-owned 13% investee company, related to an acquisition of in-process research and development and its exit from the digital video business. The Scitex items were reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. International Paper sold its equity interest in Scitex in January 2000. In addition, International Paper recorded a $20 million pre-tax gain ($12 million after taxes) on the sale of its Veratec nonwovens division, and an $83 million pre-tax credit ($50 million after taxes) from the reversals of previously established reserves that were no longer required. These reserves had been established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998, and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the $145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
Distribution	(a)	$ 20	$ 10	$ 30
Printing Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)	–	15	15
		$ 64	$ 81	$145

(a) After the acquisition of Zellerbach, management of xpedx terminated certain software projects that were in process and began to use Zellerbach's systems in certain of its regions. Accordingly, $20 million of deferred software costs were written off. In addition, a $10 million severance charge was recorded to terminate 274 xpedx employees at duplicate facilities and locations. At December 31, 1999, all 274 employees had been terminated.

(b) International Paper's Printing Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of $13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the three mills was $14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consisted of a $15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also closed the Taupo, New Zealand

sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The $3 million severance charge represented the cost of terminating 236 employees. At December 31, 1999, all 236 employees had been terminated. International Paper's consolidated financial statements included revenues of $21 million and operating income of $1 million from these facilities in 1998.

(d) Management indefinitely closed the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from $13 million to the estimated salvage value of $5 million. In connection with this decision to close, 298 employees at the mill were terminated and a $7 million severance charge was recorded. This mill had revenues of $78 million and operating losses of $16 million in 1998.

(e) During 1998, Union Camp recorded a pre-tax special charge of $40 million. Included in the charge was $32 million related to the termination of 540 positions and $8 million of asset write-downs. Approximately 190 of these positions related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions related to a consolidation of the packaging group's administrative support functions. The remaining 160 positions related to a series of other organizational changes. At December 31, 1999, all 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The $15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources, and the consolidation of the Consumer Packaging group. Of the $15 million charge, $10 million related to a head count reduction of 200 employees in the Forest Resources group and the remaining $5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all 410 employees had been terminated.

The following table presents a roll forward of the severance costs included in the 1998 restructuring plan:

In millions	Severance
Opening Balance (third quarter 1998)	$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reversal of reserve no longer required	(6)
Balance, December 31, 1999	$ –

The severance reserve recorded in the third quarter of 1998 related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

Ongoing Profit Improvement Review

International Paper continually evaluates its operations for improvement. When any such plans are finalized, we may incur costs or charges in future periods related to improvement plans when and if such plans are implemented.

Income Taxes

Before special and extraordinary items, the 2000 and 1999 effective income tax rate was 28% of pre-tax earnings, increasing from 26% in 1998. The effective income tax rates are below the U.S. statutory tax rate primarily because of the geographic mix of overall taxable earnings and the impact of state tax and other credits. After special items, the effective income tax rate was 16%, 19% and 22% for 2000, 1999 and 1998, respectively. We estimate that the 2001 effective income tax rate will be approximately 31% based on expected earnings and business conditions, which are subject to change.

The following tables present the impact of the special items on the effective income tax rate for the three years. Taxes on special charges were provided at statutory rates except for those charges that represent tax deductions that management does not believe will be realized.

In millions	2000		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special and extraordinary items	$1,692	$ 480	28%
Merger-related expenses	(54)	(21)	39%
Restructuring and other charges	(824)	(310)	38%
Provision for legal reserves	(125)	(45)	36%
Reversals of reserves no longer required	34	13	38%
After special items	$ 723	$ 117	16%

In millions	1999		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special and extraordinary items	$1,005	$ 281	28%
Union Camp merger-related termination benefits	(148)	(51)	34%
Merger-related expenses	(107)	(29)	27%
Restructuring and other charges	(298)	(108)	36%
Environmental remediation charge	(10)	(4)	40%
Provision for legal reserves	(30)	(12)	40%
Reversals of reserves no longer required	36	9	25%
After special items	$ 448	$ 86	19%

In millions	1998		
	Earnings (Loss) Before Income Taxes and Minority Interest	Income Tax Provision (Benefit)	Effective Tax Rate
Before special items	$ 598	$ 158	26%
Oil and gas impairment charges	(111)	(43)	39%
Restructuring and other charges	(161)	(61)	38%
Gain on sale of business	20	8	40%
Reversals of reserves no longer required	83	33	40%
After special items	$ 429	$ 95	22%

Recent Accounting Developments

In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

International Paper will adopt SFAS No. 133 (as amended by SFAS No. 138) as of January 1, 2001. We estimate that adoption will require a one-time, non-cash charge before taxes and minority interest of approximately $23 million ($14 million after taxes and minority interest), which will be recorded as a cumulative change in accounting method.

Legal and Environmental Issues

International Paper is subject to extensive federal and state environmental regulation as well as similar regulations in all other jurisdictions in which we operate. Our continuing objectives are to: (1) control pollutants discharged into the air, water and groundwater to avoid adverse impacts on the environment, (2) make continual improvements in environmental performance, and (3) maintain 100% compliance with applicable laws and regulations. A total of $190 million was spent in 2000 for capital projects to control environmental releases into the air and water, and to assure environmentally sound management and disposal of waste. We expect to spend approximately $136 million in 2001 for similar capital projects, including the costs to comply with the Environmental Protection Agency's (EPA) Cluster Rule regulations. Amounts to be spent for environmental control projects in future years will depend on new laws and regulations and changes in legal requirements and environmental concerns. Taking these uncertainties into account, our preliminary estimate for additional environmental appropriations during the period 2002 through 2003 is approximately $307 million in total.

On April 15, 1998, the EPA issued final Cluster Rule regulations that established new requirements regarding air emissions and wastewater discharges from pulp and paper mills to be met by 2006. The projected costs included in our estimate related to the Cluster Rule regulations for the years 2001 through 2002 are $116 million. Projected Cluster Rule costs for 2003 through 2006 are in the range of $330 million

to $370 million. Included in these estimates are costs associated with combustion source standards for the pulp and paper industry, which were issued by the EPA on January 12, 2001. The final cost depends on the outcome of the Cluster Rule water regulations for pulp and paper categories other than bleached kraft and soda. Regulations for these categories are not likely to become final until late 2001. We estimate that annual operating costs, excluding depreciation, will increase approximately $22 million when these regulations are fully implemented.

Additional regulatory requirements that may affect future spending include the EPA's requirements for states to assess current surface water loading from industrial and area sources. This process, called Total Maximum Daily Load (TMDL) allocation, could result in reduced allowable treated effluent discharges from our manufacturing sites. To date there have been no significant impacts due to the TMDL process, as the majority of our manufacturing sites operate at levels significantly below allowable waste loadings.

In recent years, the EPA has undertaken significant air quality initiatives associated with nitrogen oxide emissions, regional haze, and national ambient air quality standards. When regulatory requirements for new and changing standards are finalized, we will add any resulting future cost projections to our expenditure forecast.

International Paper has been named as a potentially liable party in a number of environmental remediation actions under various federal and state laws, including the Comprehensive Environmental Response, Compensation and Liability Act. Related costs are recorded in the financial statements when they are probable and reasonably estimable. As of December 31, 2000, these liabilities totaled approximately $170 million. Completion of these actions is not expected to have a material adverse effect on our financial condition or results of operations.

The significant effort International Paper has made in the analysis of environmental issues and the development of environmental control technology responses will enable us to keep costs for compliance with environmental regulations at, or below, industry averages.

Masonite Litigation: Three nationwide class action lawsuits filed against International Paper have been settled in recent years.

The first suit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes damage to the structure underneath the siding. The class consisted of all U.S. property owners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998. Final approval of the settlement was granted by the Court on January 15, 1998. The settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a non-refundable advance of $47.5 million plus $2.5 million in costs.

The second suit made similar allegations with regard to Omniwood siding manufactured by Masonite (Omniwood Lawsuit). The class consisted of all U.S. property owners having Omniwood siding installed on and incorporated into buildings from January 1, 1992 to January 6, 1999.

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the structure underneath the roofing (Woodruf Lawsuit). The class consisted of all U.S. property owners who had incorporated and installed Masonite Woodruf roofing from January 1, 1980 to January 6, 1999.

Final approval of the settlements of the Omniwood and Woodruf lawsuits was granted by the Court on January 6, 1999. The settlements provide for monetary compensation to class members meeting the settlement requirements on a claims-made basis, and provide for payment of attorneys' fees equaling 13% of the settlement amounts paid to class members with a non-refundable advance of $1.7 million plus $75,000 in costs for each of the two cases.

Reserves for these matters total $92 million at December 31, 2000, net of expected future insurance recoveries of $51 million. This amount includes $25 million added to the reserve for hardboard siding claims in the fourth quarter of 1999 (some of which has now been paid to claimants) and an additional $125 million added to that reserve in the third quarter of 2000 to cover an expected shortfall, resulting primarily from a higher number of hardboard siding claims than anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, we believe that these settlements will not have a material adverse effect on our consolidated financial position or results of operations.

Through December 31, 2000, net settlement payments of $277 million, including the $51 million of non-refundable advances of attorneys' fees discussed above, have been made. Included in the non-refundable advances of attorneys' fees is $5 million, which has been paid to the attorneys for the plaintiffs in the Omniwood and Woodruf lawsuits. Also, we have received $27 million related to these matters from our insurance carriers through December 31, 2000. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval. The liability for these matters will be retained after the planned sale of Masonite is completed.

Other Litigation: In March and April 2000, Champion and 10 members of its board of directors were served with six lawsuits that have been filed in the Supreme Court for the State of New York, New York County. Each of the suits purports to be a class action filed on behalf of Champion shareholders and alleges that the defendants breached their fiduciary duties in connection with the proposed merger with UPM-Kymmene Corporation and the merger proposal from International Paper. Champion has filed a motion to dismiss, which as of February 26, 2001 has not been decided.

On May 14, 1999, and May 18, 1999, two lawsuits were filed against International Paper, the former Union Camp Corporation and other manufacturers of linerboard. These suits allege that the defendants conspired to fix prices for linerboard and corrugated sheets during the period October 1, 1993, through November 30, 1995. Both lawsuits were filed seeking nationwide class certification. The lawsuits allege that various purchasers of corrugated sheets and corrugated containers were injured as a result of the alleged conspiracy. The cases have been consolidated in federal court in the Eastern District of Pennsylvania. Defendants' motions to dismiss the cases were denied on October 4, 2000. Plaintiffs filed motions for class certification on January 10, 2001, which were pending as of February 26, 2001.

Purchasers of high-pressure laminates have filed a number of purported class actions under the federal antitrust laws in various federal district courts in different states, alleging that International Paper's Nevamar division participated in a price-fixing conspiracy with competitors. These cases have been consolidated in federal district court in New York. Indirect and direct purchasers of high-pressure laminates have also filed similar purported class action cases under various state antitrust and consumer protection statutes in California, Florida, Maine, Michigan, Minnesota, New Mexico, New York, North Dakota, South Dakota, Tennessee and the District of Columbia. International Paper filed a motion to dismiss one of the cases in federal court, which was denied by the court without prejudice. The federal plaintiffs filed a consolidated amended complaint on February 22, 2001. As of February 26, 2001, International Paper has filed a motion to dismiss the case pending in New York State court and has filed answers in California, New Mexico, South Dakota and one of two complaints filed in Michigan. Answers are not yet due in the remaining state cases.

Other Environmental: In April 1999, the Franklin, Virginia mill received a Notice of Violation (NOV) from the EPA, Region 3 in Philadelphia, and an NOV from the Commonwealth of Virginia alleging that the mill violated the Prevention of Significant Deterioration (PSD) regulations. The Franklin mill was owned by Union Camp Corporation at that time and was one of seven paper mills in Region 3 owned by different companies that received similar notices of violation. Union Camp merged with International Paper on April 30, 1999, and International Paper has entered into negotiations with the EPA and the Commonwealth of Virginia.

The Franklin mill NOVs were issued in connection with the EPA's well publicized PSD air permit enforcement initiative against the paper industry. In 1999, our paper mills in Kaukauna, Wisconsin and Augusta, Georgia received requests for information from the EPA regarding compliance with the PSD regulations. Three additional facilities received information requests in 2000, and the EPA's initiative may result in similar actions at other facilities.

In August 1998, the former Union Camp Corporation informed the Virginia Department of Environmental Quality (DEQ) of certain New Source Performance Standards (NSPS) permitting discrepancies related to a power boiler at the paper mill in Franklin, Virginia. On April 11, 2000, International Paper and the DEQ entered into a consent order that resolved the matter for a civil penalty of $134,000.

In November 1999, the Wisconsin Department of Natural Resources filed a civil complaint alleging past exceedences of air permit limits at the former Union Camp flexible packaging facility located in Tomah, Wisconsin. The matter was settled on November 2, 2000 for a civil penalty of $60,000.

In February 2000, the Town of Lyman, South Carolina, issued an administrative order alleging past violations of a wastewater pretreatment permit at the former Union Camp folding carton facility in Spartanburg, South Carolina. While International Paper has satisfied the terms of the order, the Town of Lyman recently indicated it may seek penalties and other surcharges that together may exceed $100,000. We are engaged in settlement discussions with the Town of Lyman.

As of February 26, 2001, there were no other pending judicial proceedings, brought by governmental authorities against International Paper, for alleged violations of applicable environmental laws or regulations. International Paper is engaged in various other proceedings that arise under applicable environmental and safety laws or regulations, including approximately 97 active proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and comparable state laws. Most of these proceedings involve the cleanup of hazardous substances at large commercial landfills that received waste from many different sources. While joint and several liability is authorized under the CERCLA, as a practical matter, liability for CERCLA cleanups is allocated among the many potential responsible parties. Based upon previous experience with respect to the cleanup of hazardous substances and upon presently available information, International Paper believes that it has no or *de minimis* liability with respect to 18 of these sites; that liability is not likely to be significant at 51 sites; and that estimates of liability at 28 of these sites is likely to be significant but not material to International Paper's consolidated financial position or results of operations.

On June 19, 2000, before International Paper completed the acquisition of Champion, Champion entered into a Consent Order with the Maine Department of Environmental Protection that resolved allegations of past wastewater and reporting deficiencies at Champion's lumber mills in Milford and Passadumkeag, Maine. The U.S. EPA and the U.S. Attorney's Office in Maine have since that time commenced a grand jury investigation of the same allegations.

We are also involved in other contractual disputes, administrative and legal proceedings and investigations of various types. While any litigation, proceeding or investigation has an element of uncertainty, we believe that the outcome of any proceeding, lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

Impact of the Euro

The introduction of the euro for noncash transactions took place on January 1, 1999, with 11 countries participating in the first wave: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. The euro has been trading on world currency exchanges since 1999 and is used by our businesses in transactions. On January 2, 2002, new euro-denominated bills and coins will be issued and legacy currencies will be completely withdrawn from circulation that year. In general, the euro has increased price transparency for our products in Europe. The major impact on International Paper has been on its businesses within the euro zone, which make up approximately 9% of sales. Each of our European businesses has a plan in place to deal with the introduction of the euro.

Over the three-year transition period, our computer systems will be updated to ensure euro compliance. Also, we are reviewing our marketing and operational policies and procedures to ensure our ability to continue to successfully conduct all aspects of our business in this new market. In general, our product lines are likely to become somewhat more international, with some leveling of prices that is not expected to significantly impact our operations. We anticipate that the total costs in connection with the euro conversion will not be material. Further, we do not anticipate that the conversion from the legacy currencies to the euro will have a material adverse effect on our consolidated financial position or results of operations.

Effect of Inflation

General inflation has had minimal impact on our operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

Market Risk

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including swap and forward contracts, are used to hedge exposures to interest rate and foreign currency risks. We do not use financial instruments for trading purposes.

Our exposure to market risk for changes in interest rates relates primarily to investments in marketable securities, and short- and long-term debt obligations. We invest in high-credit-quality securities with major international financial institutions while limiting exposure to any one issuer. Our debt obligations outstanding as of December 31, 2000, expressed in U.S. dollar equivalents, are summarized as to their principal cash flows and related weighted average interest rates by year of maturity in the following table. Our investments in marketable securities at December 31, 2000 were not significant.

U.S. dollars in millions	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
U.S. commercial paper and bank notes 7.3% average interest rate	$ 879	$ –	$ –	$ 637	$ –	$ –	$ 1,516	$ 1,516
Euro commercial paper and bank notes 5.1% average interest rate	178	–	–	–	–	–	178	178
Chinese renminbi bank notes 6.0% average interest rate	18	–	–	–	–	–	18	18
Euro fixed rate notes 5⅜% average interest rate	–	–	–	–	–	223	223	214
New Zealand dollar bank notes 7.1% average interest rate	285	–	–	–	–	–	285	285
Fixed rate debt—7.8% average interest rate	397	484	1,432	683	1,177	3,218	7,391	7,518
5⅞% Swiss franc debentures	67	–	–	–	–	–	67	71
Medium term notes—8.2% average interest rate	146	79	30	9	–	43	307	312
Environmental and industrial development bonds 6.3% average interest rate	44	75	6	32	77	2,100	2,334	2,431
Brazilian real notes 13.4% average interest rate	24	24	22	18	100	6	194	194
Floating rate notes—7.9% average interest rate	–	2,100	–	–	–	–	2,100	2,100
Other	77	15	10	8	6	34	150	147
Total Debt	$ 2,115	$ 2,777	$ 1,500	$ 1,387	$ 1,360	$ 5,624	$14,763	$14,984

For debt obligations, the table above presents principal cash flows and related weighted average interest rates by year of maturity. Variable interest rates disclosed represent the weighted average rates at the end of the period. For financial statement classification, $750 million of short-term debt has been classified as long-term pursuant to line of credit agreements.

We use cross-currency and interest rate swap agreements to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. The impact on earnings and our net liability under these agreements was not significant. Our cross-currency and interest rate swap agreements outstanding at December 31, 2000, expressed in U.S. dollar equivalents, by year of maturity, are presented in the following table.

U.S. dollars in millions	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
U.S. dollar variable to fixed rate swaps Average pay rate 6.3% / Average receive rate 6.9%	$ –	$ 45	$ 200	$ 300	$ –	$ 500	$1,045	$ 97
U.S. dollar fixed to variable rate swaps Average pay rate 7.6% / Average receive rate 6.8%	–	45	200	550	–	500	1,295	(98)
U.S. dollar to New Zealand dollar cross-currency swap	–	150	–	–	–	–	150	(5)
Australian dollar to New Zealand dollar cross-currency swap	–	130	–	–	–	–	130	25
Swiss franc to New Zealand dollar cross-currency swaps	68	–	–	–	–	–	68	1

We also transact business in many currencies and are subject to currency exchange rate risk. We address this risk through a risk management program that involves financing a portion of our investments in overseas operations with borrowings denominated in the same currency as the investment or by entering into currency exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing hedges against fluctuations in currency exchange rates. Additionally, we utilize currency exchange contracts to hedge certain transactions that are denominated in foreign currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect us from currency fluctuations between the transaction and settlement dates.

The following table presents information about our foreign currency forward contracts outstanding as of December 31, 2000, expressed in U.S. dollar equivalents. The majority of the contracts have maturities of less than 12 months. This information should be read in conjunction with Note 14–Financial Instruments to the consolidated financial statements which can be found on pages 54 through 56.

U.S. dollars in millions	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Pay U.S. dollars / Receive European euros	$1,072	0.89	$ (10)
Pay British pounds / Receive European euros	70	0.59	1
Pay U.S. dollars / Receive British pounds	129	1.46	(2)
Pay European euros / Receive British pounds	39	1.63	–
Receive New Zealand dollars / Pay Australian dollars	475	1.31	15
Pay U.S. dollars / Receive New Zealand dollars	350	0.46	(5)
Receive Swedish kronas / Pay U.S. dollars	30	9.64	–
Receive U.S. dollars / Pay European euros	29	0.88	(1)
Receive U.S. dollars / Pay British pounds	18	1.44	–
Receive U.S. dollars / Pay New Zealand dollars	440	0.41	(25)

We have an additional $31 million in a number of smaller forward contracts to purchase or sell other currencies with a related net unrealized immaterial gain.

We also purchase foreign exchange option contracts, with terms that generally do not exceed one year, to hedge export sales. Premiums paid under these contracts are expensed over the life of the option contract. Gains arising on these options are recognized at the time the options are exercised. Option contracts outstanding at December 31, 2000 amounted to $121 million.

Value at Risk

Value at risk is used to describe an approach for measuring market risk exposure that utilizes statistical models that are based on historical price and volatility patterns to estimate the probability of the value of a financial instrument falling above or below a specified amount at a specified confidence level and over a given time period. Our analysis uses variance-covariance statistical modeling techniques and includes substantially all interest rate-sensitive debt and swaps, and currency exchange contracts. The model estimates the potential loss in fair value or earnings we could incur from adverse changes in interest rates or currency exchange rates. We believe the effects of interest rate or currency exchange movements on the respective underlying hedged transactions would substantially offset any loss incurred. The results of our analysis at a 95% confidence level were not significant to our consolidated common shareholders' equity, earnings or daily change in market capitalization.

Forward-Looking Statements

Certain statements in this 2000 Annual Report to Shareholders, and in particular, statements found in Management's Discussion and Analysis, that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, "believe," "expect," "plan," "appear," "project," "estimate," "intend," and words of similar import. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties. Actual results may differ materially from those expressed or implied in these statements. Factors that could cause actual results to differ include, among other things, whether conditions influencing the recent economic slowdown will continue or worsen, changes in overall demand, whether our initiatives relating to balancing our supply with demand will be successful, changes in domestic or foreign competition, changes in the cost or availability of raw materials, the cost of compliance with environmental laws and regulations, and whether anticipated savings from merger and other restructuring activities and facility rationalizations can be achieved. In view of such uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. International Paper does not assume any obligation to update these forward-looking statements.

Financial Information by Industry Segment and Geographic Area

For information about our industry segments, see the "Description of Industry Segments" included in management's discussion and analysis of financial condition and results of operations.

For management purposes, we report the operating performance of each business based on earnings before interest and income taxes ("EBIT") excluding special and extraordinary items and gains or losses on sales of businesses. Our Carter Holt Harvey segment includes our share, about half, of their operating earnings adjusted for U.S. generally accepted accounting principles. The remaining half is included in the minority interest adjustment. Intersegment sales and transfers are recorded at current market prices. Corporate sales include the Imaging and Veratec businesses that were sold in 1998. Sales for these businesses were $220 million in 1998. Corporate operating profit includes an operating loss of $2 million for these businesses in 1998 as well as corporate expenses. Corporate assets include these businesses for the applicable years in addition to other assets not allocated to our segments.

External Sales by Major Product is determined by aggregating sales from each segment based on similar products or services. External sales are defined as those that are made to parties outside International Paper's consolidated group whereas sales by segment in the Net Sales table are determined by the management approach and include intersegment sales.

Capital Spending by Industry Segment is reported on page 13 of management's discussion and analysis of financial condition and results of operations.

Information by Industry Segment

Net Sales

In millions	2000	1999	1998
Printing Papers[a]	**$ 7,960**	$ 5,840	$ 5,815
Industrial and Consumer Packaging	**7,625**	7,050	7,010
Distribution	**7,255**	6,850	6,280
Forest Products	**3,465**	3,205	2,930
Chemicals and Petroleum	**1,395**	1,455	1,465
Carter Holt Harvey	**1,675**	1,605	1,505
Corporate and Intersegment Sales[a, b, c]	**(1,195)**	(1,432)	(1,026)
Net Sales	**$28,180**	$24,573	$23,979

Assets

In millions	2000	1999	1998
Printing Papers	**$11,692**	$ 7,929	$ 8,213
Industrial and Consumer Packaging	**8,187**	7,316	7,389
Distribution	**1,989**	1,893	1,903
Forest Products	**7,454**	3,819	3,644
Chemicals and Petroleum	**1,056**	1,531	1,614
Carter Holt Harvey[d]	**3,141**	4,183	4,475
Corporate[c]	**8,590**	3,597	4,228
Assets	**$42,109**	$30,268	$31,466

Operating Profit[a]

In millions	2000	1999	1998
Printing Papers	**$ 959**	$ 254	$ 178
Industrial and Consumer Packaging	**773**	562	334
Distribution	**120**	105	86
Forest Products	**602**	724	622
Chemicals and Petroleum	**161**	124	136
Carter Holt Harvey[e]	**71**	39	20
Corporate[b]	**26**	–	–
Operating Profit	**2,712**	1,808	1,376
Interest expense, net	**(816)**	(541)	(614)
Minority interest adjustment[e]	**108**	74	57
Corporate items, net	**(312)**	(336)	(237)[c]
Merger integration costs	**(54)**	(255)	–
Restructuring and other charges	**(949)**	(338)	(256)
Reversals of reserves no longer required	**34**	36	83
Gain on sale of business	–	–	20
Earnings Before Income Taxes, Minority Interest and Extraordinary Items	**$ 723**	$ 448	$ 429

Restructuring and Other Charges

In millions	2000	1999	1998
Printing Papers	$ 425	$ 55	$ 32
Industrial and Consumer Packaging	290	114	46
Distribution	22	23	31
Forest Products	35	16	14
Chemicals and Petroleum	34	63	4
Carter Holt Harvey	10	27	18
Corporate[(a)]	133	40	111
Restructuring and Other Charges	$ 949	$ 338	$ 256

Depreciation and Amortization

In millions	2000	1999	1998
Printing Papers[(f)]	$ 635	$ 556	$ 535
Industrial and Consumer Packaging	487	466	447
Distribution	35	32	25
Forest Products[(f)]	273	196	218
Chemicals and Petroleum	91	99	106
Carter Holt Harvey[(f)]	177	201	193
Corporate	218	115	136
Depreciation and Amortization	$ 1,916	$ 1,665	$ 1,660

External Sales by Major Product

In millions	2000	1999	1998
Printing Papers	$ 7,210	$ 5,069	$ 5,475
Packaging	8,051	7,361	7,360
Distribution	7,275	6,926	6,235
Forest Products	4,226	3,759	3,430
Chemicals and Petroleum	1,418	1,458	1,230
Corporate Sales[(c)]	–	–	249
Net Sales	$28,180	$24,573	$23,979

(a) Certain reclassifications and adjustments have been made to prior year amounts.

(b) Includes results of operations from Champion, which was acquired on June 20, 2000. Beginning on July 1, 2000, the results of the former Champion business have been included in the appropriate business segment.

(c) Includes results or assets, as applicable, from operations disposed of in 1998.

(d) Includes equity investments (in millions) of $16 in 2000, $876 in 1999 and $956 in 1998.

(e) Includes equity earnings (in millions) of $11 in 2000, $54 in 1999 and $20 in 1998. Half of these equity earnings amounts are in the Carter Holt Harvey segment and half are in the minority interest adjustment.

(f) Includes cost of timber harvested.

Information by Geographic Area

Net Sales[(g)]

In millions	2000	1999	1998
United States[(h)]	$22,131	$19,152	$18,682
Europe	3,353	3,257	3,251
Pacific Rim[(i)]	1,923	1,865	1,731
Americas, other than U.S.[(k)]	773	299	315
Net Sales	$28,180	$24,573	$23,979

European Sales by Industry Segment

In millions	2000	1999	1998
Printing Papers	$ 1,637	$ 1,514	$ 1,423
Industrial and Consumer Packaging	736	750	772
Distribution	370	347	323
Forest Products	196	200	208
Chemicals and Petroleum	414	446	465
Other Businesses[(c)]	–	–	60
European Sales	$ 3,353	$ 3,257	$ 3,251

Long-Lived Assets[(j)]

In millions	2000	1999	1998
United States	$17,026	$12,325	$13,149
Europe	1,213	1,888	2,101
Pacific Rim[(i)]	2,291	2,625	2,793
Americas, other than U.S.[(k)]	1,313	77	74
Corporate	134	387	296
Long-Lived Assets	$21,977	$17,302	$18,413

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

(h) Export sales to unaffiliated customers (in billions) were $1.6 in 2000, and $1.5 in 1999 and 1998.

(i) Operations in New Zealand and Australia account for most of the Pacific Rim amounts.

(j) Long-Lived Assets includes Forestlands and Plants, Properties and Equipment, net.

(k) Increases in 2000 reflect operations in Brazil and Canada acquired with Champion.

Report of Management on Financial Statements

The management of International Paper Company is responsible for the fair presentation of the information contained in the financial statements in this annual report. The statements are prepared in accordance with U.S. generally accepted accounting principles and reflect management's best judgment as to our financial position, results of operations and cash flows.

International Paper maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are properly recorded and summarized so that reliable financial records and reports can be prepared and assets safeguarded. The internal controls system includes our long-standing policy on ethical business conduct and careful selection and training of supervisory and management personnel, appropriate delegation of authority and division of responsibility, dissemination of accounting and business policies throughout International Paper, and an extensive program of internal audits with management follow-up.

The independent public accountants provide an objective, independent review of management's discharge of its responsibility for the fairness of our financial statements. They review our internal accounting controls and conduct tests of procedures and accounting records to enable them to form the opinion set forth in their report.

The Board of Directors monitors management's administration of International Paper's financial and accounting policies and practices, and the preparation of these financial statements. The Audit and Finance Committee (Committee), which consists of five non-employee directors, meets regularly with representatives of management, the independent public accountants and the Internal Auditor to review their activities. The Committee has reviewed and discussed the consolidated financial statements for the year ended December 31, 2000 with management and the independent public accountants. The Committee's report recommending the inclusion of such financial statements in this Annual Report is set forth in our Proxy Statement.

The independent public accountants and the Internal Auditor both have free access to the Committee and meet regularly with the Committee, with and without management representatives in attendance.

John V. Faraci
Executive Vice President and Chief Financial Officer

Report of Independent Public Accountants

To the Shareholders of International Paper Company:

We have audited the accompanying consolidated balance sheets of International Paper Company (a New York corporation) and subsidiaries as of December 31, 2000 and 1999, and the related statements of earnings, common shareholders' equity and cash flows for each of the three years ended December 31, 2000. These financial statements are the responsibility of International Paper's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Union Camp Corporation (a company acquired during 1999 in a transaction accounted for as a pooling-of-interests) prior to 1999. The Union Camp financial statements reflect total assets and total revenues of 16% and 19% in 1998 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for that entity, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of International Paper Company and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years ended December 31, 2000 in conformity with generally accepted accounting principles in the United States.

New York, N.Y.
February 13, 2001

Consolidated Statement of Earnings

In millions, except per share amounts, for the years ended December 31	**2000**	1999	1998
Net Sales	**$28,180**	$24,573	$23,979
Costs and Expenses			
Cost of products sold	**20,082**	17,960	17,758
Selling and administrative expenses	**2,283**	2,083	2,032
Depreciation and amortization	**1,916**	1,665	1,660
Distribution expenses	**1,104**	1,098	1,087
Taxes other than payroll and income taxes	**287**	226	231
Equity (earnings) losses from investment in Scitex	–	(5)	15
Merger integration costs	**54**	255	–
Restructuring and other charges	**949**	338	256
Total Costs and Expenses	**26,675**	23,620	23,039
Reversals of reserves no longer required	**34**	36	83
Gain on sale of business	–	–	20
Earnings Before Interest, Income Taxes, Minority Interest and Extraordinary Items	**1,539**	989	1,043
Interest expense, net	**816**	541	614
Earnings Before Income Taxes, Minority Interest and Extraordinary Items	**723**	448	429
Income tax provision	**117**	86	95
Minority interest expense, net of taxes	**238**	163	87
Earnings Before Extraordinary Items	**368**	199	247
Impairment losses on businesses to be sold, net of taxes	**(541)**	–	–
Net gain on sales of investments and businesses, net of taxes and minority interest	**315**	–	–
Loss on extinguishment of debt, net of taxes	–	(16)	–
Net Earnings	**$ 142**	$ 183	$ 247
Earnings Per Common Share—Before Extraordinary Items	**$ 0.82**	$ 0.48	$ 0.60
Earnings (Loss) Per Common Share—Extraordinary Items	**(0.50)**	(0.04)	–
Earnings Per Common Share	**$ 0.32**	$ 0.44	$ 0.60
Earnings Per Common Share—Assuming Dilution	**$ 0.32**	$ 0.44	$ 0.60

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

Consolidated Balance Sheet

In millions at December 31	2000	1999
Assets		
Current Assets		
Cash and temporary investments	**$ 1,198**	$ 453
Accounts and notes receivable, less allowances of $128 in 2000 and $106 in 1999	**3,433**	3,227
Inventories	**3,182**	3,203
Assets of businesses held for sale	**1,890**	–
Other current assets	**752**	358
Total Current Assets	**10,455**	7,241
Plants, Properties and Equipment, net	**16,011**	14,381
Forestlands	**5,966**	2,921
Investments	**269**	1,044
Goodwill	**6,310**	2,596
Deferred Charges and Other Assets	**3,098**	2,085
Total Assets	**$42,109**	$30,268
Liabilities and Common Shareholders' Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	**$ 2,115**	$ 920
Accounts payable	**2,113**	1,870
Accrued payroll and benefits	**511**	423
Liabilities of businesses held for sale	**541**	–
Other accrued liabilities	**2,133**	1,169
Total Current Liabilities	**7,413**	4,382
Long-Term Debt	**12,648**	7,520
Deferred Income Taxes	**4,699**	3,344
Other Liabilities	**2,155**	1,332
Minority Interest	**1,355**	1,581
International Paper-Obligated Mandatorily Redeemable Preferred Securities of Subsidiaries Holding International Paper Debentures—Note 8	**1,805**	1,805
Commitments and Contingent Liabilities—Note 11		
Common Shareholders' Equity		
Common stock, $1 par value, 2000—484.2 shares, 1999—414.6 shares	**484**	415
Paid-in capital	**6,501**	4,078
Retained earnings	**6,308**	6,613
Accumulated other comprehensive income (loss)	**(1,142)**	(739)
	12,151	10,367
Less: Common stock held in treasury, at cost, 2000—2.7 shares, 1999—1.2 shares	**117**	63
Total Common Shareholders' Equity	**12,034**	10,304
Total Liabilities and Common Shareholders' Equity	**$42,109**	$30,268

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

Consolidated Statement of Cash Flows

In millions for the years ended December 31	**2000**	1999	1998
Operating Activities			
Net earnings	**$ 142**	$ 183	$ 247
Depreciation and amortization	**1,916**	1,665	1,660
Deferred income tax provision (benefit)	**(323)**	(208)	132
Payments related to restructuring and legal reserves	**(233)**	(191)	(82)
Payments related to mergers	**(58)**	(172)	–
Merger integration costs	**54**	255	–
Restructuring and other charges	**949**	338	256
Reversals of reserves no longer required	**(34)**	(36)	(83)
Gains on sales of investments and businesses	**(748)**	–	(20)
Loss on extinguishment of debt	–	26	–
Impairment losses on businesses to be sold	**833**	–	–
Other, net	**78**	(100)	(86)
Changes in current assets and liabilities			
Accounts and notes receivable	**(59)**	(361)	152
Inventories	**(143)**	(121)	51
Accounts payable and accrued liabilities	**19**	449	(113)
Other	**37**	1	(16)
Cash Provided by Operations	**2,430**	1,728	2,098
Investment Activities			
Invested in capital projects	**(1,352)**	(1,139)	(1,322)
Mergers and acquisitions, net of cash acquired	**(5,677)**	(54)	(498)
Proceeds from divestitures	**2,116**	119	523
Other	**(1)**	(11)	(51)
Cash Used for Investment Activities	**(4,914)**	(1,085)	(1,348)
Financing Activities			
Issuance of common stock	**25**	246	115
Issuance of preferred securities by subsidiary	–	–	1,525
Issuance of debt	**6,328**	1,023	348
Reduction of debt	**(2,770)**	(1,563)	(2,213)
Change in bank overdrafts	**118**	102	68
Dividends paid	**(447)**	(418)	(431)
Other	**140**	(96)	(63)
Cash Provided by (Used for) Financing Activities	**3,394**	(706)	(651)
Effect of Exchange Rate Changes on Cash	**(165)**	(17)	1
Change in Cash and Temporary Investments	**745**	(80)	100
Cash and Temporary Investments			
Beginning of the year	**453**	533	433
End of the year	**$ 1,198**	$ 453	$ 533

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

Consolidated Statement of Common Shareholders' Equity

In millions, except share amounts in thousands	Common Stock Issued Shares	Common Stock Issued Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Common Shareholders' Equity
Balance, January 1, 1998	408,174	$ 408	$ 3,659	$ 7,032	$ (415)	726	$ 37	$ 10,647
Issuance of stock for acquisition	4,683	5	227	–	–	–	–	232
Issuance of stock for various plans	605	1	23	–	–	(2,694)	(128)	152
Repurchase of stock	(277)	(1)	(13)	–	–	2,520	115	(129)
Cash dividends—Common stock ($1.05 per share)	–	–	–	(431)	–	–	–	(431)
Comprehensive income (loss)								
Net earnings	–	–	–	247	–	–	–	247
Minimum pension liability adjustment (less tax benefit of $5)	–	–	–	–	(8)	–	–	(8)
Change in cumulative foreign currency translation adjustment (less tax benefit of $2)	–	–	–	–	21	–	–	21
Realized foreign currency translation adjustment related to divestitures (less tax benefit of $4)	–	–	–	–	7	–	–	7
Total comprehensive income								267
Balance, December 31, 1998	413,185	413	3,896	6,848	(395)	552	24	10,738
Issuance of stock for various plans	1,399	2	182	–	–	(1,866)	(87)	271
Repurchase of stock	–	–	–	–	–	2,530	126	(126)
Cash dividends—Common stock ($1.01 per share)	–	–	–	(418)	–	–	–	(418)
Comprehensive income (loss)								
Net earnings	–	–	–	183	–	–	–	183
Minimum pension liability adjustment (less tax expense of $1)	–	–	–	–	2	–	–	2
Change in cumulative foreign currency translation adjustment (less tax expense of $31)	–	–	–	–	(346)	–	–	(346)
Total comprehensive (loss)								(161)
Balance, December 31, 1999	414,584	415	4,078	6,613	(739)	1,216	63	10,304
Issuance of stock for acquisition	**68,706**	**69**	**2,360**	–	–	–	–	**2,429**
Issuance of stock for various plans	**870**	–	**63**	–	–	**(236)**	**(12)**	**75**
Repurchase of stock	–	–	–	–	–	**1,710**	**66**	**(66)**
Cash dividends—Common stock ($1.00 per share)	–	–	–	**(447)**	–	–	–	**(447)**
Comprehensive income (loss)								
Net earnings	–	–	–	**142**	–	–	–	**142**
Minimum pension liability adjustment (less tax benefit of $13)	–	–	–	–	**(23)**	–	–	**(23)**
Change in cumulative foreign currency translation adjustment (less tax expense of $123)	–	–	–	–	**(380)**	–	–	**(380)**
Total comprehensive (loss)								**(261)**
Balance, December 31, 2000	**484,160**	**$ 484**	**$ 6,501**	**$ 6,308**	**$ (1,142)**	**2,690**	**$ 117**	**$12,034**

The cumulative foreign currency translation adjustment (in millions) was $(1,113), $(733) and $(387) at December 31, 2000, 1999 and 1998, respectively, and is included as a component of accumulated other comprehensive income (loss).

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

Notes to Consolidated Financial Statements

1 Summary of Significant Accounting Policies

Nature of Our Business

International Paper is a global forest products, paper and packaging company that is complemented by an extensive distribution system, with primary markets and manufacturing operations in the U.S., Canada, Europe, the Pacific Rim and South America. Substantially all of our businesses have experienced, and are likely to continue to experience, cycles relating to available industry capacity and general economic conditions. For a further discussion of our business, see pages 6 through 29 of management's discussion and analysis of financial condition and results of operations.

Financial Statements

The preparation of these financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates. For a further discussion of significant estimates and assumptions that affect the reported amounts of assets and liabilities, results of operations, and disclosure of contingent assets and liabilities, see the legal and environmental issues section beginning on page 24. Actual future results could differ from management's estimates. See page 29 for a description of factors which could cause future results to differ from management's estimates.

On June 20, 2000, International Paper acquired Champion International Corporation (Champion) in a transaction accounted for as a purchase. The accompanying financial statements include Champion's results of operations from the date of acquisition.

On April 30, 1999, International Paper completed the merger with Union Camp Corporation (Union Camp) in a transaction accounted for as a pooling-of-interests. The accompanying financial statements include the financial position and results of operations for both Union Camp and International Paper for all periods presented.

Revenue Recognition

Revenues are recognized when goods are shipped except for export and timberland sales. Export sales revenue is recognized at the point title passes, generally at the destination port. Timberland sales revenue is recognized when title and risk of loss pass to the buyer.

Shipping and Handling Costs

Shipping and handling costs, such as freight to our customers' destinations, are included in distribution expenses in the consolidated statement of earnings. These costs when included in the sales price charged for our products are recognized in net sales.

Consolidation

The consolidated financial statements include the accounts of International Paper and its subsidiaries. Minority interest represents minority shareholders' proportionate share of the equity in several of our consolidated subsidiaries, primarily Carter Holt Harvey Limited, Zanders Feinpapiere AG (Zanders), Georgetown Equipment Leasing Associates, L.P., Trout Creek Equipment Leasing, L.P. and, prior to its sale in 2000, Bush Boake Allen. International Paper sold its interest in Zanders in January 2001. All significant intercompany balances and transactions are eliminated.

Investments in affiliated companies are accounted for by the equity method, including companies owned 20% to 50% and our 13% investment in Scitex Corporation, Ltd. prior to its sale in 2000. International Paper's share of affiliates' earnings is included in the consolidated statement of earnings.

Temporary Investments

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

Inventories

Inventory values include all costs directly associated with manufacturing products: materials, labor and manufacturing overhead. These values are presented at cost or market, if it is lower. In the U.S., costs of raw materials and finished pulp and paper products are generally determined using the last-in, first-out method. Other inventories are primarily stated using the first-in, first-out or average cost method.

Plants, Properties and Equipment

Plants, properties and equipment are stated at cost, less accumulated depreciation. Expenditures for betterments are capitalized whereas normal repairs and maintenance are expensed as incurred. For financial reporting purposes, the units-of-production method of depreciation is used for major pulp and

paper mills and certain wood products facilities and the straight-line method for other plants and equipment. Annual straight-line depreciation rates are buildings, 2½% to 8½%, and machinery and equipment, 5% to 33%. For tax purposes, depreciation is computed using accelerated methods.

Interest costs related to the development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. Capitalized net interest costs were $25 million in 2000, $29 million in 1999 and $53 million in 1998. Interest payments made during 2000, 1999 and 1998 were $816 million, $594 million and $766 million, respectively. Total interest expense was $938 million in 2000, $611 million in 1999 and $706 million in 1998.

Forestlands

At December 31, 2000, International Paper and its subsidiaries controlled about 12 million acres of forestlands in the U.S., 1.5 million acres in Brazil, 820,000 acres in New Zealand, and had, through licenses and forest management agreements, harvesting rights on government-owned timberlands in Canada. Forestlands include owned property as well as certain timber harvesting rights with terms of one or more years, and are stated at cost, less cost of timber harvested. Costs attributable to timber are charged against income as trees are cut. The rate charged is determined annually based on the relationship of incurred costs to estimated current volume. Cost of timber harvested is included in depreciation and amortization in the consolidated statement of earnings.

Goodwill

Goodwill, the cost in excess of assigned value of businesses acquired, is amortized over its estimated period of benefit on a straight-line basis, not to exceed 40 years. Accumulated amortization was $574 million and $487 million at December 31, 2000 and 1999, respectively. Goodwill amortization expense is included in depreciation and amortization in the consolidated statement of earnings.

Impairment of Long-Lived Assets

Long-lived assets, including allocated goodwill, are reviewed for impairment upon the occurrence of events or changes in circumstances that indicate the carrying value of the assets may not be recoverable, as measured by comparing their net book value to the estimated future cash flows generated by their use. Impaired assets are recorded at the lesser of their carrying value or fair market value as determined by their expected future discounted cash flows.

Enterprise-level goodwill is periodically reviewed for impairment by comparing expected undiscounted cash flows to the carrying value of goodwill. Enterprise-level goodwill would be written down to fair market value if it were impaired.

Stock-Based Compensation

Stock options and other stock-based compensation awards are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

Environmental Remediation Costs

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

Translation of Financial Statements

Balance sheets of international operations are translated into U.S. dollars at year-end exchange rates, while statements of earnings are translated at average rates. Adjustments resulting from financial statement translations are included as cumulative translation adjustments in accumulated other comprehensive income (loss). Gains and losses resulting from foreign currency transactions are included in earnings.

Reclassifications

Certain reclassifications have been made to prior-year amounts to conform with the current-year presentation.

2 Earnings Per Common Share

Earnings per common share before extraordinary items is computed by dividing earnings before extraordinary items by the weighted average number of common shares outstanding. Earnings per common share before extraordinary items, assuming dilution, is computed assuming that all potentially dilutive securities were converted into common shares at the beginning of each year. A reconciliation of the amounts included in the computation of earnings per common share before extraordinary items and earnings per common share before extraordinary items, assuming dilution, is as follows:

In millions	**2000**	1999	1998
Earnings before extraordinary items	**$ 368**	$ 199	$ 247
Effect of dilutive securities			
Preferred securities of subsidiary trust	**–**	–	–
Earnings before extraordinary items—assuming dilution	**$ 368**	$ 199	$ 247
Average common shares outstanding	**449.6**	413.0	411.0
Effect of dilutive securities			
Long-term incentive plan deferred compensation	**–**	–	–
Stock options	**0.4**	3.1	3.2
Preferred securities of subsidiary trust	**–**	–	–
Average common shares outstanding—assuming dilution	**450.0**	416.1	414.2
Earnings per common share before extraordinary items	**$ 0.82**	$ 0.48	$ 0.60
Earnings per common share before extraordinary items—assuming dilution	**$ 0.82**	$ 0.48	$ 0.60

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

3 Industry Segment Information

Financial information by industry segment and geographic area for 2000, 1999 and 1998 is presented on pages 30 and 31.

4 Recent Accounting Developments

In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured by its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

International Paper will adopt SFAS No. 133 (as amended by SFAS No. 138) as of January 1, 2001. We estimate that adoption will require a one-time, non-cash charge before taxes and minority interest of approximately $23 million ($14 million after taxes and minority interest), which will be recorded as a cumulative change in accounting method.

5 Mergers, Acquisitions and Divestitures

On June 20, 2000, International Paper completed the previously announced acquisition of Champion, a leading manufacturer of paper for business communications, commercial printing and publications with significant market pulp, plywood and lumber manufacturing operations. Champion shareholders received $50 in cash and $25 worth of International Paper common stock for each Champion share. The acquisition was completed for approximately $5 billion in cash and 68.7 million shares of International Paper common stock with a market value of $2.4 billion. Approximately $2.8 billion of Champion debt was assumed.

On March 31, 2000, we acquired Shorewood Packaging Corporation (Shorewood), a leader in the manufacture of premium retail packaging, for approximately $640 million in cash and the assumption of $280 million of debt.

On April 28, 2000, Carter Holt Harvey purchased CSR Limited's (CSR) medium density fiberboard and particleboard businesses and its Oberon sawmill for approximately $200 million in cash.

The Champion, Shorewood and CSR acquisitions were accounted for using the purchase method. Their results of operations are included in International Paper's consolidated statement of earnings from their respective dates of acquisition. The accompanying consolidated balance sheet as of December 31, 2000 reflects preliminary purchase price allocations for Champion, Shorewood and CSR to the fair value of the assets and liabilities acquired.

The following table presents unaudited pro forma financial information that reflects the combined results of operations of International Paper, Champion and Shorewood as if the acquisitions had occurred as of the beginning of each of the respective periods. This pro forma information does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

In millions, except per share amounts, for the twelve months ended December 31,	**2000**	1999
Net sales	**$31,050**	$30,549
Earnings before extraordinary items	**304**	169
Net earnings	**78**	149
Earnings per common share before extraordinary items	**0.63**	0.35
Earnings per common share	**0.16**	0.31

International Paper announced a divestment program in connection with the Champion acquisition that it now estimates will generate gross proceeds of approximately $5 billion by the end of 2001. As of March 1, 2001, about $1.2 billion of proceeds have been realized under the program, primarily from the dispositions of Bush Boake Allen, the oil and gas interests, Zanders and the former Champion headquarters building. It is possible that additional charges will be required in 2001 as specific businesses are identified for sale. See Note 7–Businesses Held for Sale for information related to the planned sales under this program.

The merger with Union Camp was completed on April 30, 1999. Union Camp shareholders received 1.4852 International Paper common shares for each Union Camp share held. The total value of the transaction, including the assumption of debt, was approximately $7.9 billion. International Paper issued 110 million shares for 74 million Union Camp shares, including options. The merger was accounted for as a pooling-of-interests.

Also in April 1999, Carter Holt Harvey acquired the corrugated packaging business of Stone Australia, a subsidiary of Smurfit-Stone Container Corporation. The business consists of two sites in Melbourne and Sydney that serve industrial and primary produce customers.

During 1998, International Paper acquired the Zellerbach distribution business from the Mead Corporation for $261 million in cash, Weston Paper and Manufacturing Company through the exchange of 4.7 million International Paper common shares valued at $232 million, and Svetogorsk AO, a Russia-based pulp and paper business. Carter Holt Harvey and International Paper jointly acquired Marinetti S.A.'s paper cup division based in Chile, and Australia-based Continental Cup. Carter Holt Harvey separately acquired Riverwood International, an Australia-based folding carton business. International Paper also entered into a joint venture with Olmuksa in Turkey to manufacture containerboard and corrugated boxes. Finally, a wholly owned subsidiary of International Paper purchased all of the publicly traded Class A depository units of IP Timberlands, Ltd. for $100 million in cash.

All of the above acquisitions were accounted for using the purchase method, with the exception of the Union Camp acquisition, which was accounted for as a pooling-of-interests. The operating results of those acquisitions accounted for under the purchase method have been included in the consolidated statement of earnings from the dates of acquisition.

In November 2000, International Paper sold its interest in Bush Boake Allen, for $640 million, resulting in an extraordinary gain of $183 million after taxes and minority interest. This transaction was completed as part of the asset sale program. Bush Boake Allen, which had been included in the Chemicals and Petroleum segment, contributed sales of $425 million, $500 million and $485 million and operating earnings of $31 million, $28 million and $37 million for each of the three years ended December 31, 2000, 1999 and 1998, respectively.

In January 2000, International Paper sold its equity interest in Scitex for $79 million, and Carter Holt Harvey sold its equity interest in Compania de Petroleos de Chile (COPEC) for just over $1.2 billion. These sales resulted in a combined extraordinary gain of $134 million after taxes and minority interest. The gains on these sales are recorded as extraordinary items pursuant to the pooling-of-interests rules.

6 Special Items Including Restructuring and Business Improvement Actions

2000: Special items reduced 2000 net earnings by $601 million, 1999 net earnings by $352 million and 1998 net earnings by $98 million. The following table and discussion presents the impact of special items for 2000:

In millions	2000	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$1,692	$ 969
Merger-related expenses	(54)	(33)
Restructuring and other charges	(824)	(509)
Provision for legal reserves	(125)	(80)
Reversals of reserves no longer required	34	21
After special items	$ 723	$ 368

During 2000, special charges before taxes and minority interest of $969 million ($601 million after taxes and minority interest) were recorded. These special items included a $54 million pre-tax charge ($33 million after taxes) for merger-related expenses, an $824 million charge before taxes and minority interest ($509 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $125 million pre-tax charge ($80 million after taxes) for additional Masonite legal reserves and a $34 million pre-tax credit ($21 million after taxes) for the reversals of reserves no longer required. A further discussion of the Masonite legal reserves, can be found in Note 11–Commitments and Contingent Liabilities.

The merger-related expenses of $54 million consisted primarily of travel, systems integration, employee retention, and other one-time cash costs related to the Champion acquisition and Union Camp merger.

The $824 million charge for the asset shutdowns of excess internal capacity and cost reduction actions consisted of a $71 million charge in the second quarter of 2000 and a $753 million charge in the fourth quarter of 2000.

The second quarter charge of $71 million consisted of $40 million of asset write-downs and $31 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$22	$ 7	$29
Consumer Packaging	(b)	7	9	16
Industrial Papers	(c)	9	4	13
Other	(d)	2	11	13
		$40	$31	$71

(a) The Printing Papers business shut down the Millers Falls, Massachusetts mill in August 2000 due to excess internal capacity. Charges associated with the shutdown included $22 million to write down the assets to their estimated fair market value of zero, $2 million of severance costs covering the termination of 119 employees, and other exit costs of $3 million. The Millers Falls mill had revenues of $33 million, $39 million and $44 million in 2000, 1999 and 1998, respectively. The mill had no operating income in 2000 and operating income of $3 million in both 1999 and 1998. At December 31, 2000, all 119 employees had been terminated.

Also, a severance charge of $2 million was recorded covering the elimination of 108 salaried positions at the Franklin, Virginia mill in a continuing effort to improve its cost effectiveness and long-term competitive position. At December 31, 2000, 103 employees had been terminated.

(b) The Consumer Packaging business implemented a plan to reduce excess internal capacity and streamline administrative functions at several of its locations as a result of the Shorewood acquisition. As a result, the Richmond, Virginia facility was shut down in June 2000. Charges associated with this shutdown included $6 million to write down assets to their fair market value of zero, $2 million of severance costs covering the termination of 126 employees, and other exit costs of $1 million. This facility had revenues of $8 million, $23 million and $37 million in 2000, 1999 and 1998, respectively. The Richmond facility had operating losses of $2 million and $1 million in 2000 and 1999, respectively, and operating income of $3 million in 1998. At December 31, 2000, 125 employees had been terminated.

Management also permanently idled the lithographic department of the Clinton, Iowa facility. This action will allow the Retail Packaging business to better focus its resources for further profit improvement. Related charges included $1 million of asset write-downs, $3 million of severance costs covering the termination of 187 employees, and $2 million of other exit costs. At December 31, 2000, 151 employees had been terminated.

A severance reserve of $1 million was also established to streamline the Consumer Packaging business. This reserve covers the termination of 17 employees. At December 31, 2000, all 17 employees had been terminated.

(c) Industrial Papers shut down the Knoxville, Tennessee converting facility in December 2000 to reduce excess internal capacity. Assets were written down $9 million to their estimated fair market value and a severance charge of $1 million was recorded to terminate 120 employees. Other exit costs totaled $3 million. The Knoxville facility had revenues of $46 million, $62 million and $56 million in 2000, 1999 and 1998, respectively. This facility had operating income of $2 million in 2000 and 1999, and an operating loss of $2 million in 1998. At December 31, 2000, the head count had been reduced by 106 employees.

(d) Other includes $8 million related to Industrial Packaging, primarily for the shutdown of the Tupelo, Mississippi sheet plant. The Industrial Packaging charge included $2 million of asset write-offs, $5 million of severance costs covering the termination of 221 employees and $1 million of other cash costs. At December 31, 2000, 212 employees had been terminated.

Other also includes $5 million related to the indefinite shutdown of Carter Holt Harvey's Mataura paper mill. This charge included $3 million of severance costs covering the termination of 158 employees and $2 million of other cash costs. At December 31, 2000, all 158 employees had been terminated.

The fourth quarter charge of $753 million consisted of $536 million of asset write-downs and $217 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$293	$103	$396
Consumer Packaging	(b)	86	7	93
Industrial Packaging	(c)	114	46	160
Chemicals and Petroleum	(d)	16	18	34
Forest Products	(e)	15	20	35
Distribution	(f)	3	19	22
Carter Holt Harvey	(g)	1	4	5
Other	(h)	8	–	8
		$536	$217	$753

(a) The Printing Papers business announced the indefinite closure of the Mobile, Alabama mill and permanent closure of the Lock Haven, Pennsylvania mill. The announcement was in conjunction with the business's plan to realign and rationalize papermaking capacity to benefit future operations. Charges associated with the Mobile shutdown included $223 million to write assets down to their salvage value, $31 million of severance costs covering the termination of 760 employees, and other exit costs of $41 million. The Mobile mill had revenues of $274 million, $287 million and $258 million in 2000, 1999 and 1998, respectively. This mill had operating earnings of $34 million and $8 million in 2000 and 1999, respectively, and an operating loss of $43 million in 1998. Charges associated with the Lock Haven shutdown included $70 million to write the assets down to their salvage value, $16 million of severance costs covering the termination of 589 employees, and other exit costs of $15 million. The Lock Haven mill had revenues of $267 million in 2000 and $225 million in each of 1999 and 1998. This mill had an operating loss of $21 million in 2000, and operating earnings of $12 million and $27 million in 1999 and 1998, respectively.

(b) The Consumer Packaging business announced shutdowns of the beverage packaging converting plant in Jamaica and the packaging facility in Cincinnati, Ohio. Production at the Jamaica plant was moved to Venezuela to increase plant utilization. The Cincinnati facility was closed in order to better align our manufacturing system with customer demand. Charges associated with these shutdowns included $6 million of asset write-downs, $5 million of

severance costs covering the termination of 239 employees, and other exit costs of $2 million. The Consumer Packaging charge also included an $80 million asset impairment due to continuing losses in its aseptic business. The aseptic assets were written down to their estimated fair market value based on expected future discounted cash flows.

(c) The Industrial Packaging business charge of $160 million is related to the closure of the Camden, Arkansas mill, the shutdown of the Pedemonte, Italy container plant and the write-down of the Walsum No. 10 paper machine. The Camden mill, which produced unbleached kraft and multiwall paper, was closed due to the declining kraft paper market, excess internal capacity and shrinking customer demand. The mill's assets were written down $102 million to their salvage value, and severance costs of $24 million were recorded to cover the termination of 613 employees. Other exit costs totaled $15 million. The Camden mill had revenues of $151 million, $162 million and $153 million and operating earnings of $14 million, $22 million and $18 million in 2000, 1999 and 1998, respectively. Charges associated with the Pedemonte plant shutdown included $2 million of asset write-downs, $3 million of severance costs covering the termination of 83 employees, and $4 million of other exit costs. The Pedemonte plant had revenues of $9 million, $11 million and $15 million in 2000, 1999 and 1998, respectively. This plant had operating losses of $2 million in 2000 and 1999 and $1 million in 1998. The business also wrote down the Walsum No. 10 paper machine acquired in the Union Camp merger by $10 million to its estimated fair market value.

(d) The Chemicals and Petroleum business charge of $34 million was related to the announced closure of the Oakdale, Louisiana plant. This is part of the business's Asset Rationalization Program to increase earnings, improve plant efficiencies and reduce excess internal capacity. A portion of the facility was shut down at the end of 2000, with the remainder to be closed by the end of 2001. The charge included $16 million to write the assets down to their estimated fair market value of zero, $1 million of severance costs covering the termination of 61 employees, and $17 million of other exit costs. The Oakdale plant had revenues of $31 million, $30 million and $32 million and operating earnings of $3 million, zero and $6 million in 2000, 1999 and 1998, respectively.

(e) The Forest Products business charge of $35 million was primarily related to the announced shutdown of the Washington, Georgia lumber mill and restructuring costs associated with the Mobile mill closure. The Washington lumber mill will be closed due to unfavorable market conditions and excess internal capacity. The mill had revenues of $54 million, $66 million and $62 million in 2000, 1999 and 1998, respectively. This facility had an operating loss of $6 million in 2000, operating income of $2 million in 1999, and an operating loss of $3 million in 1998. The total Forest Products business charge included $15 million of asset write-downs, $7 million of severance costs covering the termination of 264 employees, and $13 million of other exit costs.

(f) xpedx, our distribution business, implemented a restructuring plan to consolidate duplicate facilities, eliminate excess internal capacity and increase productivity. The $22 million charge associated with this plan included $3 million of asset write-downs, $15 million of severance costs covering the termination of 433 employees, and $4 million of other cash costs.

(g) The Carter Holt Harvey charge of $5 million is related to cost reduction actions primarily associated with the tissue and packaging businesses. This charge included $1 million of asset write-downs and $4 million of severance covering the termination of 145 employees.

(h) This $8 million charge relates to the write-down of our investment in PaperExchange.com, an online provider of e-commerce for the paper industry, to its estimated fair market value.

Also, a pre-tax credit of $28 million was recorded for excess 1999 second and fourth quarter restructuring reserves no longer required, and a pre-tax credit of $6 million was recorded for excess Union Camp merger-related termination benefits reserves no longer required.

The following table presents a roll forward of the severance and other costs included in the 2000 restructuring plans:

In millions	Severance and Other
Opening Balance (second quarter 2000)	$ 31
Additions (fourth quarter 2000)	217
2000 Activity	
Cash charges	(19)
Balance, December 31, 2000	$229

The severance charges recorded in the second and fourth quarters of 2000 related to 4,243 employees. As of December 31, 2000, 991 employees had been terminated.

1999: The following table and discussion presents the impact of special items for 1999:

In millions	1999	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special and extraordinary items	$1,005	$ 551
Union Camp merger-related termination benefits	(148)	(97)
Merger-related expenses	(107)	(78)
Restructuring and other charges	(298)	(180)
Environmental remediation charge	(10)	(6)
Provision for legal reserves	(30)	(18)
Reversals of reserves no longer required	36	27
After special items	$ 448	$ 199

During 1999, special charges before taxes and minority interest of $557 million ($352 million after taxes and minority interest) were recorded. These special items included a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for merger-related expenses, a $298 million charge before taxes and minority interest ($180 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves, and a $36 million pre-tax credit ($27 million after taxes) for the reversals of reserves that were no longer required.

The merger-related expenses of $107 million consisted of $49 million of merger costs and $58 million of post-merger expenses. The merger costs were primarily investment banker, consulting, legal and accounting fees. Post-merger integration expenses included costs related to employee retention, such as stay bonuses, and other cash costs related to the integration of Union Camp.

The Union Camp merger-related termination benefits charge related to employees terminating after the effective date of the merger under an integration benefits program. Under this program, 1,218 employees of the combined company were originally identified for termination. An additional 346 employees left the company after the merger was announced, but were not eligible for benefits under the integration benefits program completed in the third quarter of 2000. Benefits payable under this program for certain senior executives and managers were paid from the general assets of International Paper. Benefits for remaining employees were primarily paid from plan assets of our qualified pension plan. In total, 1,062 employees were terminated. Related cash payments approximated $71 million (including payments related to our nonqualified pension plans). The remainder of the costs incurred primarily represented an increase in the projected benefit obligation of our qualified pension plan. Upon termination of the program in the third quarter of 2000, $6 million of the original reserve of $148 million was reversed to income.

The following table is a roll forward of the Union Camp merger-related termination benefits charge:

Dollars in millions	Termination Benefits
Special charge (1,218 employees)	$ 148
1999 incurred costs (787 employees)	(116)
2000 incurred costs (275 employees)	(26)
Reversal of reserve no longer required	(6)
Balance, December 31, 2000	$ –

Note: Benefit costs are treated as incurred on the termination date of the employee.

The $298 million charge for asset shutdowns of excess internal capacity consisted of a $113 million charge in the second quarter of 1999 and a $185 million charge in the fourth quarter of 1999.

The second quarter $113 million charge for the asset shutdowns of excess internal capacity and cost reduction actions included $57 million of asset write-downs and $56 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$ 6	$ 27	$ 33
European Papers	(b)	3	7	10
Consumer Packaging	(c)	19	12	31
Industrial Packaging	(d)	12	–	12
Chemicals and Petroleum	(e)	10	3	13
Industrial Papers	(f)	7	7	14
		$ 57	$ 56	$113

(a) International Paper recorded a charge of $24 million for severance related to the second phase of the Printing Papers business plan to improve the cost position of its mills. The charge, pursuant to an ongoing severance program, covered a reduction of approximately 289 employees at several mills in the U.S. At December 31, 2000, 258 employees had been terminated.

Also, management approved a decision to permanently shut down the Hudson River mill No. 4 paper machine located in Corinth, New York and the No. 2 paper machine at the Franklin, Virginia mill due to excess internal capacity. Both machines have now been shut down. The machines were written down by $6 million to their estimated fair market value of zero. Severance costs of $3 million were recorded to cover the termination of 147 employees. At December 31, 2000, 142 employees had been terminated.

(b) The charge for European Papers, which covered the shutdown of two mills, consisted of $3 million in asset write-downs, $6 million in severance costs and $1 million of other exit costs. The Lana mill in Docelles, France was shut down due to excess internal capacity. The Lana mill produced high-end uncoated specialty paper that was shifted to the La Robertsau mill in Strasbourg, France. The mill's fixed assets were written down $3 million to their estimated fair market value of zero. Costs of $1 million related to the site closure and severance of $4 million related to the termination of 42 employees were also recorded. The Lana mill had revenues of $12 million and an operating loss of $2 million for the year ended December 31, 1999. At December 31, 2000, all 42 employees had been terminated.

The Corimex coating plant in Clermont-Ferrand, France was shut down in April 1999. The assets at this plant had been considered to be impaired in 1997 and were written down at that time because of a decline in the market for thermal fax paper. A $2 million severance charge was recorded during the second quarter of 1999 to cover the costs of terminating 81 employees. Corimex had revenues of $6 million and an operating loss of $3 million for the year ended December 31, 1999. At December 31, 2000, all 81 employees had been terminated.

(c) The Consumer Packaging business implemented a plan to improve the overall performance of the Moss Point, Mississippi mill. Included in this plan was the shutdown of the No. 3 paper machine, which produced labels. This production was transferred to the Hudson River mill. The machine was written down $6 million to its estimated fair market value of zero. Severance costs including, but not limited to, employees associated with the No. 3 machine totaled $10 million and covered the elimination of 360 positions. At December 31, 2000, 331 employees had been terminated.

Consumer Packaging also shut down the Beverage Packaging facility in Itu, Brazil in an effort to reduce excess internal capacity in Latin America. The related assets were written down $13 million to their estimated fair market value of zero, and a severance charge of $1 million covering the elimination of 29 positions was recorded. Other exit costs totaled $1 million. At December 31, 2000, 27 employees had been terminated.

(d) With the merger of Union Camp, International Paper negotiated the resolution of contractual commitments related to an Industrial Packaging investment in Turkey. As a result of these negotiations and evaluation of this entity, it was determined that the investment was impaired. A $12 million charge was recorded to reflect this impairment and the related costs of resolving the contractual commitments.

(e) As a result of an overall reduction in demand for dissolving pulp, a decision was made to downsize the Natchez, Mississippi mill. Charges associated with capacity reduction totaled $10 million and included the shutdown of several pieces of equipment. A severance charge of $3 million was recorded to eliminate 89 positions. At December 31, 2000, all 89 employees had been terminated.

(f) The Industrial Papers business implemented a plan to reduce excess internal capacity at several of its locations. The Toronto, Canada plant was closed. Equipment at the Kaukauna, Wisconsin, Knoxville, Tennessee and Menasha, Wisconsin facilities was taken out of service. The total amount related to the write-down of these assets was $7 million. Severance costs related to these shutdowns were $5 million, based on a personnel reduction of 81 employees. Other exit costs totaled $2 million. At December 31, 2000, 73 employees had been terminated.

The $185 million fourth quarter charge for shutdowns of excess internal capacity and cost reduction actions included $92 million of asset write-downs and $93 million of severance and other charges. The following table and discussion presents additional detail related to this charge:

In millions		Asset Write-downs	Severance and Other	Total
Printing Papers	(a)	$ 7	$ 5	$ 12
Consumer Packaging	(b)	14	22	36
Industrial Packaging	(c)	7	14	21
Chemicals and Petroleum	(d)	30	20	50
Building Materials	(e)	10	6	16
Distribution	(f)	6	17	23
Carter Holt Harvey	(g)	18	9	27
		$ 92	$ 93	$185

(a) The Printing Papers charge encompassed a $2 million severance charge related to a production curtailment at the Erie, Pennsylvania mill due to lower demand, a $3 million write-off of deferred software costs as the result of a decision to discontinue the installation of a Union Camp order entry system, and a $7 million impairment of our investment in the Otis Hydroelectric plant. In November 1999, the Erie mill changed from a seven-day, four-crew schedule to a three-crew schedule in order to balance operating capacity with sales demand. This production curtailment resulted in the termination of 99 employees. At December 31, 2000, all 99 employees had been terminated. We wrote down our investment in the Otis Hydroelectric partnership to the approximate fair market value of the investment based upon our offer to acquire the other partner's interest.

(b) The Consumer Packaging charge of $36 million was related to the shutdown of facilities, capacity optimization and a deferred software write-off. The Philadelphia, Pennsylvania plant was shut down in June 2000 and the Edmonton, Alberta plant was shut down in April 2000. Charges associated with these shutdowns included $7 million of asset write-downs, $1 million of severance costs covering the termination of 194 employees, and other exit costs of $5 million. At December 31, 2000, all 194 employees had been terminated. Charges related to eliminating excess internal capacity included $7 million of asset write-downs and a severance charge of $11 million for the termination of 512 employees. The capacity reductions related to the aseptic and flexible packaging businesses. At December 31, 2000, 381 employees had been terminated. The business also discontinued the implementation of a Union Camp order management system. The write-off of deferred software costs related to this system was $5 million.

(c) The Industrial Packaging business shut down the following plants and shifted production to other facilities: the Terre Haute, Indiana box plant; the Northlake, Illinois box plant; the Columbia, Tennessee sheet plant; and the Montgomery, Alabama sheet plant. The design center in Spartanburg, South Carolina was also closed. The functions performed in Spartanburg will continue in Memphis, Tennessee. Charges associated with the consolidation and improvement of the Industrial Packaging business totaled $21 million and included $7 million of asset write-downs, a $12 million severance charge covering the termination of 426 employees, and other exit costs of $2 million. At December 31, 2000, 309 employees had been terminated.

(d) The Chemicals and Petroleum charge of $50 million related to the partial shutdown of the Chester-le-Street plant located in northeast England and additional costs related to the 1998 shutdown of the Springhill, Louisiana plant. The Chester-le-Street plant was a fully integrated site comprised of a crude tall oil fractionation plant, a rosin resin upgrading plant and a dimer plant. The crude tall oil and rosin resin upgrading facilities at the site were closed and production shifted to other Arizona Chemical facilities. Asset write-downs for this plant totaled $30 million. A severance charge of $3 million covered the termination of 83 employees. Other costs of $12 million included demolition and contract cancellations. At December 31, 2000, all

83 employees had been terminated. We also recorded an additional charge of $5 million related to the 1998 closure of the Springhill plant, covering other exit costs including demolition and cleanup.

(e) The Building Materials charge of $16 million included $3 million for a program to improve the profitability of the decorative surfaces business and $13 million for the shutdown of the Pilot Rock, Oregon mill. The Decorative Products business developed an improvement plan to consolidate certain manufacturing activities and streamline administrative functions. As a result, a reserve was established to cover asset write-offs totaling $2 million, and severance charges of $1 million were recorded related to the reduction of 65 employees. At December 31, 2000, 38 employees had been terminated.

International Paper announced in October 1999 that it would shut down the Pilot Rock, Oregon mill due to excess capacity within the Masonite manufacturing system. Softboard production was moved to our Ukiah, California and Lisbon Falls, Maine facilities. The related charge included $8 million of asset write-downs, a $2 million severance charge covering the termination of 155 employees, and $3 million of other exit costs. At December 31, 2000, 149 employees had been terminated.

(f) xpedx implemented a plan to consolidate duplicate facilities and eliminate excess internal capacity. The $23 million charge associated with this plan included $6 million of asset write-downs, a severance charge of $5 million for the termination of 211 employees, and other costs of $12 million. Other costs consisted primarily of lease cancellations. At December 31, 2000, 197 employees had been terminated.

(g) This charge related to the shutdown of the No. 5 paper machine at Carter Holt Harvey's Kinleith mill. The machine had been idled due to a reconfiguration project at the mill. Plans for alternative uses for the machine were reexamined and it was determined that based on current competitive conditions it would not provide adequate returns on the capital required and that it would be scrapped. Accordingly, the machine was written down by $18 million to its estimated salvage value. Also, severance costs of $9 million were recorded to cover the costs of terminating 300 employees. At December 31, 2000, all 300 employees had been terminated.

The $30 million pre-tax charge to increase existing legal reserves included $25 million added to the reserve for hardboard siding claims. A further discussion of this charge can be found in Note 11–Commitments and Contingent Liabilities.

The $36 million pre-tax credit for reserves no longer required consisted of $30 million related to a retained exposure at the Lancey mill in France and $6 million of excess severance reserves previously established by Union Camp. The Lancey mill was sold to an employee group in October 1997. In April 1999, International Paper's remaining exposure to potential obligations under this sale was resolved, with the reserve returned to income in the second quarter.

The following table presents a roll forward of severance and other costs included in the 1999 restructuring plans:

In millions	Severance and Other
Opening Balance (second quarter 1999)	$ 56
Additions (fourth quarter 1999)	93
1999 Activity	
Cash charges	(34)
2000 Activity	
Cash charges	(75)
Other charges	(13)
Reversals of reserves no longer required	(14)
Balance, December 31, 2000	$ 13

The severance reserves recorded in the second and fourth quarters of 1999 related to 3,163 employees. At December 31, 2000, 2,793 employees had been terminated. Reserves of $14 million were determined to no longer be required and reversed to income in the fourth quarter of 2000. The remaining $13 million of reserves represents costs to be incurred or severance to be paid in the first quarter of 2001.

1998: The following table and discussion presents the impact of special items for 1998:

In millions	1998	
	Earnings (Loss) Before Income Taxes and Minority Interest	Earnings (Loss) After Income Taxes and Minority Interest
Before special items	$ 598	$ 345
Oil and gas impairment charges	(111)	(68)
Restructuring and other charges	(161)	(92)
Gain on sale of business	20	12
Reversals of reserves no longer required	83	50
After special items	$ 429	$ 247

During 1998, International Paper recorded $111 million of oil and gas impairment charges ($68 million after taxes); $56 million ($35 million after taxes) in the fourth quarter and $55 million ($33 million after taxes) in the third quarter. International Paper had oil and gas exploration and production operations in West Texas, the Gulf Coast and the Gulf of Mexico. The Securities and Exchange Commission's regulations for companies that use the full-cost method of accounting for oil and gas activities require companies to perform a ceiling test on a quarterly basis. As a result of low oil and gas prices, the value of International Paper's properties was written down through these noncash charges.

Also in 1998, International Paper recorded a $145 million pre-tax restructuring charge ($82 million after taxes and minority interest) consisting of $64 million of asset write-downs and $81 million of severance costs, and recorded pre-tax charges of $16 million ($10 million after taxes) related to International Paper's share of write-offs taken by Scitex, a then-owned 13% investee company, related to an acquisition of in-process research and development and its exit from the digital video business. The Scitex items were reflected as equity losses from the investment in Scitex in the consolidated statement of earnings. International Paper sold its equity interest in Scitex in January 2000. In addition, International Paper recorded a $20 million pre-tax gain ($12 million after taxes) on the sale of its Veratec nonwovens division, and an $83 million pre-tax credit ($50 million after taxes) from the reversals of previously established reserves that were no longer required. These reserves had been established in 1996 and 1997 and were primarily associated with the Veratec and Imaging businesses. The sales of these businesses were completed in 1998, and those reserves not required were returned to earnings.

The following table and discussion presents additional detail related to the $145 million restructuring charge:

In millions		Asset Write-downs	Severance	Total
Distribution	(a)	$ 20	$ 10	$ 30
Printing Papers	(b)	13	14	27
Carter Holt Harvey	(c)	15	3	18
Industrial Packaging	(d)	8	7	15
Union Camp	(e)	8	32	40
Other	(f)	–	15	15
		$ 64	$ 81	$145

(a) After the acquisition of Zellerbach, management of xpedx terminated certain software projects that were in process and began to use Zellerbach's systems in certain of its regions. Accordingly, $20 million of deferred software costs were written off. In addition, a $10 million severance charge was recorded to terminate 274 xpedx employees at duplicate facilities and locations. At December 31, 1999, all 274 employees had been terminated.

(b) International Paper's Printing Papers business shut down equipment at the Mobile, Alabama mill and announced the termination of 750 employees at the Mobile, Alabama, Lock Haven, Pennsylvania, and Ticonderoga, New York mills. At the Mobile mill, International Paper permanently shut down a paper machine and related equipment with a net book value of $13 million. These assets were written down to their estimated fair market value of zero. The severance charge associated with the employee reductions at the three mills was $14 million. At December 31, 1999, all employees under this program had been terminated.

(c) This charge primarily consisted of a $15 million asset write-down associated with the closure of two Carter Holt Harvey facilities, Myrtleford and Taupo. Myrtleford, a tissue pulp mill located in Australia, was closed due to excess capacity in its tissue pulp system. Carter Holt Harvey will be able to produce the volume at lower costs at its Kawerau tissue pulp mill located in New Zealand. Carter Holt Harvey also closed the Taupo, New Zealand sawmill due to excess capacity in its sawmill system as the result of recent productivity improvements. The $3 million severance charge represented the cost of terminating 236 employees. At December 31, 1999, all 236 employees had been terminated. International Paper's consolidated financial statements included revenues of $21 million and operating income of $1 million from these facilities in 1998.

(d) Management indefinitely closed the Gardiner, Oregon mill because of excess capacity in International Paper's containerboard system. As a result, the net plant, property and equipment assets of this mill were reduced from $13 million to the estimated salvage value of $5 million. In connection with this decision to close, 298 employees at the mill were terminated and a $7 million severance charge was recorded. This mill had revenues of $78 million and operating losses of $16 million in 1998.

(e) During 1998, Union Camp recorded a pre-tax special charge of $40 million. Included in the charge was $32 million related to the termination of 540 positions and $8 million of asset write-downs. Approximately 190 of these positions related to a reorganization and restructuring of Union Camp's research and development activities. Another 190 positions related to a consolidation of the packaging group's administrative support functions. The remaining 160 positions related to a series of other organizational changes. At December 31, 1999, all 540 employees had been terminated.

The asset write-downs were principally attributable to the impairment of goodwill specific to two packaging businesses, the Chase packaging facility and Union Camp's 1996 purchase of a 50% interest in a packaging plant in Turkey. Upon reviewing the historical and projected operating results for these businesses, management concluded that expected future cash flows did not fully support the carrying value of these assets.

(f) The $15 million severance charge was recorded as a result of an announcement by International Paper of a plan to consolidate its land and timber and logging and fiber supply divisions into a new division called Forest Resources, and the consolidation of the Consumer Packaging group. Of the $15 million charge, $10 million related to a head count reduction of 200 employees in the Forest Resources group and the remaining $5 million was based on a personnel reduction of 210 employees in the Consumer Packaging group. At December 31, 1999, all 410 employees had been terminated.

The following table presents a roll forward of the severance costs included in the 1998 restructuring plan:

In millions	Severance
Opening Balance (third quarter 1998)	$ 81
1998 Activity	
Cash charges	(19)
1999 Activity	
Cash charges	(56)
Reversal of reserve no longer required	(6)
Balance, December 31, 1999	$ –

The severance reserve recorded in the third quarter of 1998 related to 2,508 employees. As of December 31, 1999, all employees had been terminated.

7 Businesses Held for Sale

During 2000, International Paper announced plans to sell by the end of 2001, approximately $5 billion of assets that are not strategic to its core businesses. The decision to sell these businesses and certain other assets resulted from International Paper's acquisition of Champion and the completion of its strategic analysis to focus on its core businesses of paper, packaging and forest products.

The following table presents the businesses held for sale at December 31, 2000 along with their sales and operating earnings for each of the three years ended December 31, 2000, 1999 and 1998:

In millions for the years ended December 31	**2000**	1999	1998
Arizona Chemical			
(Chemicals and Petroleum)			
Sales	**$ 630**	$ 677	$ 673
Operating earnings	**63**	54	64
Chemical Cellulose			
(Chemicals and Petroleum)			
Sales	**215**	208	232
Operating earnings (loss)	**(14)**	9	16
Fine Papers (Printing Papers)			
Sales	**262**	265	294
Operating earnings	**21**	10	22
Masonite (Forest Products)			
Sales	**465**	512	499
Operating earnings	**5**	26	36
Petroleum & Minerals			
(Chemicals and Petroleum)			
Sales	**125**	70	75
Operating earnings	**81**	33	21
Zanders (Printing Papers)			
Sales	**626**	594	626
Operating earnings (loss)	**(4)**	8	9
Other (Various)			
Sales	**102**	18	12
Operating earnings (loss)	**(22)**	–	(1)
Total			
Sales	**$2,425**	$2,344	$2,411
Operating earnings	**$ 130**	$ 140	$ 167

Note: Other, for the year ended December 31, 2000, includes the Hamilton mill, which was acquired in the June 20, 2000 Champion acquisition.

In the third quarter of 2000, the assets of Masonite and Zanders were written down to their fair market values based on estimated sales proceeds. This resulted in an extraordinary pre-tax charge of $460 million ($310 million after taxes). In the fourth quarter of 2000, Fine Papers, the Chemical Cellulose pulp business and International Paper's Flexible Packaging businesses in Argentina (included in Other) were written down to their fair market values based on estimated sales proceeds, resulting in an extraordinary pre-tax charge of $373 million ($231 million after taxes). These charges are presented as extraordinary items, net of taxes, in the consolidated statement of earnings in accordance with the pooling-of-interests rules.

The assets of the businesses held for sale, totaling $1.9 billion, are included in "assets of businesses held for sale" in current assets in the accompanying consolidated balance sheet. The liabilities of these businesses, totaling $541 million, are included in "liabilities of businesses held for sale" in current liabilities in the accompanying consolidated balance sheet.

An agreement to sell Masonite to Premdor Inc. of Toronto, Canada was entered into September 30, 2000, and is subject to closing conditions and regulatory approval.

See Note 19–Subsequent Events for a discussion of the completion of the dispositions of Zanders, the Argentine businesses, the oil and gas interests and the Hamilton mill. International Paper is currently soliciting or evaluating bids on the remaining businesses.

8 Preferred Securities of Subsidiaries

In September 1998, International Paper Capital Trust III issued $805 million of International Paper-obligated mandatorily redeemable preferred securities. International Paper Capital Trust III is a wholly owned consolidated subsidiary of International Paper and its sole assets are International Paper 7⅞% debentures. The obligations of International Paper Capital Trust III related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are mandatorily redeemable on December 1, 2038.

In June 1998, IP Finance (Barbados) Limited, a non-U.S. wholly owned consolidated subsidiary of International Paper, issued $550 million of preferred securities with a dividend payment based on LIBOR. These preferred securities are mandatorily redeemable on June 30, 2008.

In March 1998, Timberlands Capital Corp. II, Inc., a wholly owned consolidated subsidiary of International Paper, issued $170 million of 7.005% preferred securities as part of the financing to repurchase the outstanding units of IP Timberlands, Ltd. These securities are not mandatorily redeemable and are classified in the consolidated balance sheet as a minority interest liability.

In the third quarter of 1995, International Paper Capital Trust (the Trust) issued $450 million of International Paper-obligated mandatorily redeemable preferred securities. The Trust is a wholly owned consolidated subsidiary of International Paper and its sole assets are International Paper 5¼% convertible subordinated debentures. The obligations of the Trust related to its preferred securities are fully and unconditionally guaranteed by International Paper. These preferred securities are convertible into International Paper common stock.

Distributions paid under all of the preferred securities noted above were $141 million, $134 million and $54 million in 2000, 1999 and 1998, respectively. The expense related to these preferred securities is shown in minority interest expense in the consolidated statement of earnings.

9 Sale of Limited Partnership Interests

During 1993, International Paper contributed assets with a fair market value of approximately $900 million to two newly formed limited partnerships, Georgetown Equipment Leasing Associates, L.P. and Trout Creek Equipment Leasing, L.P. These partnerships are separate and distinct legal entities from International Paper and have separate assets, liabilities, business functions and operations. However, for accounting purposes, these assets continue to be consolidated, with the minority shareholders' interests reflected as minority interest in the accompanying financial statements. The purpose of the partnerships is to invest in and manage a portfolio of assets including pulp and paper equipment used at the Georgetown, South Carolina and Ticonderoga, New York mills. This equipment is leased to International Paper under long-term leases. Partnership assets also include floating rate notes and cash. During 1993, outside investors purchased a portion of our limited partner interests for $132 million and also contributed an additional $33 million to one of these partnerships.

At December 31, 2000, International Paper held aggregate general and limited partner interests totaling 63% in Georgetown Equipment Leasing Associates, L.P. and 57% in Trout Creek Equipment Leasing, L.P.

10 Income Taxes

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

The components of earnings before income taxes, minority interest and extraordinary items by taxing jurisdiction were:

In millions	2000	1999	1998
Earnings			
U.S.	**$202**	$237	$297
Non-U.S.	**521**	211	132
Earnings before income taxes, minority interest and extraordinary items	**$723**	$448	$429

The provision for income taxes by taxing jurisdiction was:

In millions	2000	1999	1998
Current tax provision (benefit)			
U.S. federal	**$ 130**	$ 259	$ (64)
U.S. state and local	**41**	27	(6)
Non-U.S.	**102**	8	33
	273	294	(37)
Deferred tax provision (benefit)			
U.S. federal	**(31)**	(108)	117
U.S. state and local	**(65)**	(103)	(12)
Non-U.S.	**(60)**	3	27
	(156)	(208)	132
Income tax provision	**$ 117**	$ 86	$ 95

International Paper made income tax payments, net of refunds, of $298 million, $68 million and $144 million in 2000, 1999 and 1998, respectively.

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

In millions	2000	1999	1998
Earnings before income taxes, minority interest and extraordinary items	**$723**	$448	$429
Statutory U.S. income tax rate	**35%**	35%	35%
Tax expense using statutory U.S. income tax rate	**253**	157	150
State and local income taxes	**(15)**	(20)	(11)
Non-U.S. tax rate differences	**(80)**	(52)	20
Permanent benefits on sales of non-U.S. businesses	**–**	(2)	(33)
Permanent benefits on sales of non-strategic timberland assets	**–**	–	(29)
Nondeductible business expenses	**10**	30	9
Foreign sales corporation benefit	**(18)**	(9)	(9)
Minority interest	**(82)**	(56)	(31)
Goodwill amortization	**39**	21	21
Net U.S. tax on non-U.S. dividends	**28**	15	10
Tax credits	**–**	(12)	(1)
Other, net	**(18)**	14	(1)
Income tax provision	**$117**	$ 86	$ 95
Effective income tax rate	**16%**	19%	22%

The net deferred income tax liability as of December 31, 2000 and 1999 includes the following components:

In millions	2000	1999
Current deferred tax asset	**$ 562**	$ 196
Noncurrent deferred tax asset	**311**	240
Noncurrent deferred tax liability	**(4,699)**	(3,344)
Total	**$(3,826)**	$(2,908)

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2000 and 1999 were as follows:

In millions	2000	1999
Plants, properties and equipment	**$(3,344)**	$(2,995)
Prepaid pension costs	**(326)**	(339)
Forestlands	**(1,686)**	(534)
Postretirement benefit accruals	**199**	225
Alternative minimum and other tax credits	**432**	390
Net operating loss carryforwards	**264**	235
Other	**635**	110
Total	**$(3,826)**	$(2,908)

Net operating loss carryforwards, most of which are applicable to non-U.S. subsidiaries, expire as follows: years 2001 through 2007—$130 million, years 2019 through 2020—$273 million and indefinite carryforward—$363 million.

Deferred taxes are not provided for temporary differences of approximately $1.7 billion, $1.2 billion and $1.1 billion as of December 31, 2000, 1999 and 1998, respectively, representing earnings of non-U.S. subsidiaries that are intended to be permanently reinvested. Computation of the potential deferred tax liability associated with these undistributed earnings is not practicable.

11 Commitments and Contingent Liabilities

Certain property, machinery and equipment are leased under cancelable and noncancelable agreements. At December 31, 2000, total future minimum rental commitments under noncancelable leases were $977 million, due as follows: 2001—$170 million, 2002—$143 million, 2003—$121 million, 2004—$111 million, 2005—$100 million and thereafter—$332 million. Rent expense was $218 million, $229 million and $237 million for 2000, 1999 and 1998, respectively.

International Paper has entered into an agreement to guarantee, for a fee, a contractual credit agreement of an unrelated third party. The maximum amount of the guarantee is $110 million and expires in 2008. The guaranty fees are payable to International Paper at the time the borrowings under the agreement are repaid to the third party lenders.

Three nationwide class action lawsuits filed against International Paper have been settled in recent years.

The first suit alleged that hardboard siding manufactured by Masonite fails prematurely, allowing moisture intrusion that in turn causes damage to the structure underneath the siding. The class consisted of all U.S. property owners having Masonite hardboard siding installed on and incorporated into buildings between 1980 and January 15, 1998. Final approval of the settlement was granted by the Court on January 15, 1998. The settlement provides for monetary compensation to class members meeting the settlement requirements on a claims-made basis. It also provides for the payment of attorneys' fees equaling 15% of the settlement amounts paid to class members, with a non-refundable advance of $47.5 million plus $2.5 million in costs.

The second suit made similar allegations with regard to Omniwood siding manufactured by Masonite (Omniwood Lawsuit). The class consisted of all U.S. property owners having Omniwood siding installed on and incorporated into buildings from January 1, 1992 to January 6, 1999.

The third suit alleged that Woodruf roofing manufactured by Masonite is defective and causes damage to the structure underneath the roofing (Woodruf Lawsuit). The class consisted of all U.S. property owners who had incorporated and installed Masonite Woodruf roofing from January 1, 1980 to January 6, 1999.

Final approval of the settlements of the Omniwood and Woodruf lawsuits was granted by the Court on January 6, 1999. The settlements provide for monetary compensation to class members meeting the settlement requirements on a claims-made basis, and provide for payment of attorneys' fees equaling 13% of the settlement amounts paid to class members with a non-refundable advance of $1.7 million plus $75,000 in costs for each of the two cases.

Reserves for these matters total $92 million at December 31, 2000, net of expected future insurance recoveries of $51 million. This amount includes $25 million added to the reserve for hardboard siding claims in the fourth quarter of 1999 (some of which has now been paid to claimants) and an additional $125 million added to that reserve in the third quarter of 2000 to cover an expected shortfall, resulting primarily from a higher number of hardboard siding claims than anticipated. It is reasonably possible that the higher number of hardboard siding claims might be indicative of the need for one or more future additions to this reserve. However, whether or not any future additions to this reserve become necessary, International Paper believes that these settlements will not have a material adverse effect on its consolidated financial position or results of operations.

Through December 31, 2000, net settlement payments of $277 million, including the $51 million of non-refundable advances of attorneys' fees discussed above, have been made. Included in the non-refundable advances of attorneys' fees is $5 million, which has been paid to the attorneys for the plaintiffs in the Omniwood and Woodruf lawsuits. Also, International Paper has received $27 million related to these matters from our insurance carriers through December 31, 2000. International Paper and Masonite have the right to terminate each of the settlements after seven years from the dates of final approval. The liability for these matters will be retained after the planned sale of Masonite is completed.

International Paper is also involved in various other inquiries, administrative proceedings and litigation relating to contracts, sales of property, environmental protection, tax, antitrust and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, International Paper believes that the outcome of any lawsuit or claim that is pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial position or results of operations.

12 Supplementary Balance Sheet Information

Inventories by major category were:

In millions at December 31	**2000**	1999
Raw materials	**$ 431**	$ 484
Finished pulp, paper and packaging products	**1,912**	1,869
Finished lumber and panel products	**261**	178
Operating supplies	**473**	486
Other	**105**	186
Inventories	**$3,182**	$3,203

The last-in, first-out inventory method is used to value most of International Paper's U.S. inventories. Approximately 68% of total raw materials and finished products inventories were valued using this method. If the first-in, first-out method had been used, it would have increased total inventory balances by approximately $264 million and $250 million at December 31, 2000 and 1999, respectively.

Plants, properties and equipment by major classification were:

In millions at December 31	**2000**	1999
Pulp, paper and packaging facilities		
Mills	**$22,710**	$21,288
Packaging plants	**3,464**	3,233
Wood products facilities	**2,358**	2,117
Other plants, properties and equipment	**1,522**	2,889
Gross cost	**30,054**	29,527
Less: Accumulated depreciation	**14,043**	15,146
Plants, properties and equipment, net	**$16,011**	$14,381

13 Debt and Lines of Credit

A summary of long-term debt follows:

In millions at December 31	**2000**	1999
8⅞% to 10.5% notes, due 2001–2012	**$ 522**	$ 563
8⅞% to 9.7% notes, due 2001–2004	**564**	600
9¼% sinking fund debentures, due 2001–2021	**8**	34
8.5% to 9.5% debentures, due 2002–2022	**246**	246
8⅜% to 9½% debentures, due 2015–2024	**300**	300
8% to 8⅛% notes, due 2003–2005	**2,197**	–
7% to 7⅞% notes, due 2001–2007	**1,343**	1,373
6⅞% to 8⅛% notes, due 2023–2029	**742**	741
6.65% notes, due 2037	**92**	–
6.5% notes, due 2007	**148**	148
6.4% to 7.75% debentures, due 2023–2027	**865**	–
6⅛% notes, due 2003	**200**	200
5⅞% Swiss franc debentures, due 2001	**67**	68
5⅜% euro notes, due 2006	**223**	249
12% to 16% Brazilian real notes, due 2001–2006	**194**	–
5⅛% debentures, due 2012	**90**	88
Medium-term notes, due 2001–2009[(a)]	**307**	331
Floating rate notes, due 2002[(b)]	**2,100**	–
Environmental and industrial development bonds, due 2001–2033[(c,d)]	**2,334**	1,352
Commercial paper and bank notes[(e)]	**637**	1,325
Other[(f)]	**157**	416
Total[(g)]	**13,336**	8,034
Less: Current maturities	**688**	514
Long-term debt	**$12,648**	$ 7,520

(a) The weighted average interest rate on these notes was 8.2% in 2000 and 8.3% in 1999.

(b) The weighted average interest rate on these notes was 7.9% in 2000.

(c) The weighted average interest rate on these bonds was 6.3% in 2000 and 6.1% in 1999.

(d) Includes $130 million of bonds at December 31, 2000 and $149 million at December 31, 1999, which may be tendered at various dates and/or under certain circumstances.

(e) The weighted average interest rate was 7.2% in 2000. Includes $708 million in 1999 of non-U.S. dollar denominated borrowings with a weighted average interest rate of 5.6%.

(f) Includes $19 million in 2000 and $14 million in 1999 of French franc borrowings with a weighted average interest rate of 2.2% in 2000 and 2.8% in 1999, $5 million in 2000 of Canadian dollar borrowings with an interest rate of 9.0%, and $132 million in 1999 of German mark borrowings with a weighted average interest rate of 4.7%.

(g) The fair market value was approximately $13.5 billion and $8.1 billion at December 31, 2000 and 1999, respectively.

Total maturities of long-term debt over the next five years are 2001—$688 million, 2002—$2.8 billion, 2003—$1.5 billion, 2004—$1.4 billion and 2005—$1.4 billion.

At December 31, 2000 and 1999, International Paper, including Carter Holt Harvey, classified $750 million and $1.5 billion, respectively, of tenderable bonds, commercial paper and bank notes as long-term debt. International Paper and this subsidiary have the intent and ability to renew or convert these obligations through 2001 and into future periods.

At December 31, 2000, unused bank lines of credit amounted to $2.3 billion. The agreements generally provide for interest rates at a floating rate index plus a margin predetermined by International Paper's credit rating. The principal line, which is cancelable only if International Paper's bond rating drops below investment grade, provides for $750 million of credit through March 2004, and has a facility fee of 0.13% that is payable quarterly. International Paper also has a 364-day facility that provides for $1.0 billion of credit through March 2001 and has a facility fee of 0.09% that is payable quarterly. Additionally, International Paper has a $1.8 billion 364-day facility that provides credit through June 2001, and has a facility fee of 0.10% paid quarterly. Carter Holt Harvey also has two principal lines of credit that support its commercial paper programs. A $360 million line of credit matures in April 2002 and has a 0.15% facility fee that is payable quarterly and a 250 million New Zealand dollar line of credit matures in February 2002 with a 0.13% facility fee that is payable quarterly.

At December 31, 2000, notes payable included $517 million of non-U.S. dollar denominated debt with maturities of less than twelve months and a weighted average interest rate of 6.3%.

At December 31, 2000, outstanding debt included approximately $2.1 billion of commercial paper and bank notes with interest rates that fluctuate based on market conditions and our credit rating.

On June 20, 2000, International Paper issued $5 billion of debt to finance the acquisition of Champion and assumed $2.8 billion of Champion debt. At the time of the acquisition announcement, Moody's lowered International Paper's long-term debt rating to Baa1 from A3. At December 31, 2000, $6.7 billion of debt related to the Champion acquisition remained outstanding.

In 1999, International Paper recorded an extraordinary loss of $16 million after taxes for the extinguishment of high interest debt that was assumed in connection with the merger with Union Camp. International Paper extinguished approximately $275 million of long-term debt with interest rates ranging from 8.5% to 10%.

14 Financial Instruments

Financial instruments are used primarily to hedge exposure to currency and interest rate risk. To qualify as hedges, financial instruments must reduce the currency or interest rate risk associated with the related underlying items and be designated as hedges by management. Gains or losses from the revaluation of financial instruments that do not qualify for hedge accounting treatment are recognized in earnings.

International Paper's policy has been to finance a portion of our investments in non-U.S. operations with borrowings denominated in the same currency as the investment or by entering into foreign exchange contracts in tandem with U.S. dollar borrowings. These contracts are effective in providing a hedge against fluctuations in currency exchange rates. Gains or losses from the revaluation of these contracts, which are fully offset by gains or losses from the revaluation of the net assets being hedged, are determined monthly based on published currency exchange rates and are recorded as translation adjustments in common shareholders' equity. Upon liquidation of the net assets being hedged or early termination of the foreign exchange contracts, the gains or losses from the revaluation of foreign exchange contracts would be included in earnings. Amounts payable to or due from the counterparties to the foreign exchange contracts are included in accrued liabilities or accounts receivable as applicable.

Financial instruments outstanding at December 31, 2000 used to hedge net investments in non-U.S. operations consisted of non-U.S. dollar denominated debt totaling $600 million. Also outstanding were foreign currency forward contracts totaling $1.7 billion, substantially all having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts was $1.5 billion and $1.0 billion during 2000 and 1999, respectively.

U.S. dollars in millions	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Pay U.S. dollars /			
Receive European euros	$955	0.88	$ (11)
Pay U.S. dollars /			
Receive British pounds	128	1.46	(2)
Receive New Zealand dollars /			
Pay Australian dollars	413	1.31	15
Pay U.S. dollars /			
Receive New Zealand dollars	202	0.44	9
Receive Swedish kronas /			
Pay U.S. dollars	30	9.64	–

Foreign exchange contracts are also used to hedge certain transactions that are denominated in non-U.S. currencies, primarily export sales and equipment purchased from nonresident vendors. These contracts serve to protect International Paper from currency fluctuations between the transaction and settlement dates. Gains and losses from the revaluation of these contracts, based on published currency exchange rates, along with offsetting gains and losses resulting from the revaluation of the underlying transactions, are recognized in earnings or deferred and recognized in the basis of the underlying transaction when completed. Any gains or losses arising from the cancellation of the underlying transactions or early termination of the foreign currency exchange contracts would be included in earnings.

Financial instruments outstanding at December 31, 2000 used to hedge transactions denominated in non-U.S. currencies consisted of foreign currency forward contracts totaling $955 million, a majority having maturities of less than twelve months, as noted in the following table expressed in U.S. dollar equivalents. The average amount of outstanding contracts during 2000 and 1999 was $825 million and $454 million, respectively.

U.S. dollars in millions	Contract Amount	Weighted Average Exchange Rate	Net Unrealized Gain (Loss)
Pay U.S. dollars /			
Receive European euros	$117	0.90	$ 1
Pay British pounds /			
Receive European euros	70	0.59	1
Pay European euros /			
Receive British pounds	39	1.63	–
Receive New Zealand dollars /			
Pay Australian dollars	62	1.27	–
Pay U.S. dollars /			
Receive New Zealand dollars	148	0.48	(14)
Receive U.S. dollars /			
Pay European euros	29	0.88	(1)
Receive U.S. dollars /			
Pay British pounds	18	1.44	–
Receive U.S. dollars /			
Pay New Zealand dollars	440	0.41	(25)

Note: International Paper has an additional $32 million in a number of smaller forward contracts to purchase or sell other currencies with a related net immaterial unrealized loss.

International Paper also purchases foreign exchange option contracts, with terms that generally do not exceed one year, to hedge export sales. Premiums paid under these contracts are expensed over the life of the option contract. Gains arising on these options are recognized at the time the options are exercised. Option contracts outstanding at December 31, 2000 amounted to $121 million.

Cross-currency and interest rate swap agreements are used to manage the composition of our fixed and floating rate debt portfolio. Amounts to be paid or received as interest under these agreements are recognized over the life of the swap agreements as adjustments to interest expense. Gains or losses from the revaluation of cross-currency swap agreements are included in earnings. The related amounts payable to or due from the counterparties to the agreements are included in accrued liabilities or accounts receivable as applicable. If swap agreements are terminated early, the resulting gain or loss would be deferred and amortized over the remaining life of the related debt. The following table presents notional amounts and principal cash flows for currency and interest rate swap agreements by year of maturity expressed in U.S. dollar equivalents. The impact on our earnings and net liability under these agreements was not significant.

U.S. dollars in millions	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
U.S. dollar variable to fixed rate swaps Average pay rate 6.3% / Average receive rate 6.9%	$ –	$ 45	$ 200	$ 300	$ –	$ 500	$1,045	$ 97
U.S. dollar fixed to variable rate swaps Average pay rate 7.6% / Average receive rate 6.8%	–	45	200	550	–	500	1,295	(98)
U.S. dollar to New Zealand dollar cross-currency swap	–	150	–	–	–	–	150	(5)
Australian dollar to New Zealand dollar cross-currency swap	–	130	–	–	–	–	130	25
Swiss franc to New Zealand dollar cross-currency swaps	68	–	–	–	–	–	68	1

International Paper does not hold or issue financial instruments for trading purposes. The counterparties to interest rate swap agreements and foreign exchange contracts consist of a number of major international financial institutions. International Paper continually monitors its positions with and the credit quality of these financial institutions and does not expect nonperformance by the counterparties.

15 Capital Stock

The authorized capital stock at both December 31, 2000 and 1999 consisted of 990,850,000 shares of common stock, $1 par value; 400,000 shares of cumulative $4 nonredeemable preferred stock, without par value (stated value $100 per share); and 8,750,000 shares of serial preferred stock, $1 par value. The serial preferred stock is issuable in one or more series by the Board of Directors without further shareholder action.

16 Retirement Plans

International Paper maintains pension plans that provide retirement benefits to substantially all employees. Employees generally are eligible to participate in the plans upon completion of one year of service and attainment of age 21.

The plans provide defined benefits based on years of credited service and either final average earnings (salaried employees), hourly job rates or specified benefit rates (hourly and union employees).

U.S. Defined Benefit Plans

International Paper makes contributions that are sufficient to fully fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA).

Net periodic pension income for qualified and nonqualified defined benefit plans comprised the following:

In millions	**2000**	1999	1998
Service cost	**$ (98)**	$(101)	$ (97)
Interest cost	**(397)**	(303)	(297)
Expected return on plan assets	**615**	469	455
Amortization of net transition asset (obligation)	**(2)**	–	26
Actuarial loss	**(5)**	(6)	(3)
Amortization of prior service cost	**(19)**	(16)	(12)
Curtailment gain (loss)	**(2)**	6	5
Settlement gain	**9**	–	–
Net periodic pension income	**$ 101**	$ 49	$ 77

The following table presents the changes in benefit obligation and plan assets for 2000 and 1999 and the plans' funded status and amounts recognized in the consolidated balance sheet as of December 31, 2000 and 1999.

In millions	2000	1999
Change in benefit obligation:		
Benefit obligation, January 1	**$4,323**	$4,492
Service cost	**98**	101
Interest cost	**397**	303
Actuarial (gain) loss	**171**	(439)
Benefits paid	**(451)**	(322)
Acquisitions[a]	**1,796**	–
Divestitures	**(42)**	–
Curtailment gain	**(2)**	(10)
Special termination benefits[b]	**10**	92
Plan amendments	**19**	106
Benefit obligation, December 31[c]	**$6,319**	$4,323
Change in plan assets:		
Fair value of plan assets, January 1	**$5,612**	$4,942
Actual return on plan assets	**(106)**	950
Company and participants' contributions	**83**	42
Benefits paid	**(451)**	(322)
Acquisitions	**2,144**	–
Divestitures	**(29)**	–
Fair value of plan assets, December 31	**$7,253**	$5,612
Funded status[d]	**$ 934**	$1,289
Unrecognized actuarial (gain) loss	**292**	(615)
Unamortized prior service cost	**170**	183
Unrecognized net transition obligation	**–**	2
Prepaid benefit cost	**$1,396**	$ 859
Amounts recognized in the consolidated balance sheet consist of:		
Prepaid benefit cost	**$1,515**	$ 928
Accrued benefit liability	**(168)**	(85)
Intangible asset	**3**	6
Minimum pension liability adjustment included in accumulated other comprehensive income	**46**	10
Net amount recognized	**$1,396**	$ 859

(a) Includes $76.5 million in special termination benefits attributable to the elimination of 500 positions in connection with a severance program provided to employees whose jobs were eliminated as a result of the acquisition of Champion. Also included was a curtailment gain of $17.9 million.

(b) Included in restructuring and other charges for 2000 was $10 million for special termination benefits attributable to the elimination of approximately 268 positions in connection with a facility rationalization program. Included in merger integration costs for 1999 was $92 million for special termination benefits attributable to the elimination of approximately 1,171 positions in connection with an employee integration benefits program provided to employees whose jobs were eliminated as a result of the merger of International Paper and Union Camp. In 2000, $6 million of this reserve relating to 171 positions, was included in reversals of reserves no longer required.

(c) Includes nonqualified unfunded plans with projected benefit obligations of $212 million and $110 million at December 31, 2000 and 1999, respectively.

(d) The Union Camp and Alling & Cory domestic qualified pension plans were merged with the International Paper domestic qualified pension plan effective September 30, 1999. The funded status information for 1999 reflects this merger. Prior to the plan merger, the Union Camp domestic qualified hourly plan had an accumulated benefit obligation in excess of the fair value of plan assets. As of December 31, 1998, the projected benefit obligation, accumulated benefit obligation and fair market value of plan assets for the Union Camp hourly plan were $290 million, $290 million and $269 million, respectively.

Plan assets are held in master trust accounts and include investments in International Paper common stock in the amounts of $467 million and $401 million at December 31, 2000 and 1999, respectively.

Weighted average assumptions as of December 31, 2000, 1999 and 1998 were as follows:

	2000	1999	1998[a,b]
Discount rate	**7.50%**	7.75%	6.60%
Expected long-term return on plan assets	**10.00%**	10.00%	9.90%
Rate of compensation increase	**4.75%**	5.00%	4.20%

(a) On June 1, 1999 International Paper enhanced pension benefits for its major union groups. As a result, the pension plan was revalued. The revaluation assumed a discount rate of 7.25% and a rate of compensation increase of 4.5%. These actions had the net effect of reducing the pension benefit obligation by $179 million.

(b) The 1998 rate is a blended average of the Union Camp and International Paper plan assumptions. The International Paper discount rate, expected long-term return on plan assets and rate of compensation increase for 1998 was 6.5%, 10.0% and 4.0%, respectively.

Non-U.S. Defined Benefit Plans

Generally, our non-U.S. pension plans are funded using the projected benefit as a target, except in certain countries where funding of benefit plans is not required. Net periodic pension expense for our non-U.S. plans was not significant for 2000, 1999 or 1998.

The non-U.S. plans' projected benefit obligation in excess of plan assets at fair market value at December 31, 2000 and 1999 was $87 million and $43 million, respectively. Plan assets are composed principally of common stocks and other fixed income securities.

Other Plans

We sponsor several defined contribution plans to provide substantially all U.S. salaried and certain hourly employees of International Paper an opportunity to accumulate personal funds for their retirement. Contributions may be made on a before-tax basis to substantially all of these plans.

As determined by the provisions of each plan, International Paper matches the employees' basic voluntary contributions. Such matching contributions to the plans were approximately $65 million, $67 million and $58 million for the plan years ending in 2000, 1999 and 1998, respectively. The net assets of these plans approximated $4.7 billion as of the 2000 plan year-end.

17 Postretirement Benefits

International Paper provides certain retiree health care and life insurance benefits covering a majority of U.S. salaried and certain hourly employees. Employees are generally eligible for benefits upon retirement and completion of a specified number of years of creditable service. An amendment in 1992 to one of the plans limits the maximum annual company contribution for health care benefits for retirees after January 1, 1992, based on age at retirement and years of service after age 50. Amortization of this plan amendment, which reduced annual net postretirement benefit cost, was completed in 1999. International Paper does not prefund these benefits and has the right to modify or terminate certain of these plans in the future.

The components of postretirement benefit expense in 2000, 1999 and 1998 were as follows:

In millions	**2000**	1999	1998
Service cost	**$ 10**	$ 11	$ 11
Interest cost	**45**	30	33
Actuarial loss	**–**	2	1
Amortization of prior service cost	**(6)**	(12)	(21)
Curtailment gain	**(2)**	–	–
Settlement gain	**(2)**	–	–
Net postretirement benefit cost	**$ 45**	$ 31	$ 24

The following table presents the plans' funded status as of December 31, 2000 and 1999 and changes in benefit obligation and plan assets for 2000 and 1999.

In millions	**2000**	1999
Change in benefit obligation:		
Benefit obligation, January 1	**$ 446**	$ 503
Service cost	**10**	11
Interest cost	**45**	30
Participants' contributions	**21**	16
Actuarial gain	**(5)**	(66)
Benefits paid	**(73)**	(44)
Plan amendments	**(8)**	(15)
Acquisitions[(a)]	**385**	–
Divestitures	**(1)**	–
Curtailment loss	**–**	4
Special termination benefits[(b)]	**2**	7
Benefit obligation, December 31	**$ 822**	$ 446
Change in plan assets:		
Fair value of plan assets, January 1	**$ –**	$ –
Company contributions	**52**	28
Participants' contributions	**21**	16
Benefits paid	**(73)**	(44)
Fair value of plan assets, December 31	**$ –**	$ –
Funded status	**$(822)**	$(446)
Unamortized prior service cost	**(45)**	(47)
Unrecognized actuarial (gain) loss	**(2)**	4
Accrued benefit cost	**$(869)**	$(489)

(a) Includes $9.5 million in special termination benefits attributable to the elimination of 500 positions in connection with a severance program provided to employees whose jobs were eliminated as a result of the Champion acquisition. Also included was a curtailment gain of $2.1 million.

(b) Included in restructuring and other charges in 2000 were charges of $2 million for special termination benefits attributable to the elimination of approximately 100 positions in connection with a facility rationalization program. Included in merger integration costs for 1999 were charges of $7 million for special termination benefits attributable to the elimination of approximately 313 positions in connection with an integration benefits program provided to employees whose jobs were eliminated as a result of the Union Camp merger.

Future benefit costs were estimated assuming medical costs would increase at a 6.50% annual rate, decreasing to a 5% annual growth rate ratably over the next three years and then remaining at a 5% annual growth rate thereafter. A 1% increase in this annual trend rate would have increased the accumulated postretirement benefit obligation at December 31, 2000 by $63 million. A 1% decrease in the annual trend rate would have decreased the accumulated postretirement benefit obligation at December 31, 2000 by $57 million. The effect on net postretirement benefit cost from a 1% increase or decrease would not be material. The weighted average discount rate used to estimate the accumulated postretirement benefit obligation at December 31, 2000 was 7.50% compared with 7.75% at December 31, 1999.

In addition to the U.S. plan, certain Canadian employees are eligible for retiree health care and life insurance. Costs and obligations for this plan were not significant.

18 Incentive Plans

International Paper currently has a Long-Term Incentive Compensation Plan that includes a Stock Option Plan, a Restricted Performance Share Plan and an Executive Continuity Award Plan, administered by a committee of non-employee members of the Board of Directors (Committee) who are not eligible for awards. The Plan allows stock appreciation rights to be awarded, although none were outstanding at December 31, 2000 or 1999. We also have other performance-based restricted share/unit plans available to senior executives and directors.

We apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for our plans and the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). Accordingly, no compensation cost has been recognized for the stock option plan.

Stock Option Plan

Under the current plan, officers and certain other employees may be granted options to purchase International Paper common stock. The option price is the market price of the stock at the date of grant. Options are immediately exercisable under the plan; however, the underlying shares cannot be sold and carry profit forfeiture provisions during the initial two years following grant. Upon exercise of an option, a replacement option may be granted with the exercise price equal to the current market price and with a term extending to the expiration date of the original option.

For purposes of the pro forma disclosure on page 61, the fair market value of each option grant has been estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2000, 1999 and 1998, respectively:

	2000	1999	1998
Initial Options[(a)]			
Risk-Free Interest Rate	**6.17%**	4.78%	5.05%
Price Volatility	**45.00%**	33.00%	29.28%
Dividend Yield	**2.50%**	2.08%	2.38%
Expected Term in Years	**2.50**[(c)]	4.39	5.31
Replacement Options[(b)]			
Risk-Free Interest Rate	**6.45%**	5.47%	5.51%
Price Volatility	**45.00%**	33.00%	31.09%
Dividend Yield	**2.50%**	2.05%	2.17%
Expected Term in Years	**2.10**	2.09	2.12

(a) The average fair market values of initial option grants during 2000, 1999 and 1998 were $11.86, $13.14 and $10.83, respectively.

(b) The average fair values of replacement option grants during 2000, 1999 and 1998 were $13.44, $10.14 and $9.40, respectively.

(c) In 2000, the vesting period for current and prospective option grants under the stock option plan was reduced from four to two years.

A summary of the status of the Stock Option Plan as of December 31, 2000, 1999 and 1998 and changes during the years ended on those dates is presented below:

	Options[a,b]	Weighted Average Exercise Price
Outstanding at January 1, 1998	18,124,084	$38.03
Granted	4,820,970	42.96
Exercised	(3,314,612)	35.85
Forfeited	(789,621)	42.82
Expired	(154,915)	49.97
Outstanding at December 31, 1998	18,685,906	39.39
Granted	4,521,627	49.76
Exercised	(6,531,818)	36.56
Forfeited	(522,214)	42.91
Expired	(354,566)	51.41
Outstanding at December 31, 1999	15,798,935	43.14
Granted	**9,527,442**	**43.29**
Exercised	**(1,052,107)**	**41.84**
Forfeited	**(233,724)**	**51.96**
Expired	**(177,568)**	**49.97**
Outstanding at December 31, 2000	**23,862,978**	**$43.12**

(a) The table does not include Executive Continuity Award tandem options described below. No fair value is assigned to these options under SFAS No. 123. The tandem restricted shares accompanying these options are expensed over their vesting period.

(b) The table does include options outstanding under two acquired company plans under which options may no longer be granted.

The following table summarizes information about stock options outstanding at December 31, 2000:

	Outstanding and Exercisable		
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price
$25.79–$29.87	5,211,154	9.7	$29.30
$30.00–$41.00	5,484,960	5.1	$35.90
$41.12–$46.00	4,750,379	6.6	$43.82
$46.06–$57.38	4,042,725	3.3	$52.43
$57.43–$69.63	4,373,760	8.5	$59.27

Performance-Based Restricted Shares

Under the Restricted Performance Share Plan, contingent awards of International Paper's common stock are granted by the Committee. Awards are earned on the basis of International Paper's financial performance over a period of consecutive calendar years as determined by the Committee. The Restricted Performance Share Plan in effect at the beginning of 1999 was cancelled during 1999. Prior to the amended plan, which commences in January 2001, a one-time Transitional Performance Unit Plan has been in effect since July 1, 1999, which provides a cash award upon successful achievement of pre-established performance criteria.

The following summarizes the activity of all performance-based plans for the three years ending December 31, 2000:

	Shares
Outstanding at January 1, 1998	1,161,069
Granted	330,656
Issued	(156,935)
Forfeited	(50,100)
Outstanding at December 31, 1998	1,284,690
Granted	95,035
Issued	(227,553)
Forfeited[a]	(1,067,153)
Outstanding at December 31, 1999	85,019
Granted	–
Issued	**(26,537)**
Forfeited	**(58,482)**
Outstanding at December 31, 2000	–

(a) Includes 974,734 shares forfeited under the Restricted Performance Share Plan in 1999.

Executive Continuity Award Plan

The Executive Continuity Award Plan provides for the granting of tandem awards of restricted stock and/or nonqualified stock options to key executives. Grants are restricted and awards conditioned on attainment of specified age and years of service requirements. Awarding of a tandem stock option results in the cancellation of the related restricted shares.

The following summarizes the activity of the Executive Continuity Award Plan for the three years ending December 31, 2000:

	Shares
Outstanding at January 1, 1998	580,258
Granted	24,000
Issued	(5,500)
Forfeited	(5,000)
Outstanding at December 31, 1998	593,758
Granted	71,900
Issued	(65,412)
Forfeited[(a)]	(89,390)
Outstanding at December 31, 1999	510,856
Granted	**76,165**
Issued	**(18,303)**
Forfeited[(a)]	**(112,000)**
Outstanding at December 31, 2000	**456,718**

(a) Includes restricted shares cancelled when tandem stock options were awarded. 560,000 and 440,000 tandem options were awarded in 2000 and 1999, respectively.

At December 31, 2000 and 1999, a total of 22.5 million and 30.1 million shares, respectively, were available for grant under the Long-Term Incentive Compensation Plan. In 1999, shareholders approved an additional 25.5 million shares to be made available for grant, with 3 million of these shares reserved specifically for the granting of restricted stock. No additional shares were made available during 2000. A total of 4.2 million shares were available for the granting of restricted stock as of December 31, 2000 and 1999.

The compensation cost charged to earnings for all the incentive plans was $28 million, $3 million and $15 million for 2000, 1999 and 1998, respectively. Earnings in 1999 included income of $20 million recognized upon cancellation of a majority of the awards under the Restricted Performance Share Plan.

Had compensation cost for International Paper's stock-based compensation plans been determined consistent with the provisions of SFAS No. 123, its net earnings, earnings per common share and earnings per common share—assuming dilution would have been reduced to the pro forma amounts indicated below:

In millions, except per share amounts	**2000**	1999	1998
Net Earnings			
As reported	**$ 142**	$ 183	$ 247
Pro forma	**104**	152	223
Earnings Per Common Share			
As reported	**$0.32**	$0.44	$0.60
Pro forma	**0.23**	0.37	0.54
Earnings Per Common Share—assuming dilution			
As reported	**$0.32**	$0.44	$0.60
Pro forma	**0.23**	0.37	0.54

The effect on 2000, 1999 and 1998 pro forma net earnings, earnings per common share and earnings per common share—assuming dilution of expensing the estimated fair market value of stock options is not necessarily representative of the effect on reported earnings for future years due to the vesting period of stock options and the potential for issuance of additional stock options in future years.

19 Subsequent Events

As of March 1, 2001 the dispositions of certain businesses discussed in Note 7–Businesses Held for Sale were completed. Zanders, the Argentine businesses and the Hamilton mill were sold for approximately $130 million. In addition, the oil and gas interests were conveyed to a third party for approximately $260 million.

On February 15, 2001, International Paper announced that an agreement was reached to sell approximately 265,000 acres of forestlands in the state of Washington for approximately $500 million.

Six-Year Financial Summary

Dollar amounts in millions, except per share amounts and stock prices	**2000**	1999	1998	1997	1996	1995
Results of Operations						
Net sales	**$28,180**	$24,573	$23,979	$24,556	$24,182	$24,140
Costs and expenses, excluding interest	**26,675**	23,620	23,039	23,976	23,193	20,791
Earnings before income taxes, minority interest and extraordinary items	**723**[a]	448[c]	429[e]	143[f]	939[g]	2,742
Minority interest expense, net of taxes	**238**[a]	163[c]	87[e]	140[f]	180[g]	166
Extraordinary items	**(226)**[b]	(16)[d]	–	–	–	–
Net earnings (loss)	**142**[a,b]	183[c,d]	247[e]	(80)[f]	379[g]	1,595
Earnings (loss) applicable to common shares	**142**[a,b]	183[c,d]	247[e]	(80)[f]	379[g]	1,595
Financial Position						
Working capital	**$ 3,042**	$ 2,859	$ 2,675	$ 1,476	$ 454	$ 1,471
Plants, properties and equipment, net	**16,011**	14,381	15,320	15,707	16,570	14,347
Forestlands	**5,966**	2,921	3,093	3,273	3,637	3,030
Total assets	**42,109**	30,268	31,466	31,971	33,357	28,838
Long-term debt	**12,648**	7,520	7,697	8,521	7,943	7,144
Common shareholders' equity	**12,034**	10,304	10,738	10,647	11,349	9,837
Per Share of Common Stock— Assuming No Dilution[i]						
Earnings (loss) before extraordinary items	**$ 0.82**	$ 0.48	$ 0.60	$ (0.20)	$ 0.95	$ 4.41
Extraordinary items	**(0.50)**	(0.04)	–	–	–	–
Earnings (loss)	**0.32**	0.44	0.60	(0.20)	0.95	4.41
Cash dividends	**1.00**	1.01	1.05	1.05	1.05	0.98
Common shareholders' equity	**24.85**	24.85	25.99	26.10	27.95	26.73
Common Stock Prices[i]						
High	**60**	59½	55 ¼	61	44⅝	45¾
Low	**26 5⁄16**	39½	35 ½	38⅝	35⅝	34⅛
Year-end	**40 13⁄16**	56 7⁄16	44 13⁄16	43⅛	40½	37⅞
Financial Ratios						
Current ratio	**1.4**	1.7	1.6	1.3	1.1	1.3
Total debt to capital ratio	**49.3**	38.1	39.0	46.1	45.6	43.7
Return on equity	**1.2**[a,b,h]	1.7[c,d,h]	2.3[e,h]	(0.7)[f,h]	3.4[g]	17.6
Return on investment before extraordinary items	**3.3**[a,h]	2.6[c,d,h]	2.5[e,h]	1.5[f,h]	3.3[g]	9.0
Capital Expenditures	**$ 1,352**	$ 1,139	$ 1,322	$ 1,448	$ 1,780	$ 1,785
Number of Employees	**112,900**	98,700	98,300	100,900	106,300	99,800

Financial Glossary

Current ratio—current assets divided by current liabilities.

Total debt to capital ratio—long-term debt plus notes payable and current maturities of long-term debt divided by long-term debt, notes payable and current maturities of long-term debt, minority interest, preferred securities and total common shareholders' equity.

Return on equity—net earnings divided by average common shareholders' equity (computed monthly).

Return on investment—earnings before income taxes, minority interest and extraordinary items, less after-tax interest expense, divided by an average of total assets minus accounts payable and accrued liabilities (computed monthly).

Footnotes to Six-Year Financial Summary

(a) Includes a $54 million pre-tax charge ($33 million after taxes) for merger related expenses, a $125 million pre-tax charge ($80 million after taxes) for additional Masonite legal reserves, an $824 million charge before taxes and minority interest ($509 million after taxes and minority interest) for asset shutdowns and a $34 million pre-tax credit ($21 million after taxes) for the reversals of reserves no longer required.

(b) Includes an extraordinary gain of $385 million before taxes and minority interest ($134 million after taxes and minority interest) on the sale of International Paper's investment in Scitex and Carter Holt Harvey's sale of its share of COPEC, an extraordinary loss of $460 million before taxes ($310 million after taxes) related to the impairment of the Zanders and Masonite businesses to be sold, an extraordinary gain before taxes and minority interest of $368 million ($183 million after taxes and minority interest) related to the sale of Bush Boake Allen, an extraordinary loss of $5 million before taxes and minority interest ($2 million after taxes and minority interest) related to Carter Holt Harvey's sale of its Plastics division, and an extraordinary pre-tax charge of $373 million ($231 million after taxes) related to impairments of the Argentine investments, as well as the Chemical Cellulose pulp business and Fine Papers businesses to be sold.

(c) Includes a $148 million pre-tax charge ($97 million after taxes) for Union Camp merger-related termination benefits, a $107 million pre-tax charge ($78 million after taxes) for merger-related expenses, a $298 million pre-tax charge ($180 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities, a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves and a $36 million pre-tax credit ($27 million after taxes) for the reversals of reserves that were no longer required.

(d) Includes an extraordinary loss of $26 million before taxes ($16 million after taxes) for the extinguishment of high-interest debt that was assumed in the merger with Union Camp.

(e) Includes a $20 million pre-tax gain ($12 million after taxes) on the sale of the Veratec nonwovens business, an $83 million pre-tax credit ($50 million after taxes) from the reversals of previously established reserves that were no longer required, a $111 million pre-tax charge ($68 million after taxes) for the impairment of oil and gas reserves due to low prices, a $145 million pre-tax restructuring and asset impairment charge ($82 million after taxes and minority interest expense) and $16 million of pre-tax charges ($10 million after taxes) related to International Paper's share of charges taken by Scitex, a 13% investee company, for the write-off of in-process research and development related to an acquisition and costs to exit the digital video business.

(f) Includes a pre-tax business improvement charge of $535 million ($385 million after taxes), a $150 million pre-tax provision for legal reserve ($93 million after taxes), a pre-tax charge of $125 million ($80 million after taxes) for anticipated losses associated with the sale of the Imaging businesses, and a pre-tax gain of $170 million ($97 million after taxes and minority interest) from the redemption of certain retained West Coast partnership interests and the release of a related debt guaranty.

(g) Includes a pre-tax restructuring and asset impairment charge of $554 million ($386 million after taxes), a $592 million pre-tax gain on the sale of a West Coast partnership interest ($336 million after taxes and minority interest), a $155 million pre-tax charge ($99 million after taxes) for the write-down of the investment in Scitex and a $10 million pre-tax charge ($6 million after taxes) for International Paper's share of a restructuring charge announced by Scitex in November 1996.

(h) Return on equity was 8.3% and return on investment was 5.3% in 2000 before special and extraordinary items. Return on equity was 5.2% and return on investment was 4.0% in 1999 before special and extraordinary items. Return on equity was 3.2% and return on investment was 2.8% in 1998 before special items. Return on equity was 3.4% and return on investment was 3.0% in 1997 before special items. Return on equity was 4.7% and return on investment was 3.8% in 1996 before special items.

(i) Per share data and common stock prices have been adjusted to reflect a two-for-one stock split in September 1995. All per share amounts are computed before the effects of dilutive securities.

Interim Financial Results (unaudited)

In millions, except per share amounts and stock prices	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
2000					
Net Sales	$ 6,371	$ 6,780	$ 7,801	$ 7,228	$28,180
Gross Margin[a]	1,850	2,044	2,253	1,951	8,098
Earnings (Loss) Before Income Taxes, Minority Interest and Extraordinary Items	435[b]	480[d]	311[e]	(503)[h]	723[b,d,e,h]
Net Earnings (Loss)	378[b,c]	270[d]	(135)[e,f]	(371)[h,i]	142[b–f,h,i]
Per Share of Common Stock					
Earnings (Loss)	$ 0.91	$ 0.64	$ (0.38)[g]	$ (0.85)[j]	$ 0.32
Earnings (Loss)—Assuming Dilution	0.91	0.64	(0.38)[g]	(0.85)[j]	0.32
Dividends	0.25	0.25	0.25	0.25	1.00
Common Stock Prices					
High	60	45 15/16	36 13/16	43	60
Low	32 7/8	29 9/16	27	26 5/16	26 5/16
1999					
Net Sales	$ 6,032	$ 5,996	$ 6,251	$ 6,294	$24,573
Gross Margin[a]	1,497	1,619	1,690	1,807	6,613
Earnings (Loss) Before Income Taxes, Minority Interest and Extraordinary Items	94	(36)[k]	242[l]	148[m]	448[k,l,m]
Net Earnings (Loss)	32	(71)[k]	142[l]	80[m]	183[k,l,m]
Per Share of Common Stock					
Earnings (Loss)	$ 0.08	$ (0.17)	$ 0.34	$ 0.19	$ 0.44
Earnings (Loss)—Assuming Dilution	0.08	(0.17)	0.34	0.19	0.44
Dividends	0.26	0.25	0.25	0.25	1.01
Common Stock Prices					
High	47 1/4	59 1/2	56 1/16	57 11/16	59 1/2
Low	39 1/2	42 11/16	46 15/16	43 9/16	39 1/2

Footnotes to Interim Financial Results

(a) Gross margin represents net sales less cost of products sold.

(b) Includes an $8 million pre-tax charge ($5 million after taxes) for Union Camp merger integration costs.

(c) Includes an extraordinary gain of $385 million before taxes and minority interest ($134 million after taxes and minority interest) on the sale of International Paper's investment in Scitex and Carter Holt Harvey's sale of its share of COPEC.

(d) Includes a $4 million pre-tax charge ($3 million after taxes) for merger-related costs and a $71 million pre-tax charge ($42 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions.

(e) Includes a $15 million pre-tax charge ($9 million after taxes) for merger-related expenses, a $6 million pre-tax credit ($4 million after taxes) for the reversal of merger-related termination benefits reserves no longer required, and a $125 million pre-tax charge ($80 million after taxes) for additional Masonite legal reserves.

(f) Includes an extraordinary loss of $460 million before taxes ($310 million after taxes) related to the impairment of the Zanders and Masonite businesses to be sold.

(g) In order for the 2000 third quarter earnings per share to add up to the year-to-date earnings per share, a loss of $.38 per share is required. On the basis of the weighted-average number of shares outstanding for the third quarter, the loss per share was $.28. The difference between the two calculations relates to the 68.7 million shares that were issued in connection with the Champion acquisition.

(h) Includes a $27 million pre-tax charge ($16 million after taxes) for Union Camp and Champion merger-related items, a charge of $753 million before taxes and minority interest ($467 million after taxes and minority interest) for shutdown and restructuring reserves, and a $28 million pre-tax credit ($17 million after taxes) for the reversals of reserves no longer required.

(i) Includes an extraordinary pre-tax gain of $368 million ($183 million after taxes) related to the sale of Bush Boake Allen. Also included is an extraordinary loss of $5 million before taxes and minority interest ($2 million after taxes and minority interest) related to Carter Holt Harvey's sale of its Plastics division, and an extraordinary pre-tax charge of $373 million ($231 million after taxes) related to impairments of the Argentine investments, as well as the Chemical Cellulose pulp business and Fine Papers businesses to be sold.

(j) In order for the year-to-date earnings per share to equal the sum of the quarters, a loss of $.85 is required in the fourth quarter. On the basis of the weighted-average shares outstanding for the fourth quarter, the loss per share was $.77. The difference between the two calculations relates to the 68.7 million shares that were issued in connection with the Champion acquisition.

(k) Includes a $98 million pre-tax charge ($67 million after taxes) for Union Camp merger-related termination benefits, a $59 million pre-tax charge ($49 million after taxes) for other Union Camp merger-related expenses, a $113 million pre-tax charge ($69 million after taxes) for asset shutdowns of excess internal capacity and cost reduction actions, and a $36 million pre-tax credit ($27 million after taxes) for the reversals of reserves that were no longer required.

(l) Includes a $50 million pre-tax charge ($30 million after taxes) for Union Camp merger-related termination benefits, an $18 million pre-tax charge ($11 million after taxes) for other Union Camp merger-related expenses, and a $10 million pre-tax charge ($6 million after taxes) to increase existing environmental remediation reserves related to certain former Union Camp facilities.

(m) Includes a $185 million pre-tax charge ($111 million after taxes and minority interest) for asset shutdowns of excess internal capacity and cost reduction actions, a $30 million pre-tax charge ($18 million after taxes) for merger-related expenses, and a $30 million pre-tax charge ($18 million after taxes) to increase existing legal reserves.

Shareholder Information

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The next annual meeting of shareholders will be held at 8:30 a.m., Tuesday, May 8, 2001 at the Manhattanville College, Purchase, New York.

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