

Greater Houston Business Ethics Roundtable  
February 26, 2009

Merging Ethics and Compliance Programs  
Risks and Rewards

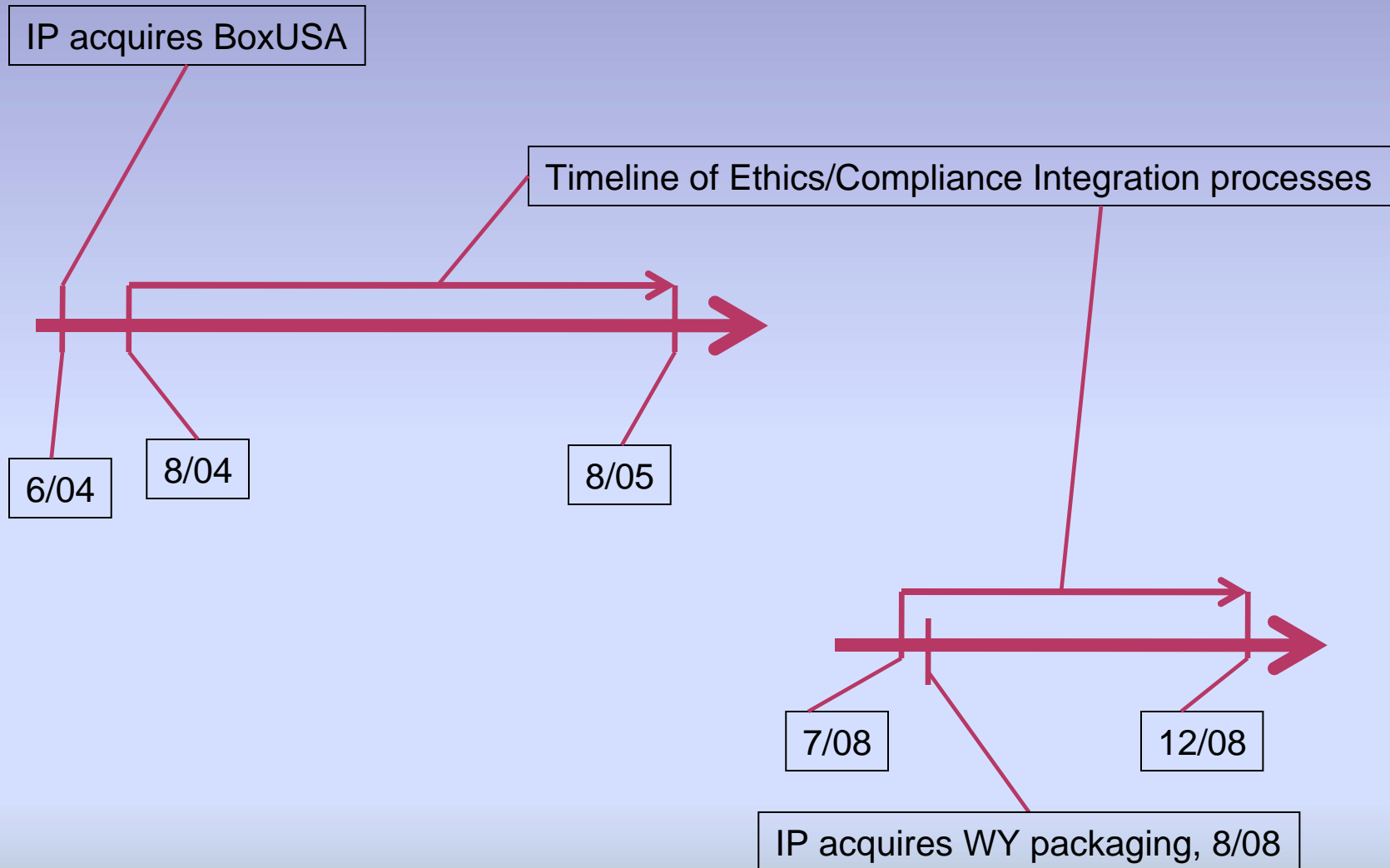
*Presentation by James D. Berg*

*Director, Ethics and Business Practice, International Paper Company*  
*Chair, Ethics and Compliance Officer Association Board*

## Presentation Overview

- Business Combination timeline
- International Paper profile
- International Paper-BoxUSA merger
- International Paper-Weyerhaeuser Container business merger
- Lessons Learned—the critical importance of culture

## Business Combination Timeline



# International Paper profile

	2004 (post BoxUSA)	2006	2008 (post WY)
Revenue (\$ Billion)	21	22	25
EBITDA (\$ Million)	186	3,200	376
Population	70,600	62,000	61,000
Global Reach (% EE's outside US)	25%	30%	31%

## Integrating BoxUSA into IP's Ethics and Compliance program

### Company profile:

- 2,300 employees located in 17 midwestern manufacturing facilities
- No Code of Conduct
- No Ethics or Whistleblower hotline
- No identifiable “corporate culture”
- No uniform policy architecture
  - Nothing regarding conflict of interest, email or internet use, trade secret protection
- History of disrespectful treatment in employee-on-employee and in employee-on-contractor settings
- Lack of employee awareness about what constitutes a violation of acceptable behavior
- Significant fear of retaliation among employees regarding the reporting of workplace concerns

## Integrating BoxUSA into IP's Ethics and Compliance program

### Integration Plan Major Components

- Ethics involved in due diligence
  - Document room analysis and management interviews
  - Initial assessment made
  
- Initial contact on Day One of merger
  - Outline of Ethics Program by visiting IP senior leaders at all facilities
  
- Facility visits by IP managers to reinforce Day One and culture messages
  
- Materials Distribution and tracking
  - Code of Business Ethics
  - HelpLine materials
  - Policies
  - Employee agreements
  
- Assessment

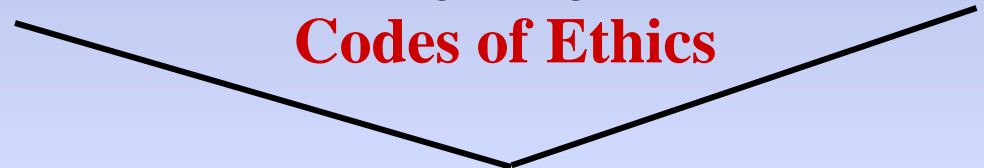
## The Current Environment and New Requirements

**Corporate  
Scandals  
2001-2003**



- Congress enacts Sarbanes-Oxley corporate governance law
- NYSE strengthens its listing requirements regarding

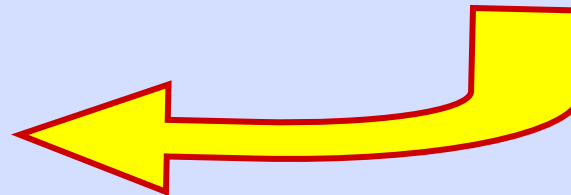
**Codes of Ethics**



SEC Rulemaking and Implementation  
Provisions

produce requirements applying to:

Employees  
Officers  
Principle Executive Officer  
Senior Financial Officers  
Directors



## 2003 Code of Business Ethics

*Sarbanes-Oxley Act, NYSE requirements and SEC Rules*

- Companies must adopt ethics codes for “broadest number of employees possible



Code waivers for senior officers must be approved by Board and disclosed



IP Code of Business Ethics states that “no such waivers shall be sought or granted.”

- Required Code of Ethics contents:

- Honest, ethical conduct, including standards to deter wrongdoing
- Avoidance and disclosure of conflicts of interest
- Full, fair, accurate and understandable public filings
- Compliance with laws, rules and regulations
- Prompt internal reporting of code violations
- Accountability for adherence to code
- Fair dealing with customers, suppliers, competitors and employees
- Protection and proper use of company assets and information

**Ethical**  
Behavior  
and Personal  
**Integrity**  
are the Core  
of Our  
**Culture**

***Code of Business Ethics***

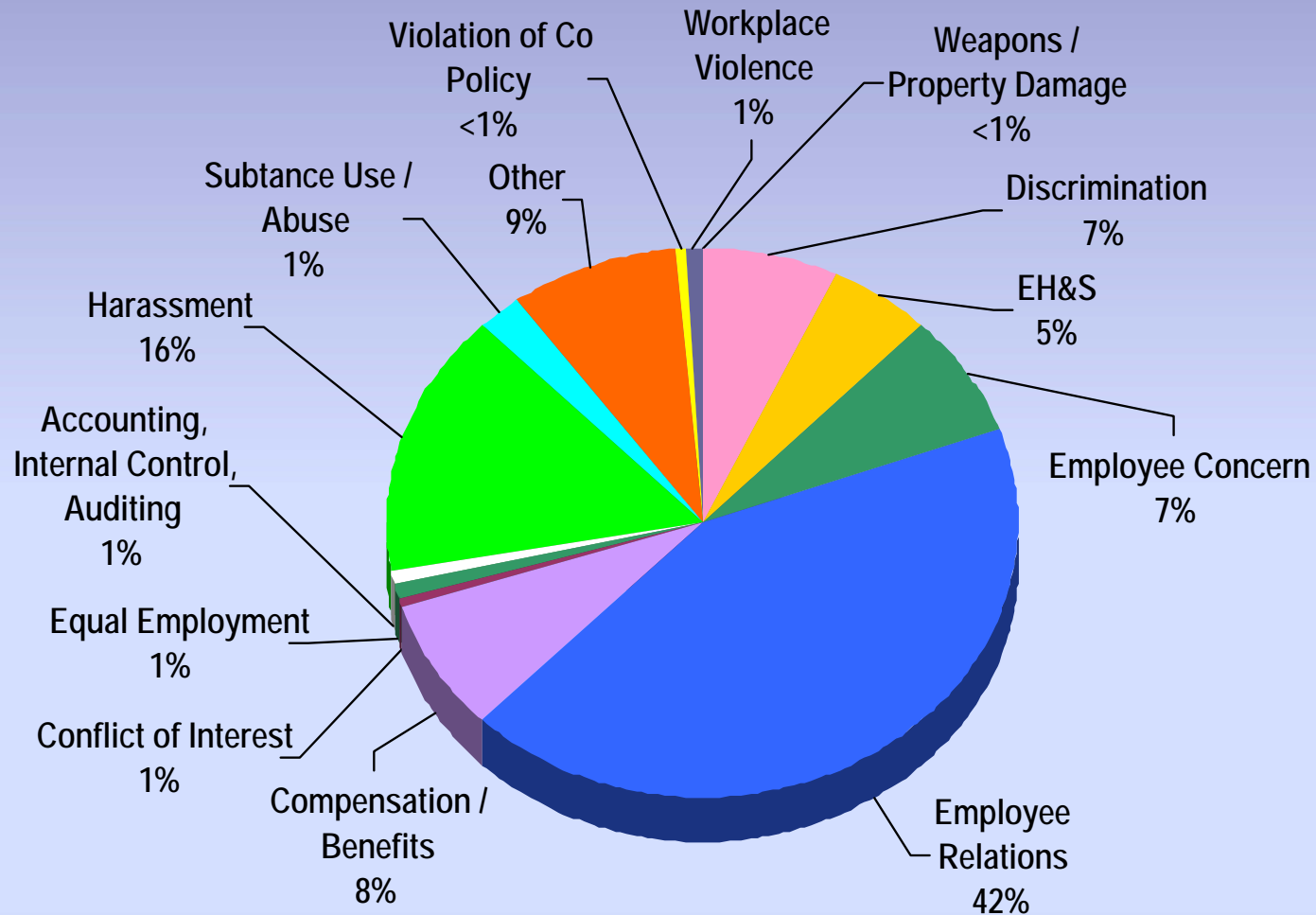
INTERNATIONAL  PAPER

### ***Code of Business Ethics***

Major Topics addressed in the *Ethics Code*

- ❖ Treating one another with dignity and respect
- ❖ Honoring the letter and the spirit of the law
- ❖ Complying with antitrust laws and regulations
- ❖ Dealing fairly with our customers and business partners
- ❖ Fulfilling our responsibilities to our shareholders
- ❖ Protecting employee health and safety in the workplace
- ❖ Respecting, preserving and improving the environment

2003 produced 449 new HelpLine cases in these categories



## IP Employees are using the HelpLine to resolve problems

	2000	2001	2002	2003
Advice Calls	29%	35%	33%	33%
Claims leading to follow-up action	30%	41%	34%	42%
In-Call Resolution	42%	43%	45%	41%
Anonymous	44%	34%	37%	38%
Total Calls per 000 EE's	19.3	20.7	19.5	19.2

## Integrating the WY Packaging Business into IP's Ethics and Compliance program

### Company profile:

- WY Packaging Business had 17,500 employees
  - 2,200 in Mexico
- Management and control centralized by business group
- Well defined policy architecture and distribution
- Mature ethics and compliance program
  - Code of Ethics (seven revisions)
  - Well-publicized EthicsLine
  - Good awareness of policies and violation reporting methods
  - Pattern of use of ethics tools by employees
  - Awareness of WY culture

# Integrating the WY Packaging Business into IP's Ethics and Compliance program

## Strategic Approach to Integration

### Ethics involved in due diligence

- Establishment of counterpart Ethics/Compliance transition team before Day One
- Familiarity with ethics caseload, including intake rate and case categories
- Comparative analysis of policies
- Identification of training differences and needs

# Integrating the WY Packaging Business into IP's Ethics and Compliance program

## Strategic Approach to Integration

### Expectations Management prior to Day One

- Communication by WY leaders to EE's
- Web portal for WY employees
  - [www.internationalpaper.com](http://www.internationalpaper.com)
  - selected access by WY employees to IPNet
  - Ethics communications from IP
- Information sharing re EthicsLine
  - Volume/rate/call statistics
  - Frequency of case categories
  - Understanding of procedures

# Integrating the WY Packaging Business into IP's Ethics and Compliance program

## Strategic Approach to Integration

### Initial Contact on Day One

- IP Code of Business Ethics and posters prepositioned and distributed immediately
- IP visitors to facilities over a two week period reinforcing ethics messages

## Integrating the WY Packaging Business into IP's Ethics and Compliance program

### Strategic Approach to Integration

#### WY EthicsLine → IP HelpLine transition agreement

- All “in process” investigations handed over to IP on Day One
  - IP contacted all callers with updated information
  
- All new calls routed to IP HelpLine
  - Any calls to WY Ethics Office from former WY packaging employees referred to IP HelpLine
  
- Posters and other HelpLine advertising materials prepositioned and placed into service on Day One

# Integrating the WY Packaging Business into IP's Ethics and Compliance program

## Strategic Approach to Integration

### Sustained, high visibility activities from Day One through Day 120

- Materials Distribution
  - IP Compliance policies
  - Workplace Violence Prevention materials and tools
  - Email/Internet acceptable use materials
  
- Focus on new HR employees
  - Facility visits
  - Pull HR organization into IP Global HQ for training

# ***The International Paper HelpLine***

## Special Case #1 Audit, Internal Control, Accounting Irregularity

- Must be reported directly to the Ethics Director or the HelpLine
- Report will be forwarded to the Chairman of the Audit & Finance Committee of the Board of Directors
  - Required by Sarbanes-Oxley Act
- Matter will be investigated, likely under Legal Privilege
- Disposition of cases, including corrective actions, reported to Audit & Finance Committee

# *The International Paper HelpLine*

## Special Case #2 Workplace Violence Incident

- Employees and Managers have been instructed to report Workplace Violence incidents to the HelpLine
  
- WPV reports are dealt with immediately by the Ethics Office
  - Ethics Director is also Chair of WPV Prevention Team
  - Conference Call set up with HR rep, HR Legal rep, facility manager
  - IP WPV consultant called in as necessary
  - Situation reviewed, action plan (including security) established
  - Investigation commenced; update calls scheduled
  
- “Post-mortem” discussion held to identify lessons learned

# *The International Paper HelpLine*

## Special Case #3      Improper Use of Internet

- Could involve excessive use of internet or accessing pornography
- Matter is likely violation of Information Resources Policy
- Typically reported by employee or observed by manager
- Investigation usually requires imaging of hard drives and production of internet use report showing use over a one-month period
  - Granting of requests for these reports requires Ethics Director's approval
- Ethics Office, IT, HR, HR Legal and Facility Management are involved

## Lessons Learned

- Involve Ethics Office in the due diligence preceding a merger
- Create linkage and communications between the target and acquiring company's ethics offices
- Share ethics/compliance policies and procedures prior to completion of business combination
- Distribute Ethics materials (Codes, posters, paraphenalia) as soon as the signs go up
- Use technology, e.g. web portals, to economize
- Pay attention to the target's culture (or lack thereof)
  - Use examples to describe what the surviving culture looks and feels like