

INTERNATIONAL PAPER

Christopher P. Liddell
Senior VP & CFO

Morgan Stanley Basic Materials Conference

February 24, 2005

Forward Looking Statements

INTERNATIONAL PAPER

Statements on these slides or in this presentation that are not historical are forward-looking. These statements are subject to risks and uncertainties that could cause actual results to differ materially, including but not limited to, the strength of demand for the company's products and changes in overall demand, the effects of competition from foreign and domestic producers, the level of housing starts, changes in the cost or availability of raw materials, unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations, the ability of the company to continue to realize anticipated cost savings, performance of the company's manufacturing operations, results of legal proceedings, changes related to international economic conditions and changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Euro, economic conditions, specifically Brazil and Russia, the current military action in Iraq and the war on terrorism. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. These and other factors that could cause or contribute to actual results differing materially from such forward looking statements are discussed in greater detail in the company's Securities and Exchange Commission filings

Statements Relating to Non-GAAP Financial Measures

During the course of this presentation, certain non-U.S. GAAP financial information will be presented. A reconciliation of those numbers to U.S. GAAP financial measures is available on the company's website at www.internationalpaper.com under Investor Information

Agenda

- International Paper Profile
- Financial Performance
- Driving Shareowner Value
  - Improving Our Business Profitability
  - Making Portfolio Choices
  - Maintaining Financial Discipline

International Paper Profile

INTERNATIONAL PAPER

Global paper and forest products company



$26 billion in revenues

80,000 employees worldwide

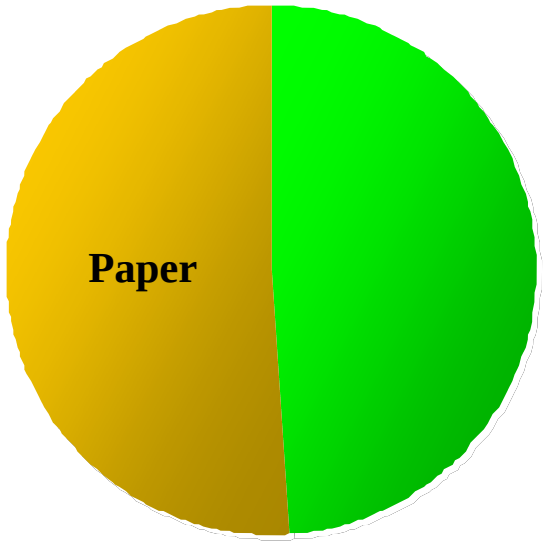
Focused on three core businesses



Operations in over 40 countries and selling products in more than 120 nations

Focus on Three Core Businesses

Paper



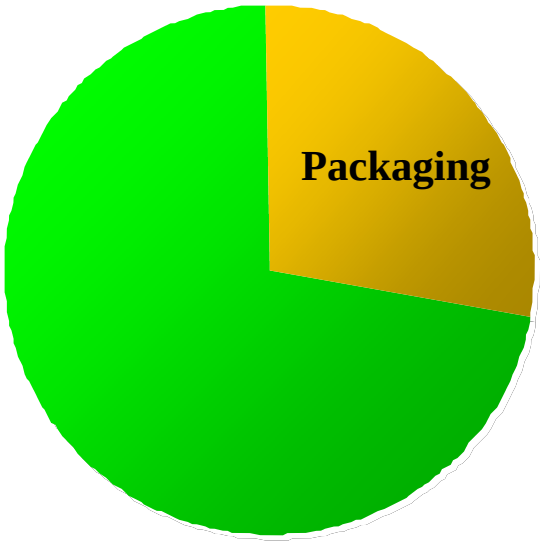
51% of 2004 Revenue



- Number one uncoated papers position globally
- Largest coated paper producer in North America
- xpedx is the largest merchant distributor in the U.S.

Focus on Three Core Businesses

Packaging



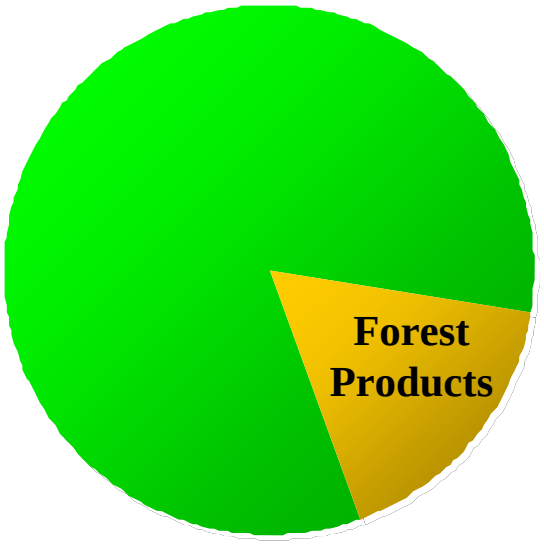
28% of 2004 Revenue



- Largest bleached board producer globally
- Number three containerboard position globally
- Strong corrugated box businesses in U.S. and Europe

Focus on Three Core Businesses

Forest Products



17% of 2004 Revenue

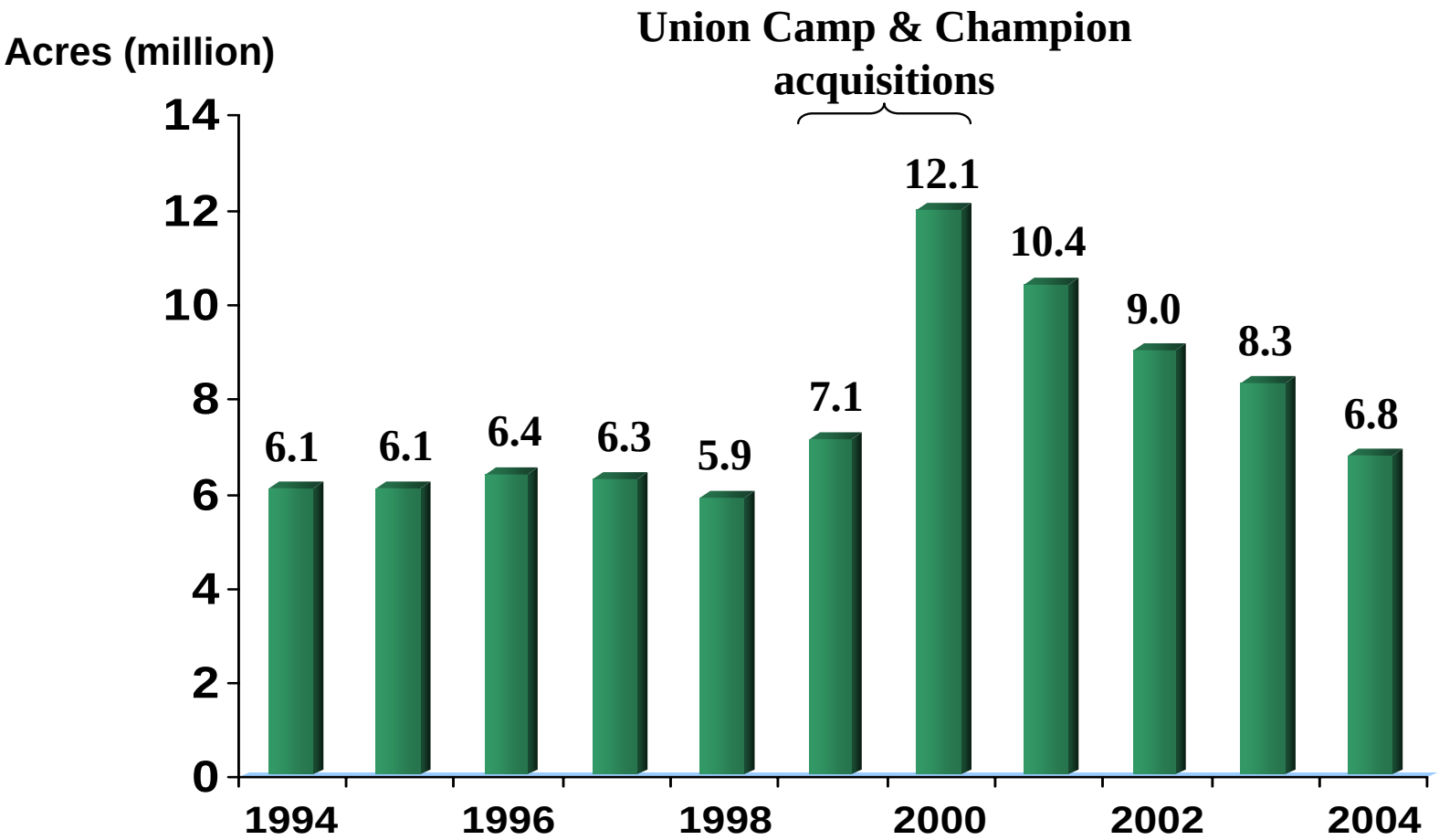


- Number two largest private landowner in U.S.
- Significant lumber and plywood producer in U.S.

Forest Products

U.S. forestlands

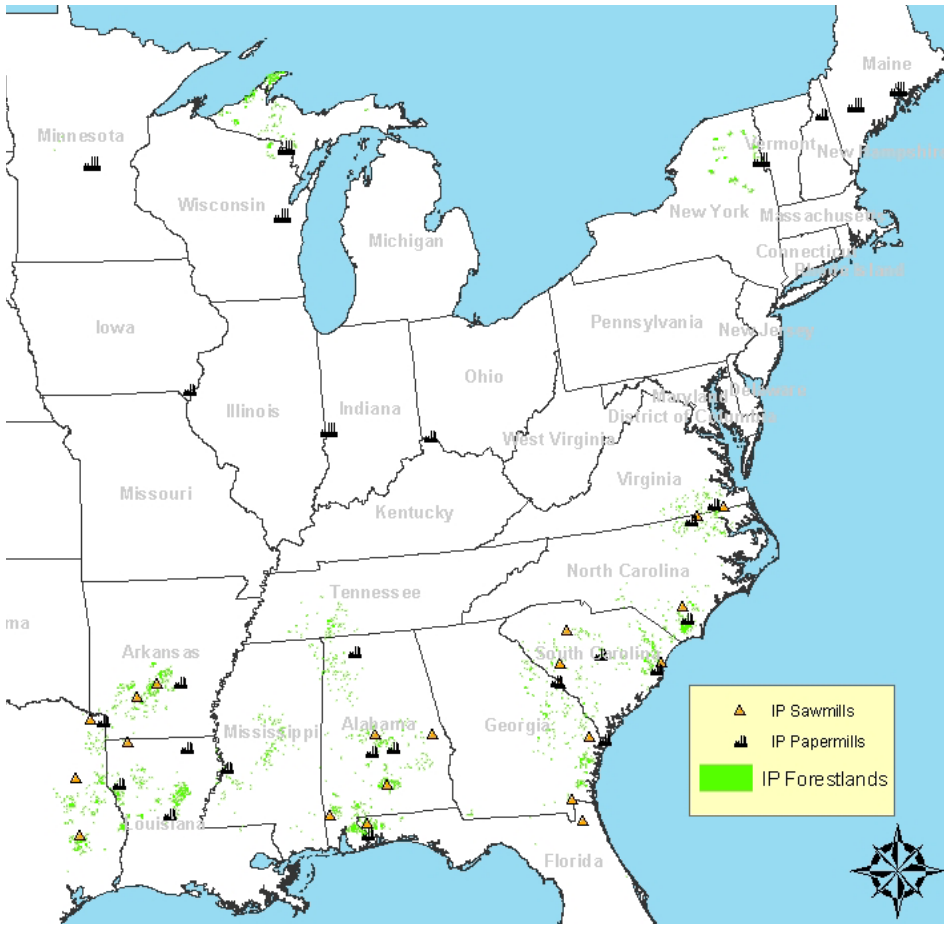
INTERNATIONAL PAPER



Forest Products

U.S. forestlands ownership by region

INTERNATIONAL PAPER



	Acreage
Northeast	0.3 MM
Great Lakes	0.5 MM
South	6.0 MM
Total	6.8 MM

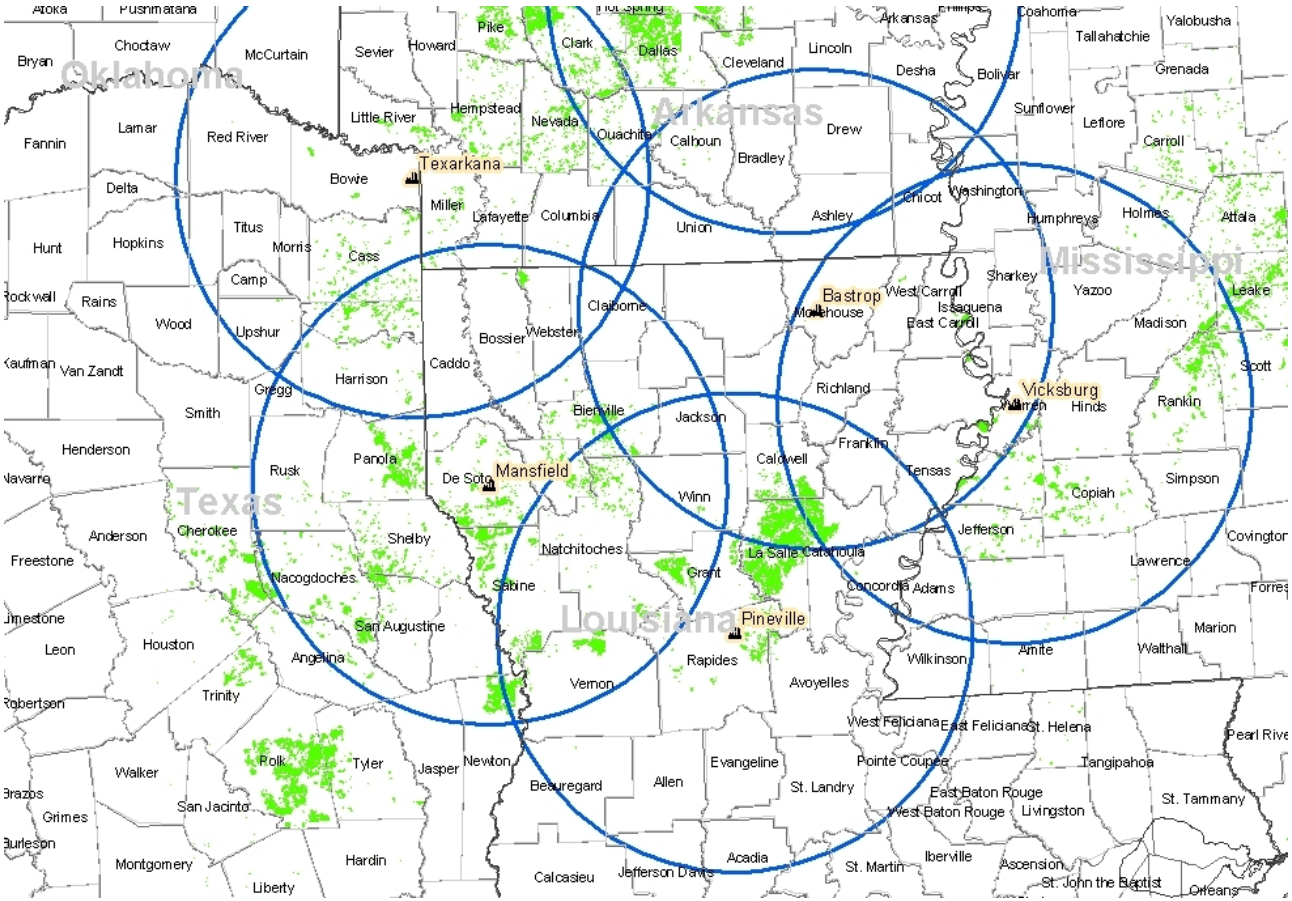
Note: As of December 31, 2004

Forest Products

Facilities fiber sourcing

INTERNATIONAL PAPER

Fiber drain basins surrounding IP's paper mills in Louisiana, Mississippi, Texas and Arkansas

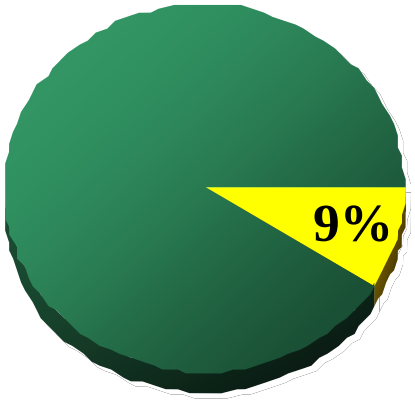


Forest Products

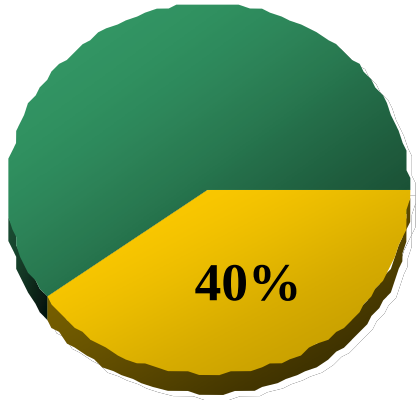
U.S. fiber self-sufficiency

INTERNATIONAL PAPER

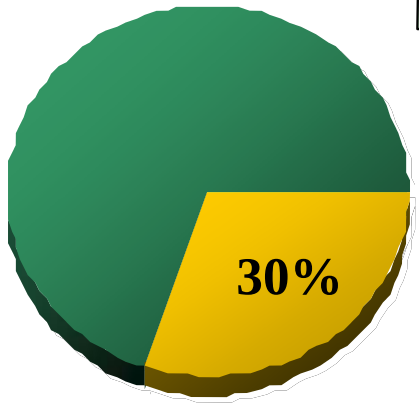
IP supplied 30% of the 64 million tons of fiber it consumed in 2004



Hardwood Fiber



Softwood Fiber



Total Fiber

3rd Party Fiber Purchases **Fiber Self-Sufficiency**

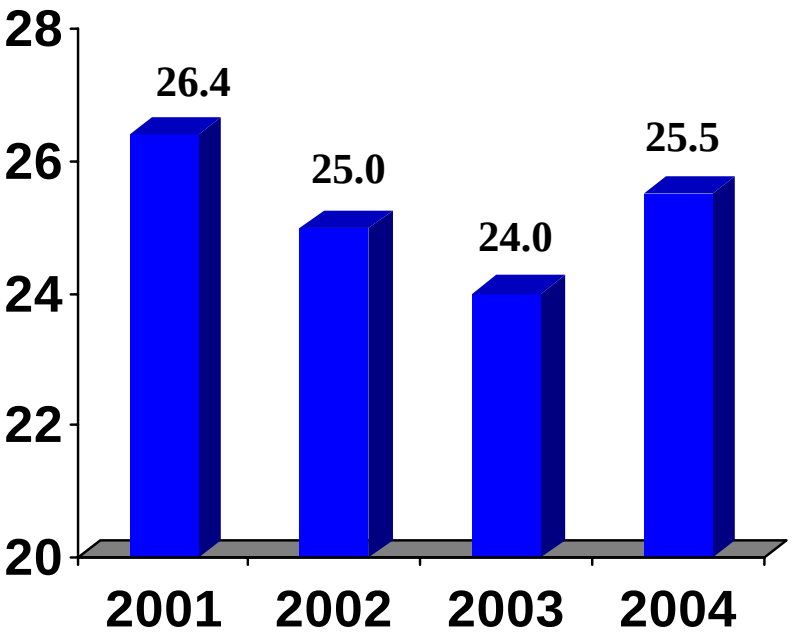


Financial Performance

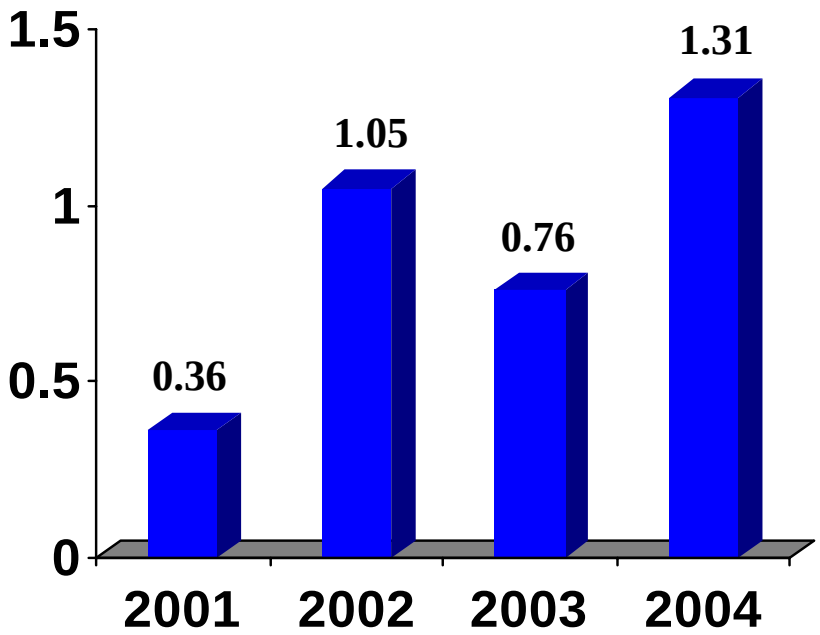
Financial Performance
Revenues and EPS

INTERNATIONAL PAPER

Revenues ($B)



Earnings Per Share* ($)

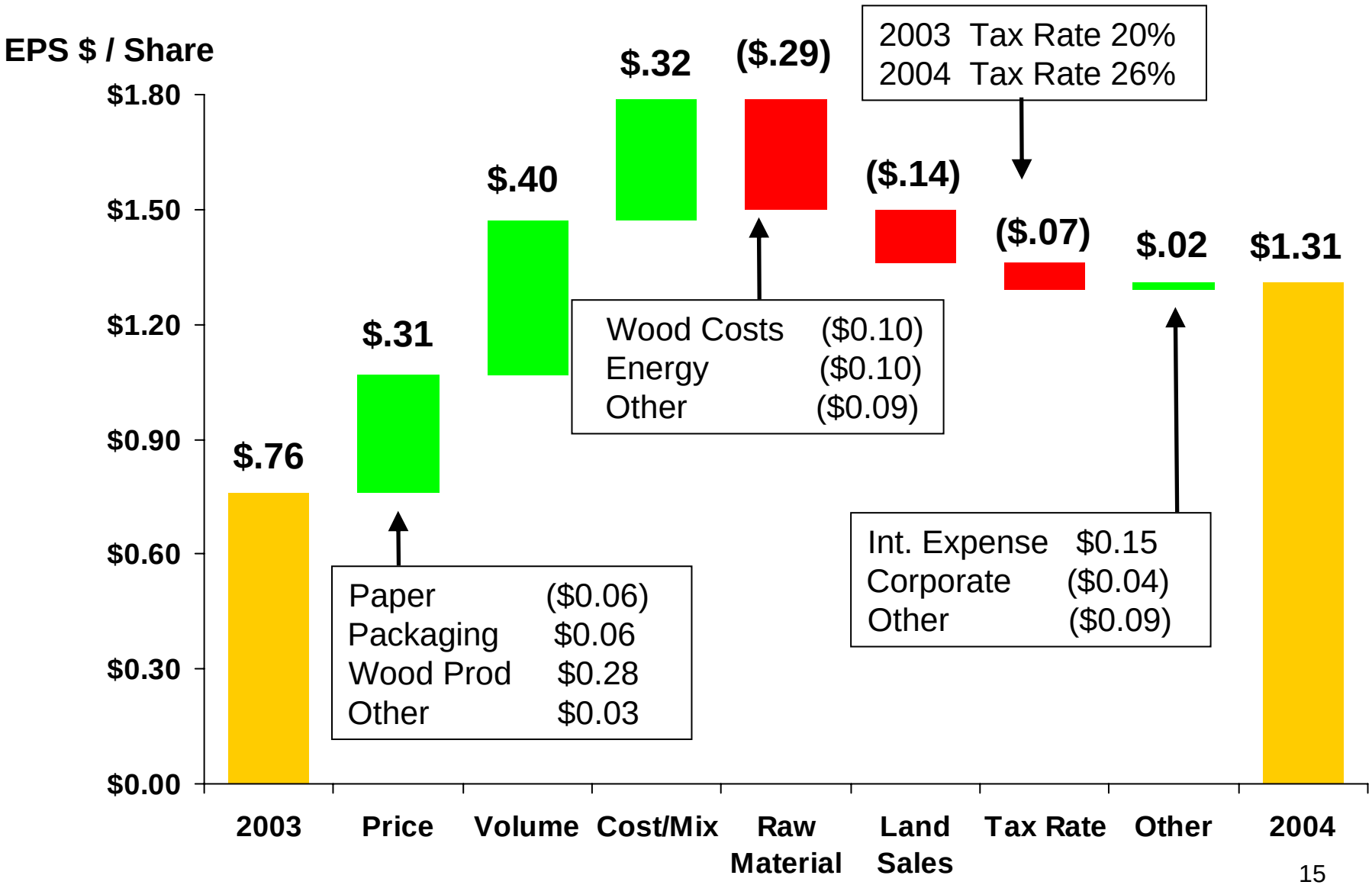


*Basic EPS from continuing operations and before special items

Financial Performance

2004 EPS from cont. ops before special items

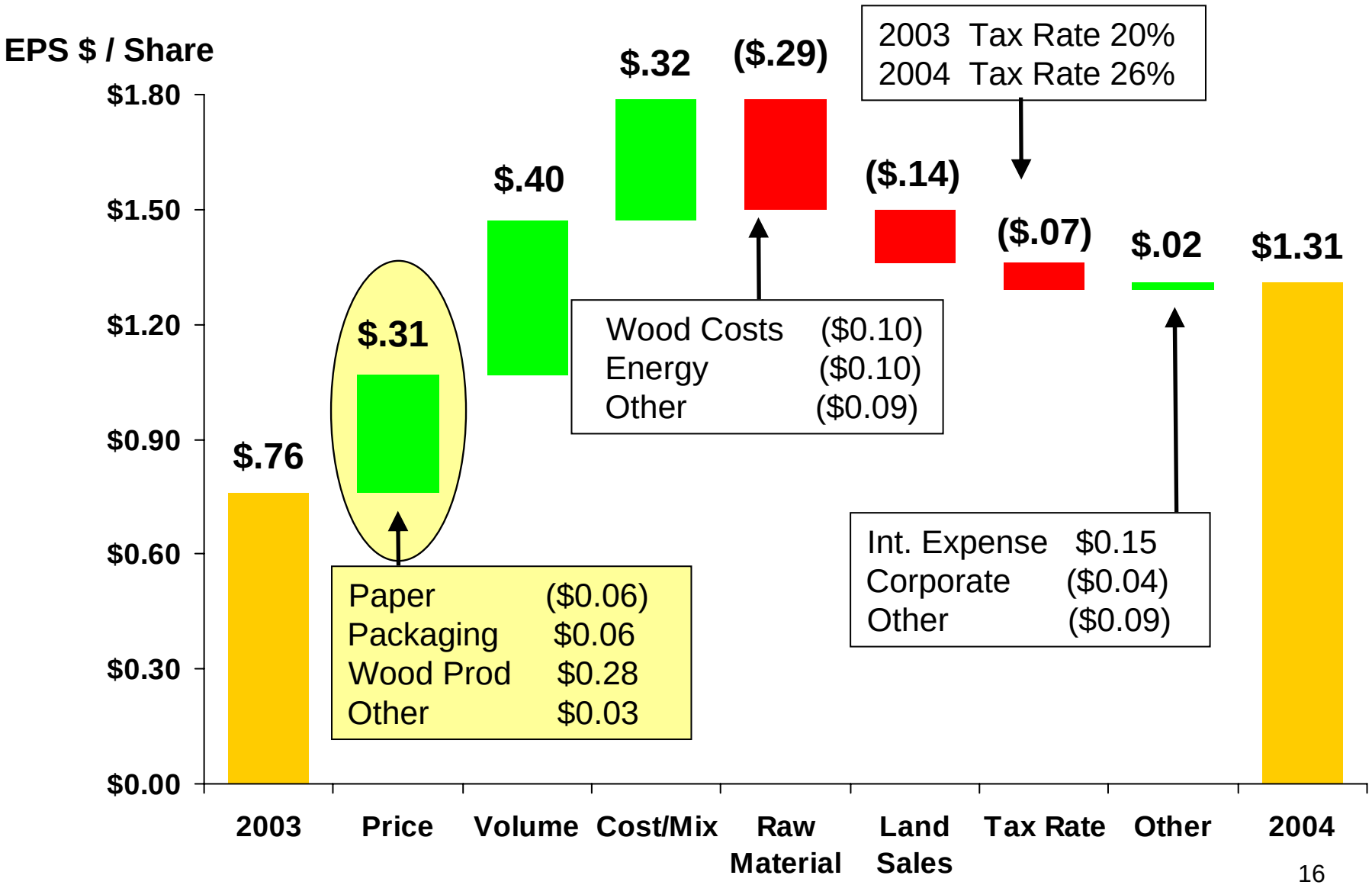
INTERNATIONAL PAPER



Financial Performance

2004 EPS from cont. ops before special items

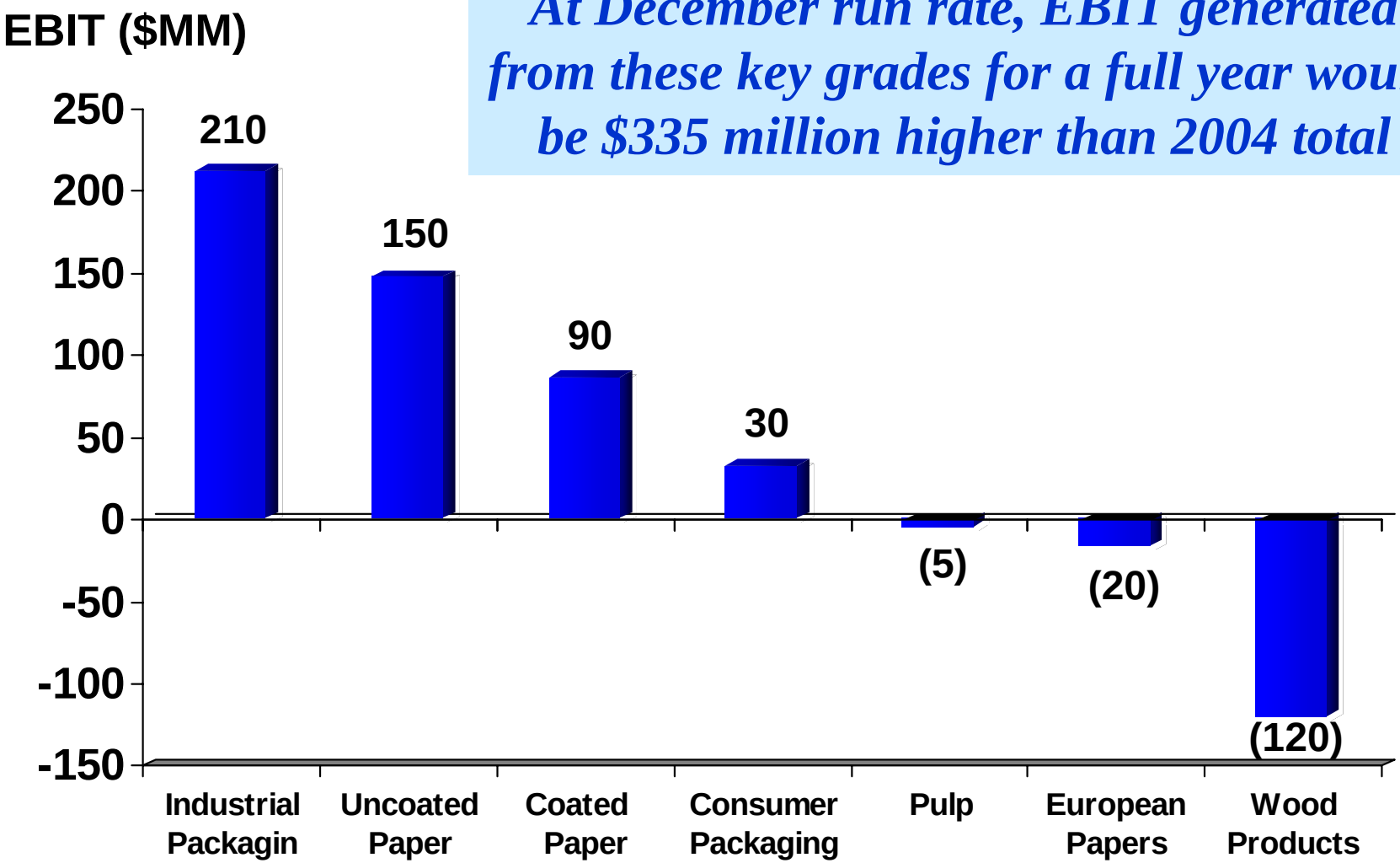
INTERNATIONAL PAPER



Financial Performance
Price impact by grade

INTERNATIONAL PAPER

At December run rate, EBIT generated from these key grades for a full year would be $335 million higher than 2004 total



Financial Performance
2005 Demand environment

INTERNATIONAL PAPER

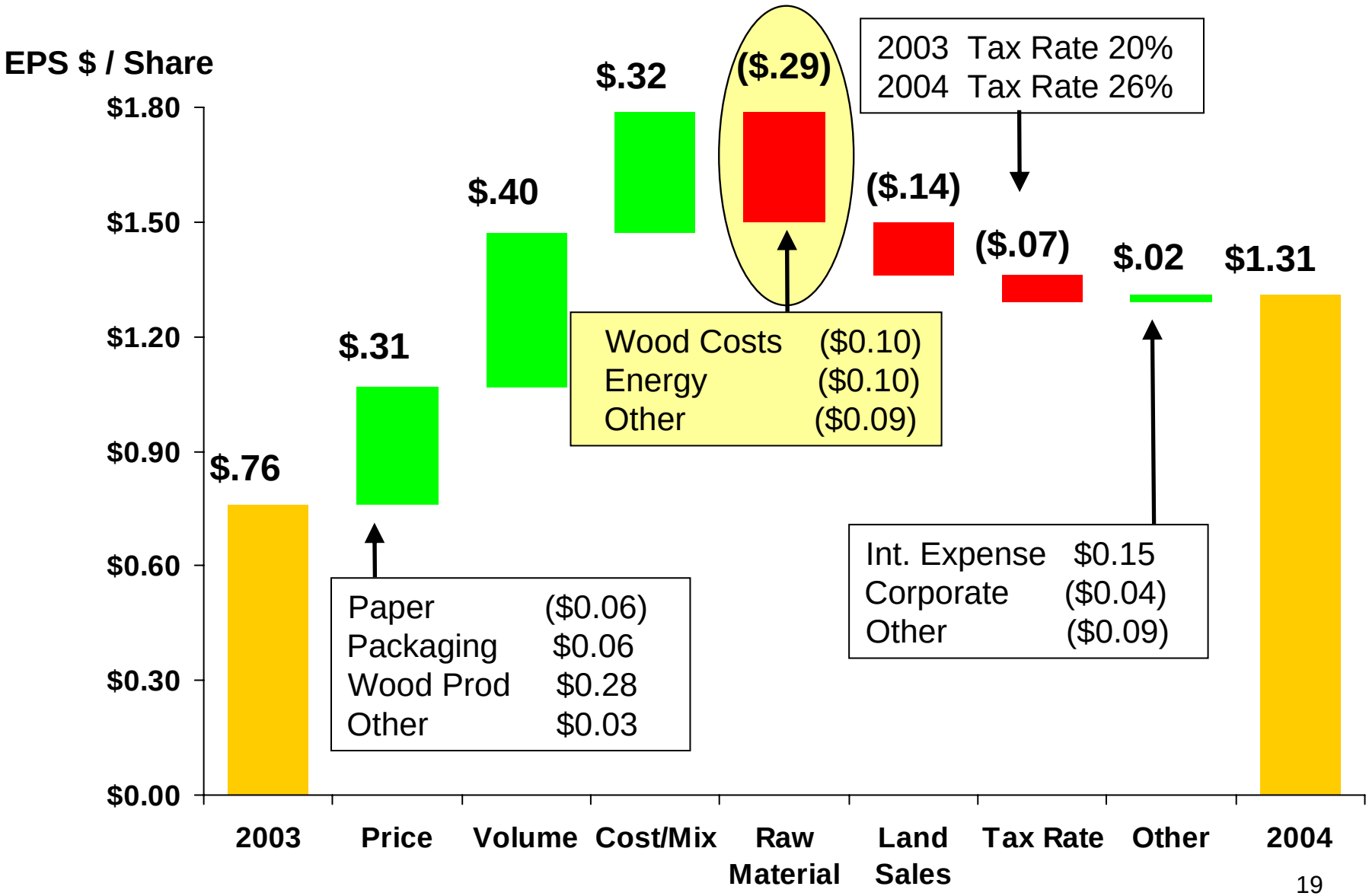
Demand environment is positive

Product	Demand drivers	Outlook
Uncoated papers	White collar employment	Y
	Direct mail	G
Coated papers	Advertising pages	G
	Catalog mailings	G
Corrugated boxes	GDP (mfg. growth)	G
	Non-durables production	G
Lumber & plywood	Housing starts	Y
	Interest rates	Y

Financial Performance

2004 EPS from cont. ops before special items

INTERNATIONAL PAPER



Financial Performance
2005 Cost environment

INTERNATIONAL PAPER

Cost environment remains challenging

Cost Component	Cost drivers	Outlook
Wood	Wet weather	Y
	Low inventory	R
Energy	Natural gas, oil	Y
Chemicals	Caustic soda	R
	Polyethylene	R
Corporate	Pension expense	R
	Supply chain spending	R



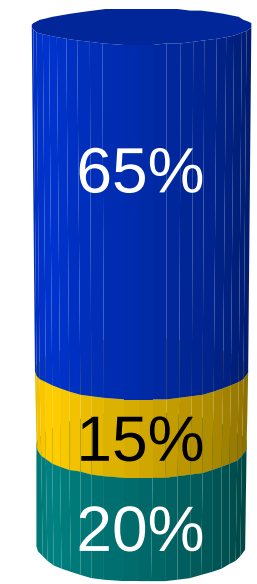
Driving Shareowner Value

Senior Management Compensation

Aligned with shareowners

INTERNATIONAL PAPER

Driven by results and aligned with shareowners



Base Pay

Long Term Compensation

- 100% external benchmark based
- 50% TSR vs. industrial peer group
- 50% ROI vs. global industry peer group

Short Term Incentive Plan

- 50% ROI vs. global industry peer group
- 30% ROI vs. plan
- 20% performance drivers vs. plan

Improving Our Businesses

Non-price improvement

INTERNATIONAL PAPER

		Target
Lower Costs & Create Efficiencies	▪ Manufacturing Excellence ▪ Supply Chain ▪ Lower S&A/Other	$1.6B
Improve Mix	▪ Segmenting ▪ Solutions ▪ New Products	$0.7
Grow Volumes	▪ Targeted Segments ▪ Market Recovery	

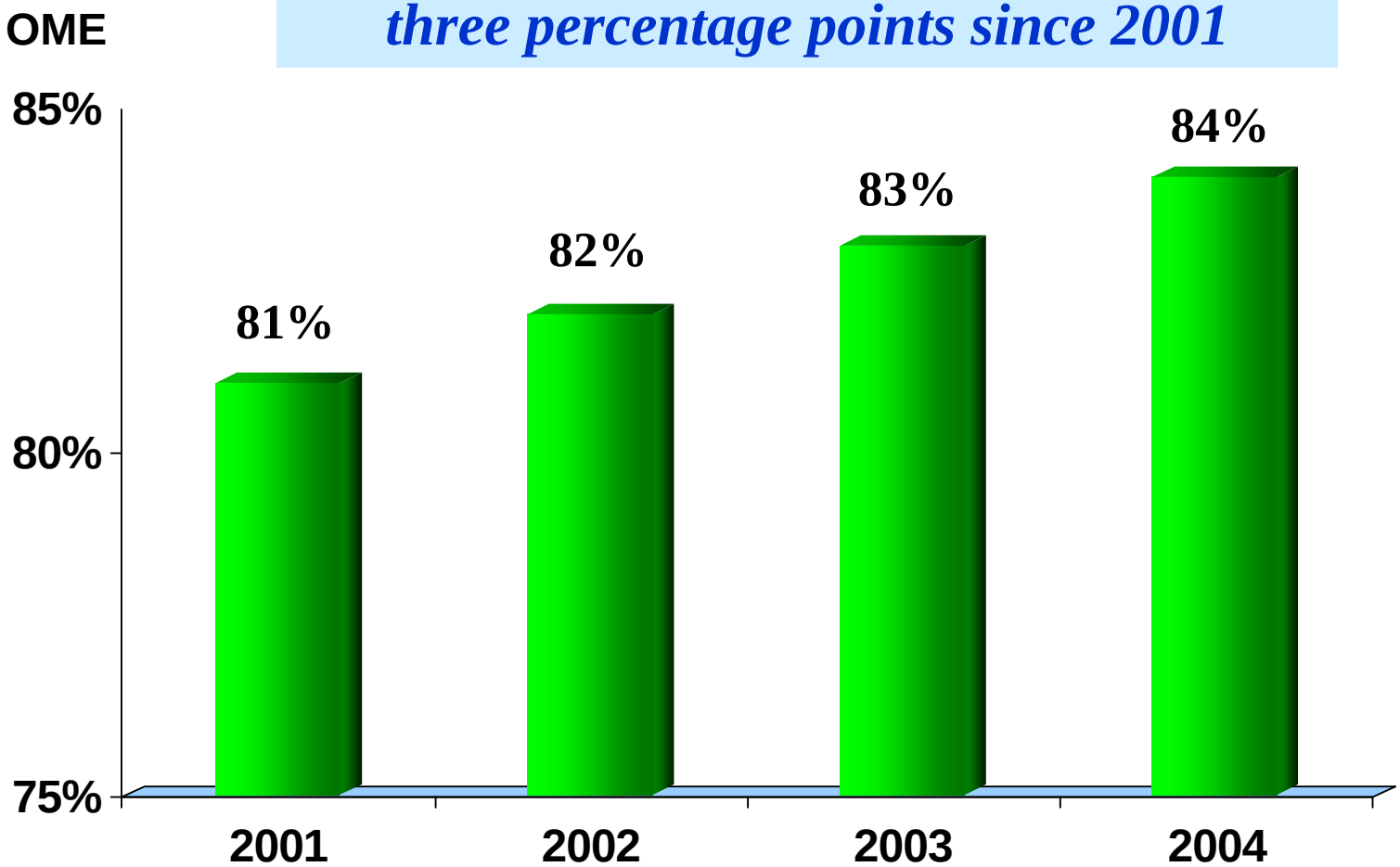
Gross Improvement	**$2.3**
Higher Costs/Inflation	($0.8)
Non-Price Improvement After Inflation	**$1.5B**

Non-Price Improvement

Manufacturing excellence

INTERNATIONAL PAPER

U.S. mills overall machine efficiency up three percentage points since 2001

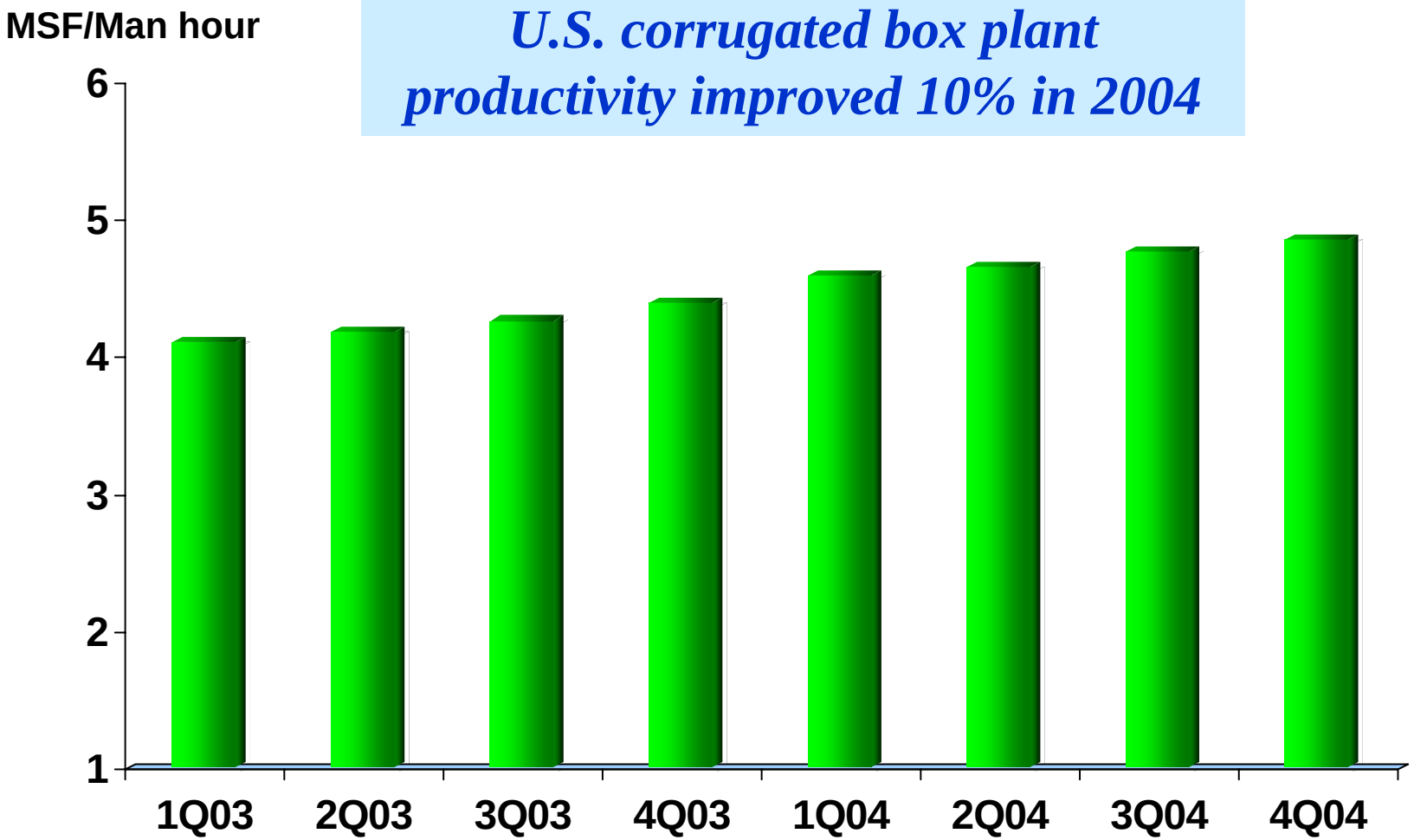


Non-Price Improvement

Manufacturing excellence

INTERNATIONAL PAPER

U.S. corrugated box plant productivity improved 10% in 2004



Non-Price Improvement
Supply chain

INTERNATIONAL PAPER

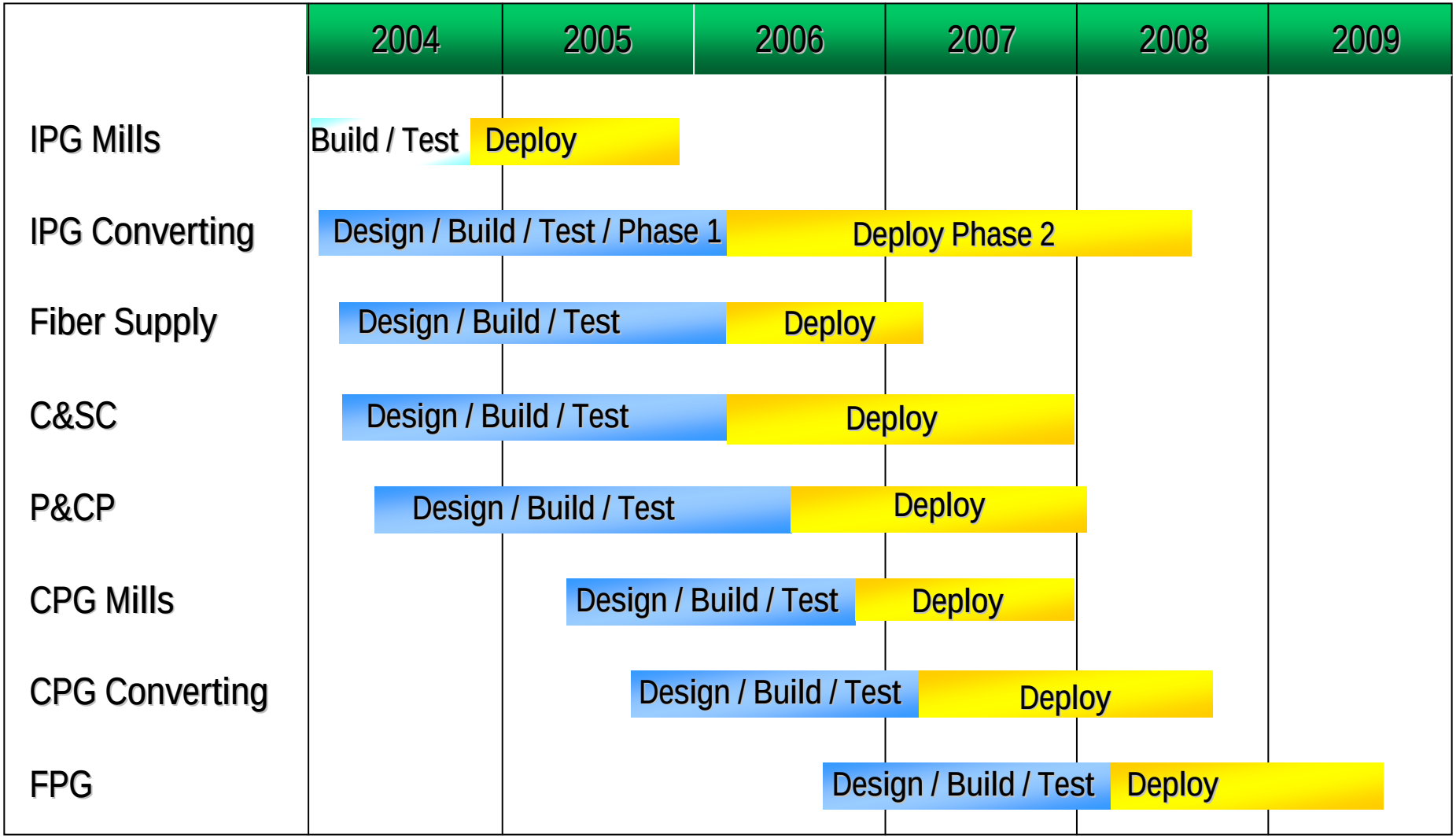
Supply Chain Objectives

- **Redefine how IP does business**
- **Improve customer service/win new business/grow revenue**
- **Reduce transportation, warehousing and procurement costs**
- **Implement common, standard “best practice” business processes**

Non-Price Improvement

Supply chain project timeline

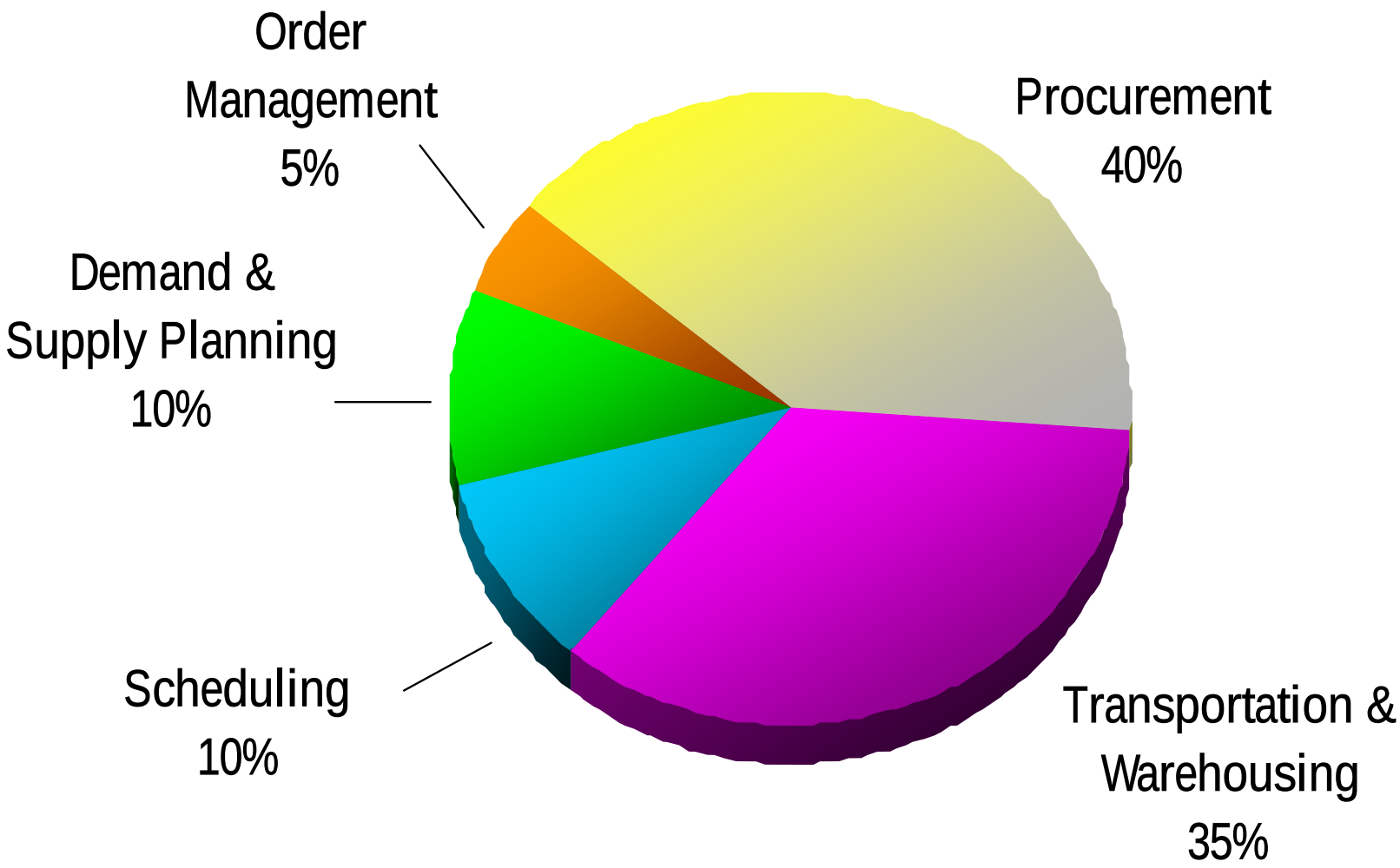
INTERNATIONAL PAPER



Non-Price Improvement

Supply chain benefits by category

INTERNATIONAL PAPER



Total annual gross benefit = $500 million

Non-Price Improvement
Supply chain

INTERNATIONAL PAPER

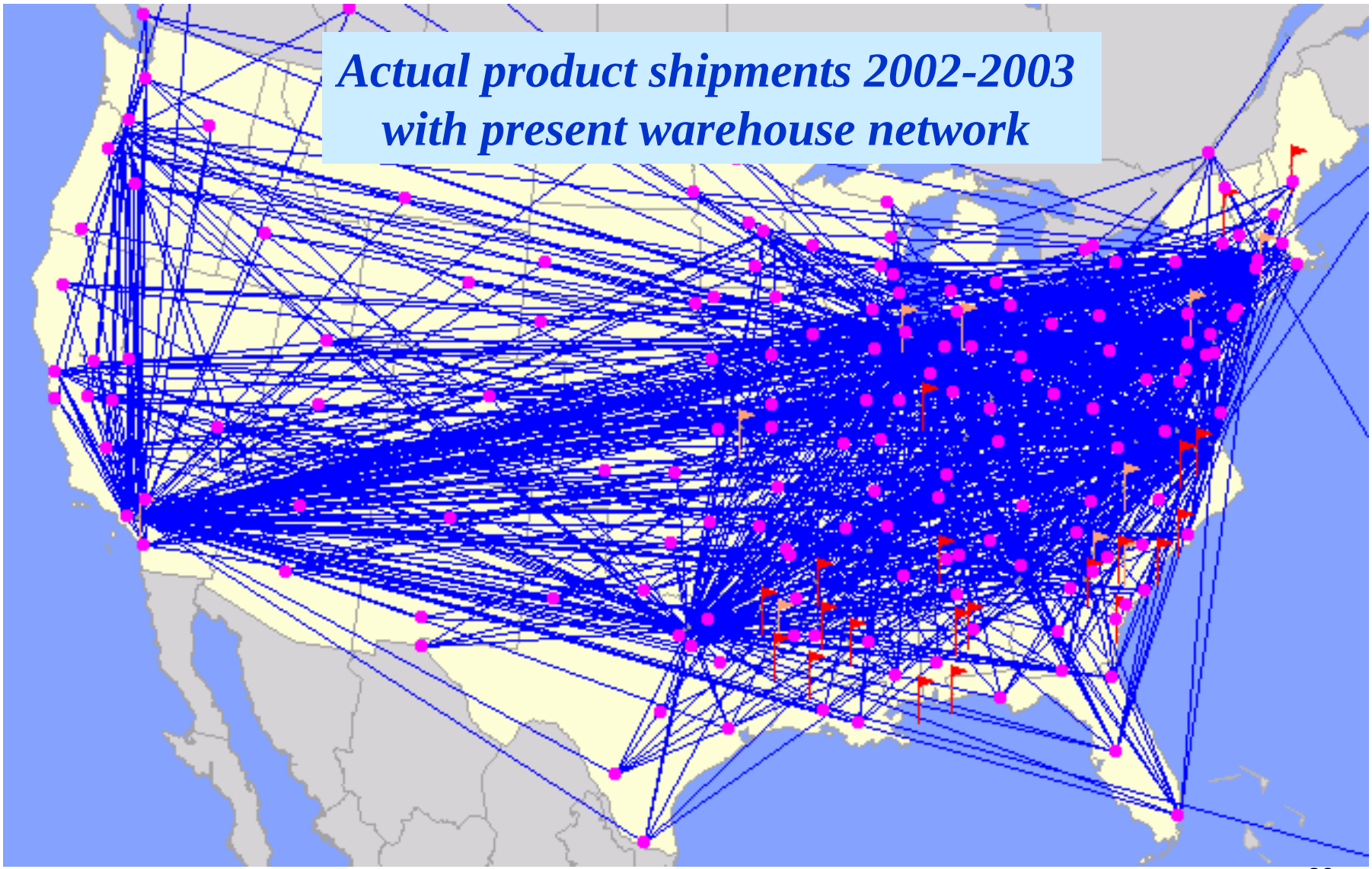
Supply Chain Objectives

- Redefine how IP does business
- Improve customer service/win new business/grow revenue
- **Reduce transportation, warehousing and procurement costs**
- **Implement common, standard "best practice" business processes**

Non-Price Improvement

Supply chain improves customer service

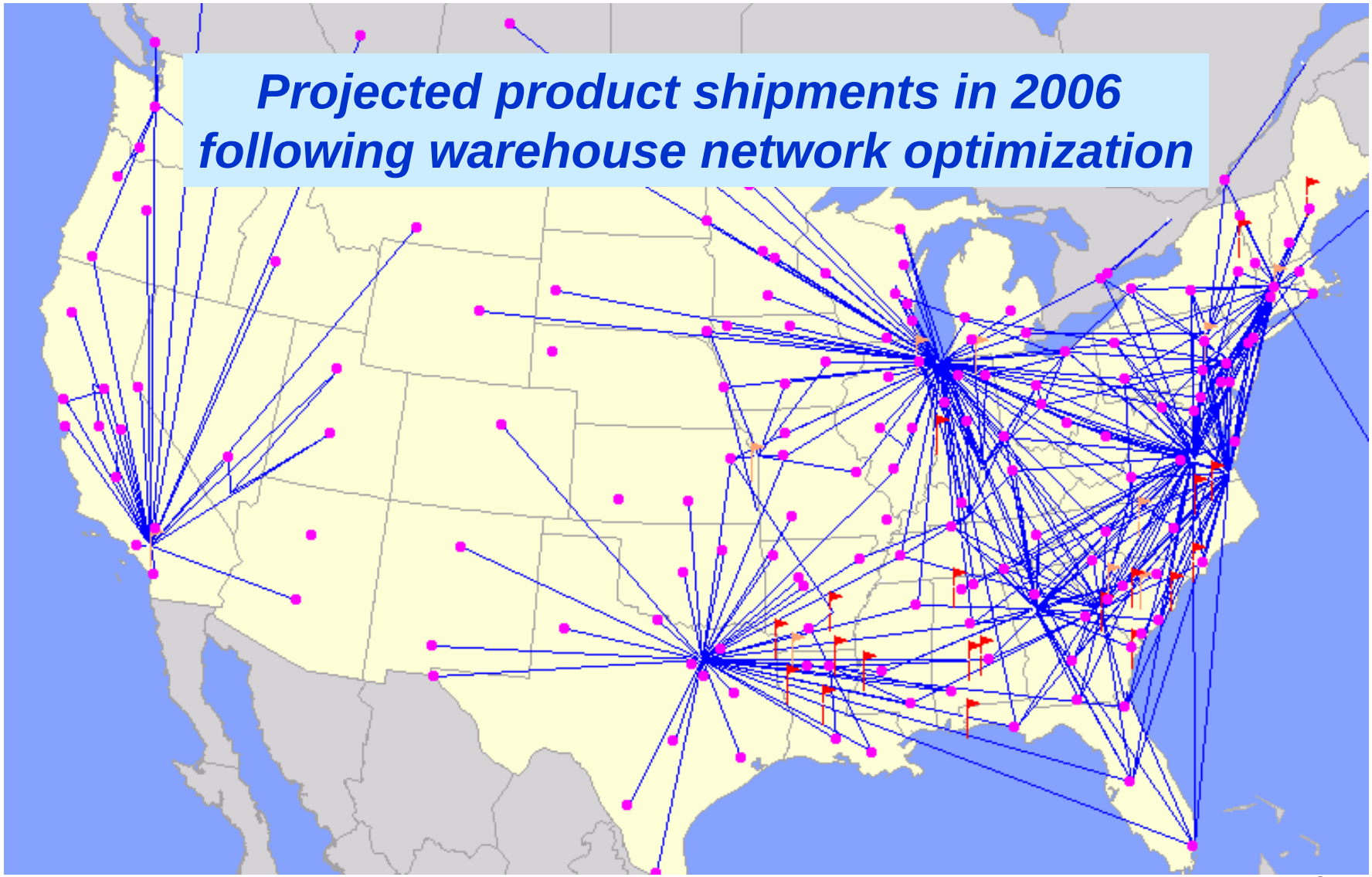
INTERNATIONAL PAPER



Non-Price Improvement

Supply chain improves customer service

INTERNATIONAL PAPER

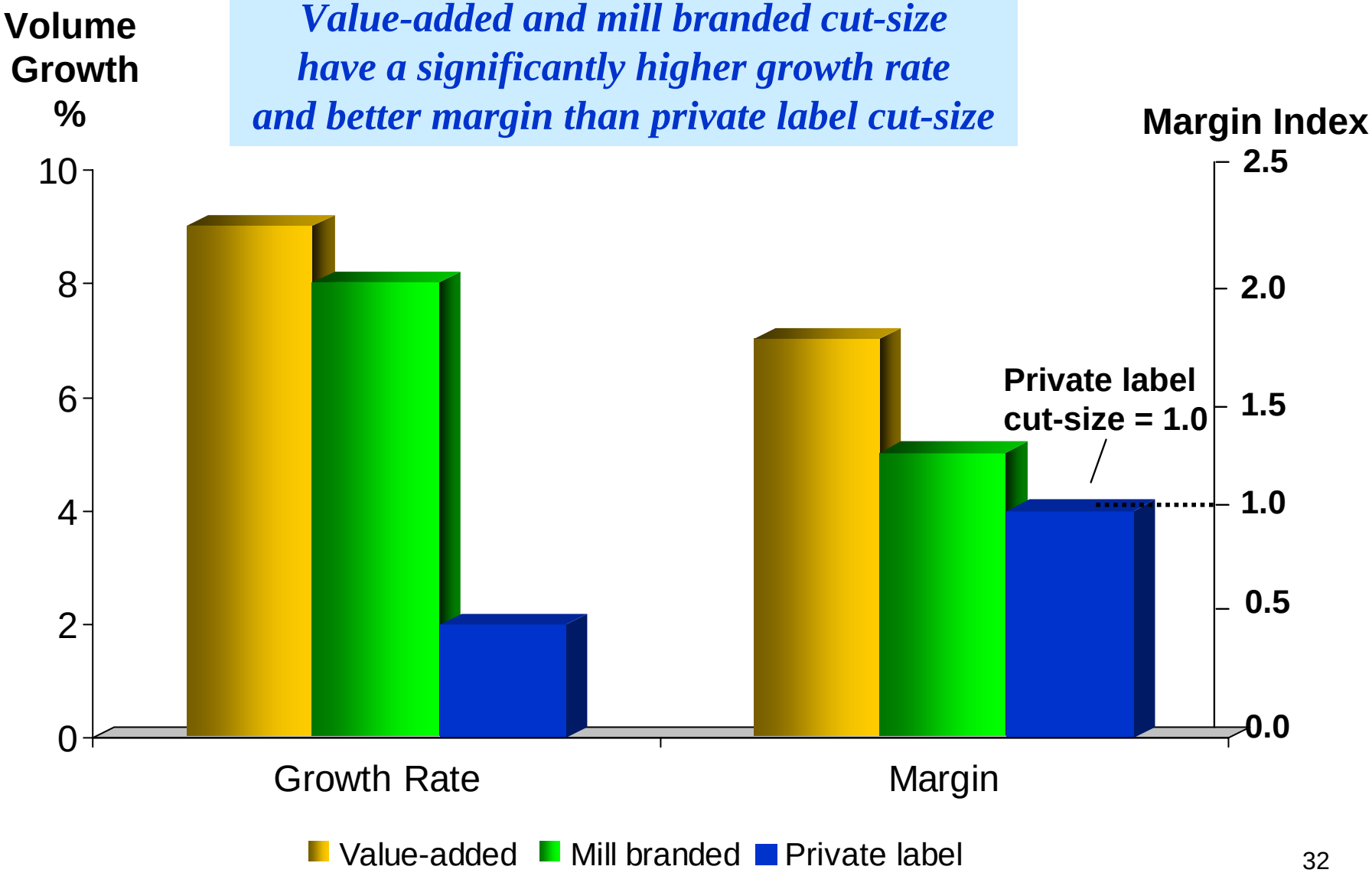


Non-Price Improvement

Improve mix

INTERNATIONAL PAPER

Value-added and mill branded cut-size have a significantly higher growth rate and better margin than private label cut-size



Non-Price Improvement

Grow volume

INTERNATIONAL PAPER

Segments	Grades	Annual Volume Change '04 vs. '03
Paper*	Uncoated Papers	3%
	Coated Papers	5%
	Pulp	6%
Packaging	Containerboard	7%
	U.S. Container	21%
	Bleached Board	11%
Forest Products	Lumber	5%
	Plywood	(1%)

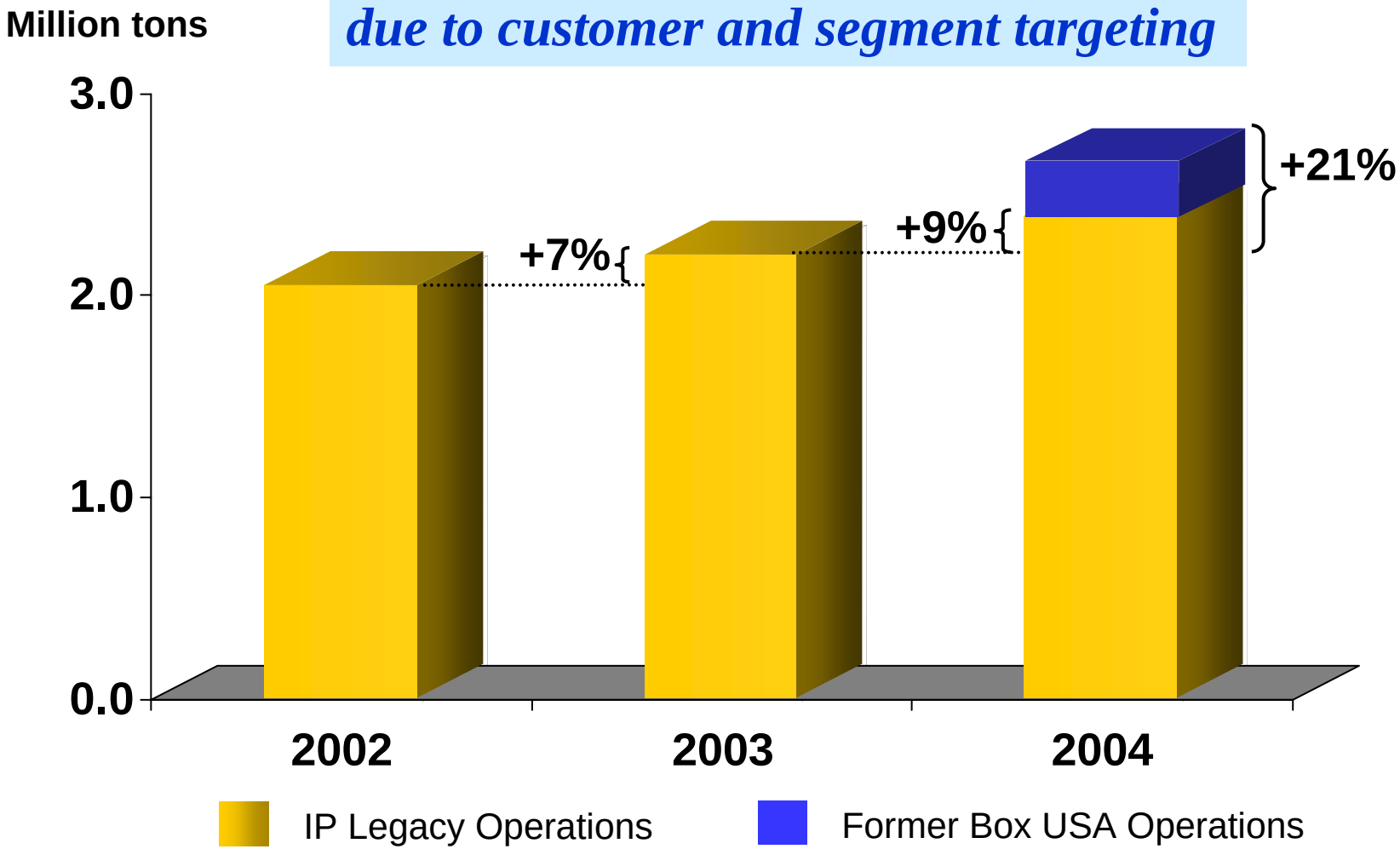
* U.S. operations only

Grow Volume

U.S. corrugated box business

INTERNATIONAL PAPER

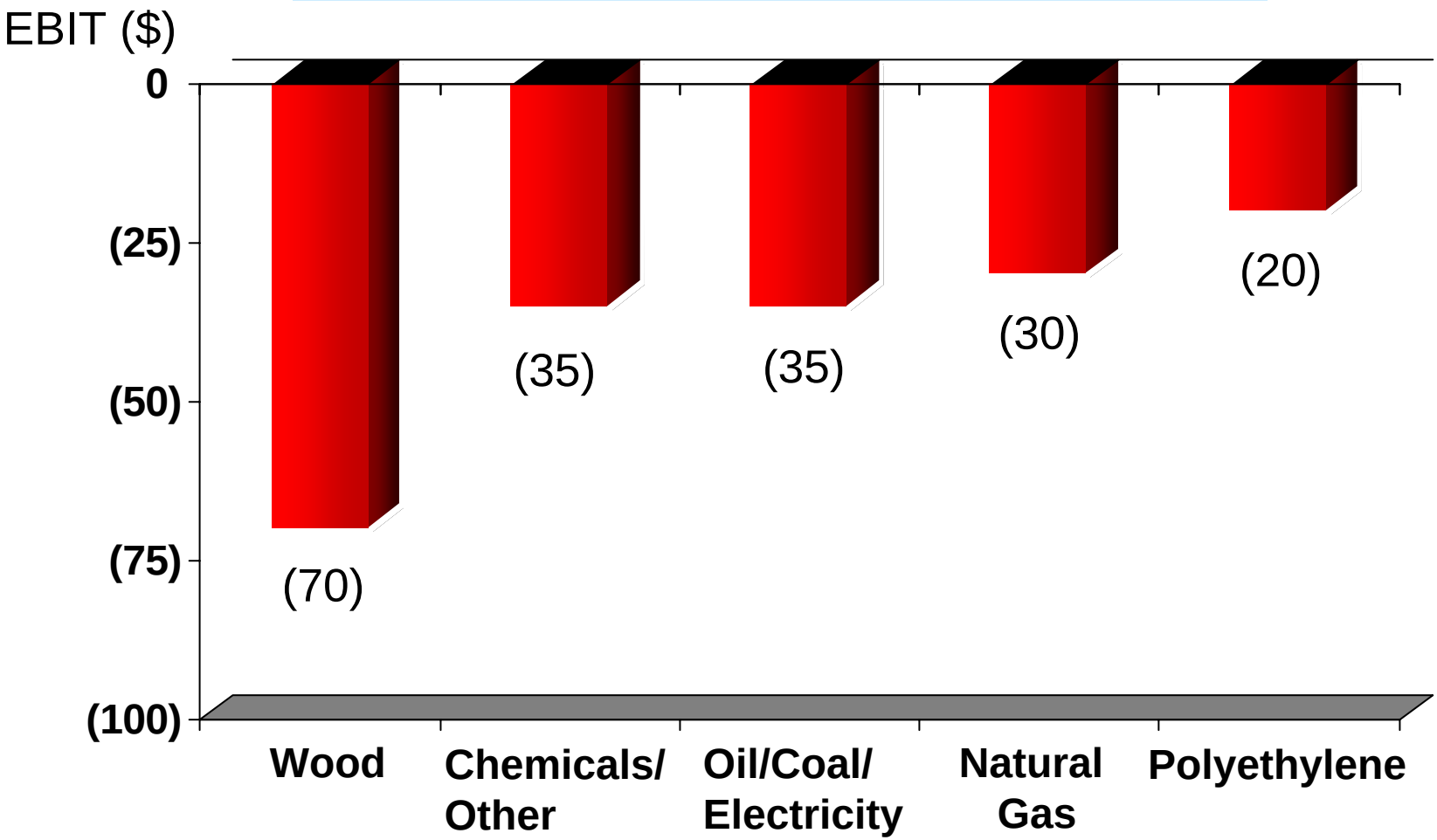
Box shipments grew 9% in 2004 due to customer and segment targeting



Non-Price Improvement
Higher cost/inflation

INTERNATIONAL PAPER

Raw material costs negatively impact EBIT by $190 million 2004 versus 2003

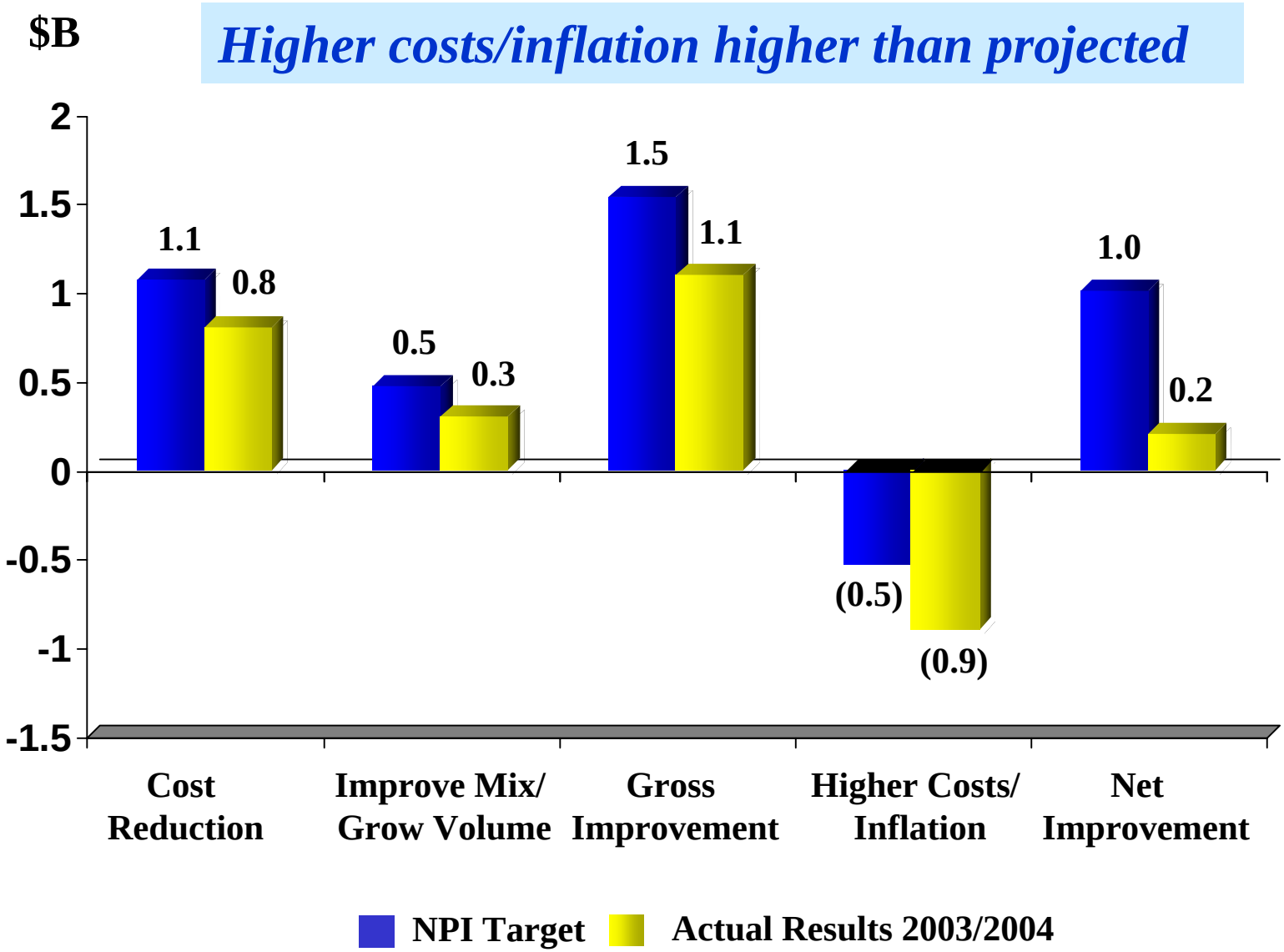


Non-Price Improvement

Actual results versus target through 2004

INTERNATIONAL PAPER

Higher costs/inflation higher than projected



Making Portfolio Choices

	Proceeds ($MM)
Sold CHH Tissue (Cash to IP $150MM)	640
Sold minor W. European assets	60
Sold Weldwood of Canada	1,100
Sold 1.1 million acres in Maine/NH	250
Exploring sale of Specialty Papers	TBD
Selling Fine Papers (Project 1Q'05 close)	TBD
CHH exploring options for Forestlands	TBD

Maintaining Financial Discipline

INTERNATIONAL PAPER

Optimize capital allocation

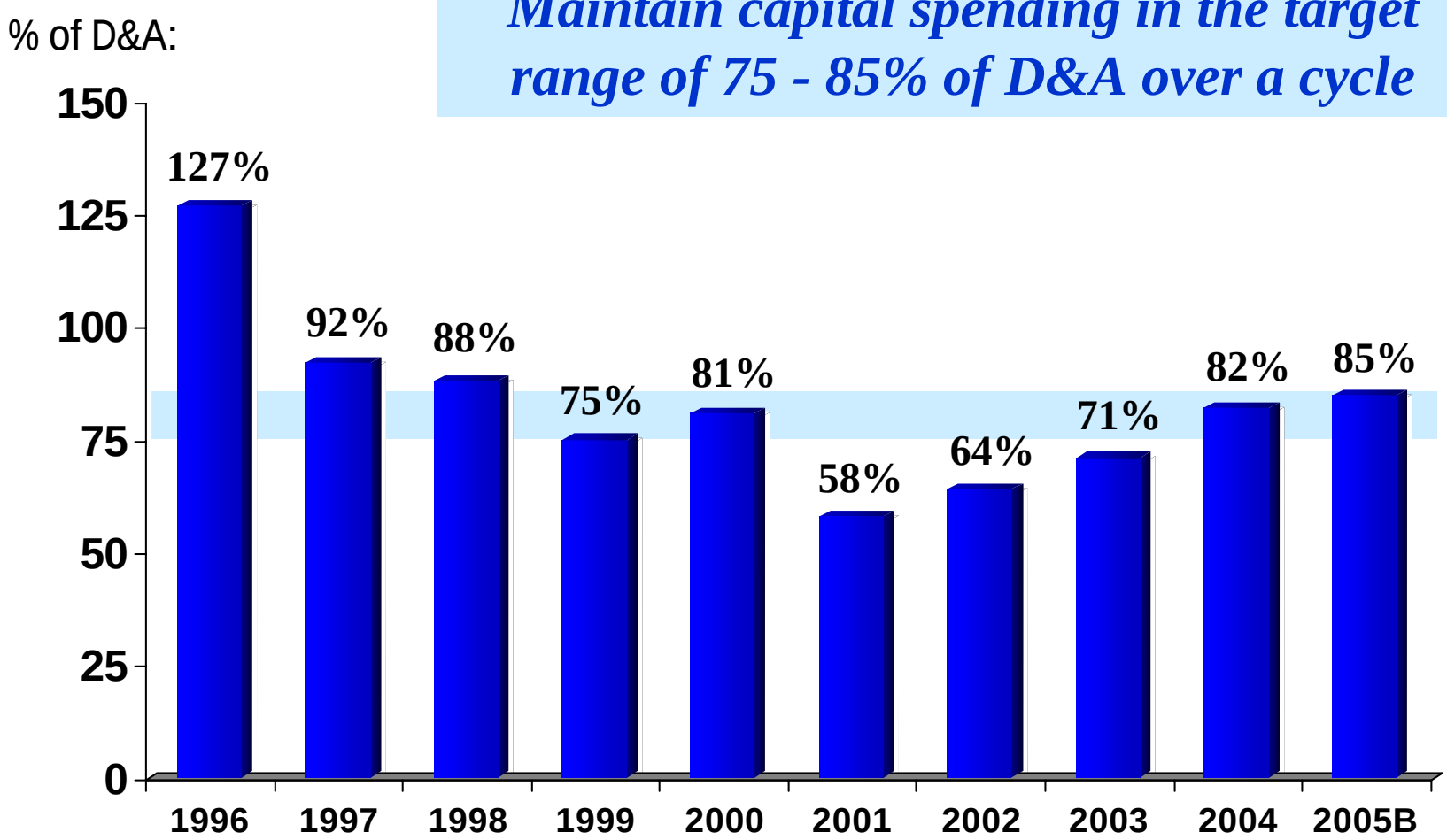
- **Maintain capex within range of 75-85% of depreciation over a cycle**
- **Allocate capital to those businesses with best returns in North America & globally**

Maintaining Financial Discipline

Capital spending as % of D&A

INTERNATIONAL PAPER

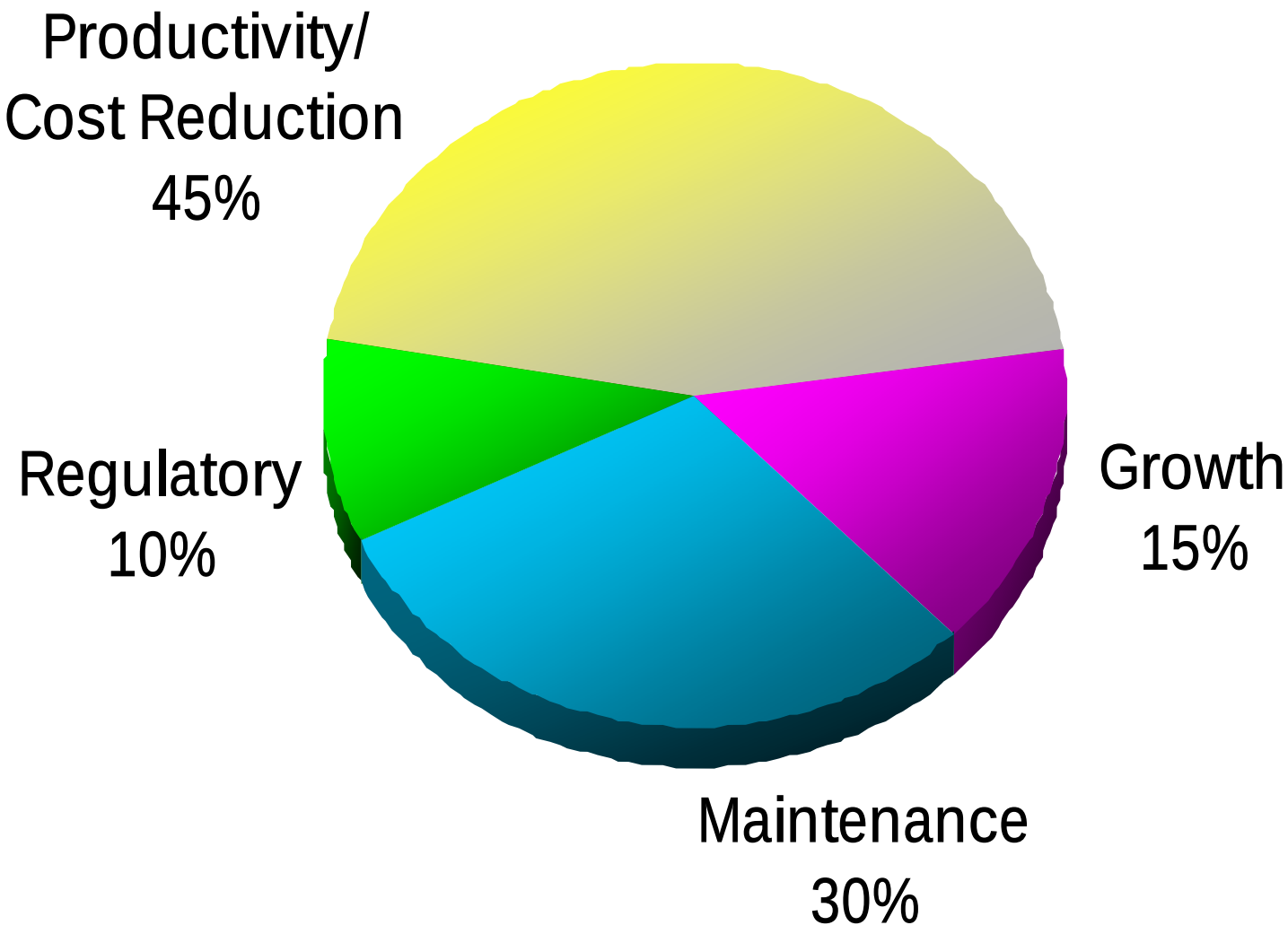
Maintain capital spending in the target range of 75 - 85% of D&A over a cycle



Maintaining Financial Discipline

2005 Capital spending by category

INTERNATIONAL PAPER

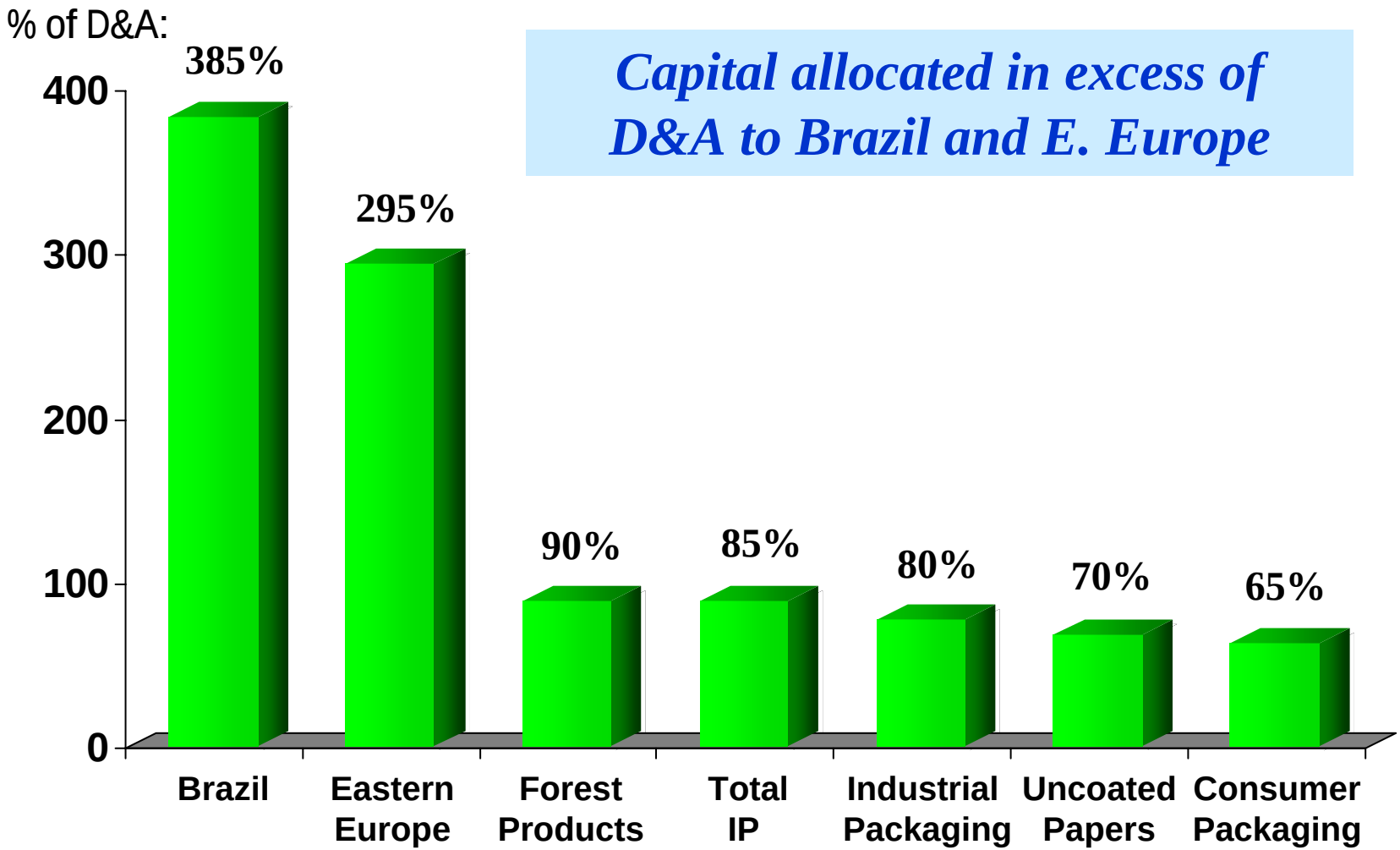


2005 capex target - $1.4 billion

Maintaining Financial Discipline

2005 Capex by business

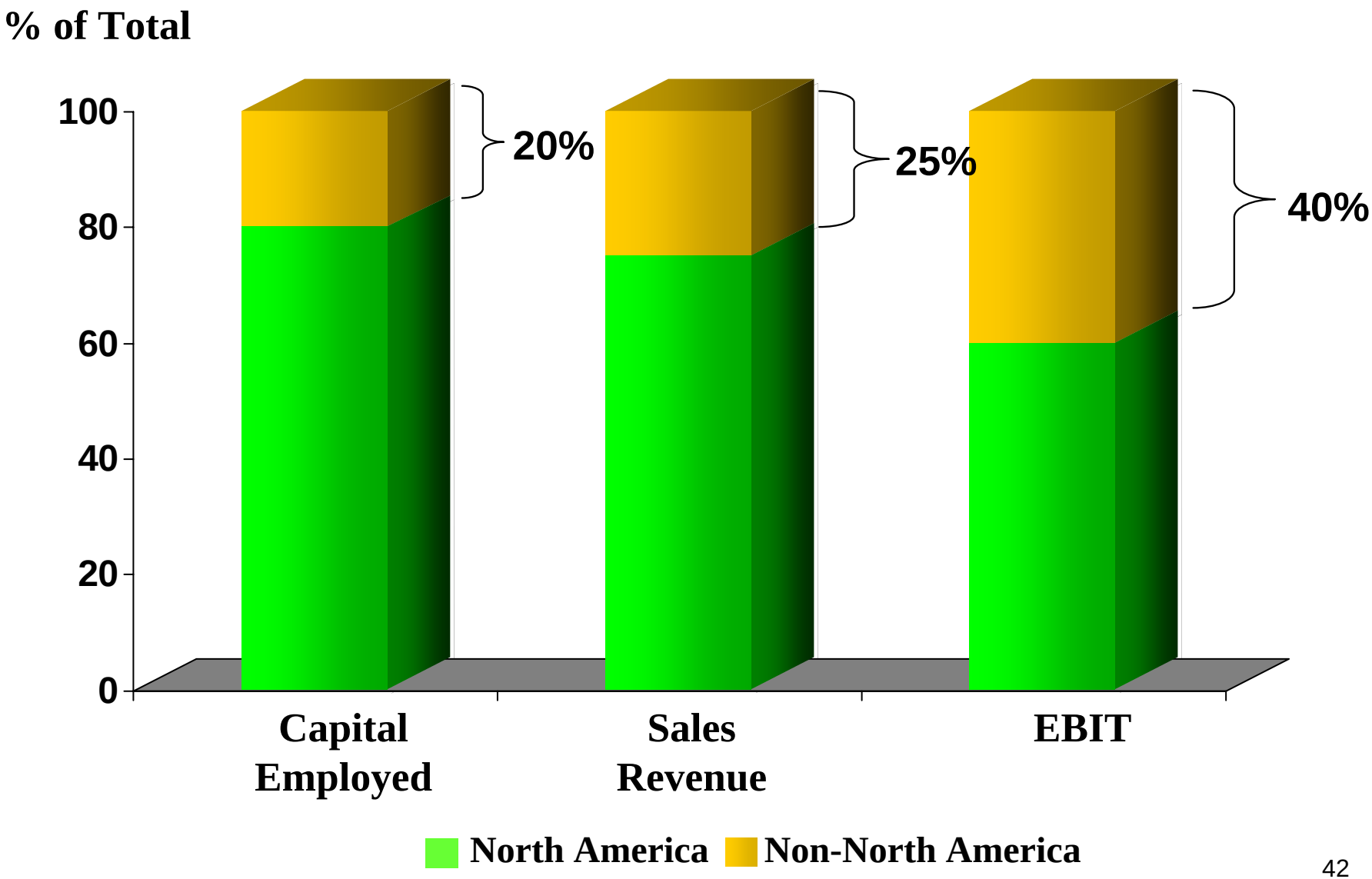
INTERNATIONAL PAPER



Capital allocated in excess of D&A to Brazil and E. Europe

Financial Performance
2004 Results by geographic region

INTERNATIONAL PAPER



Maintaining Financial Discipline

INTERNATIONAL PAPER

Reducing debt

- **Committed to maintaining investment grade ratings**
- **Targeted $3 billion reduction to $12 billion debt gross level by 2006**

Maintaining Financial Discipline

Reduced debt with asset sale proceeds

INTERNATIONAL PAPER

- **Cash received (on 12/31/04)**

• Weldwood sale	$1.1
• Maine/NH land sale	0.2
Total	$1.3

- **Debt Paydown**

• Short-term debt/Other (pre 12/31/04)	$(0.5)
• Trust Preferred (post 12/31/04)	(0.5)
• Open Market/Other (post 12/31/04)	(0.3)
Total	$(1.3)

Maintaining Financial Discipline

INTERNATIONAL PAPER

Options for free cash flow

- **Further debt reduction**
- **Return to shareowners**
  - Increase dividend
  - Share repurchase
- **Reinvest in high return businesses**

IP into the Future



Improving Our Business Profitability

Making Portfolio Choices

Maintaining Financial Discipline

Committed to Increasing Shareowner Value


INTERNATIONAL PAPER

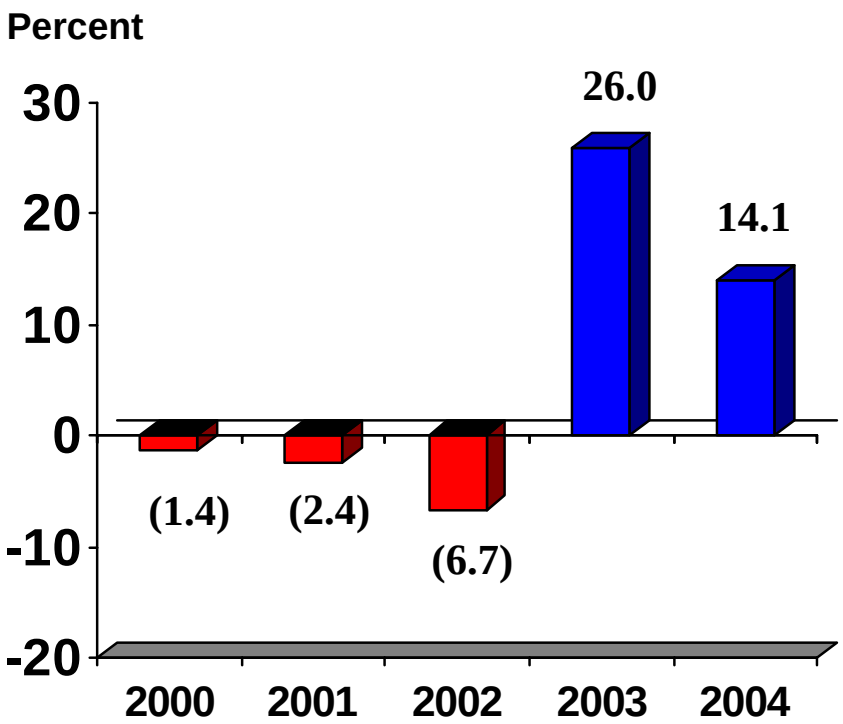
Appendix

Financial Performance

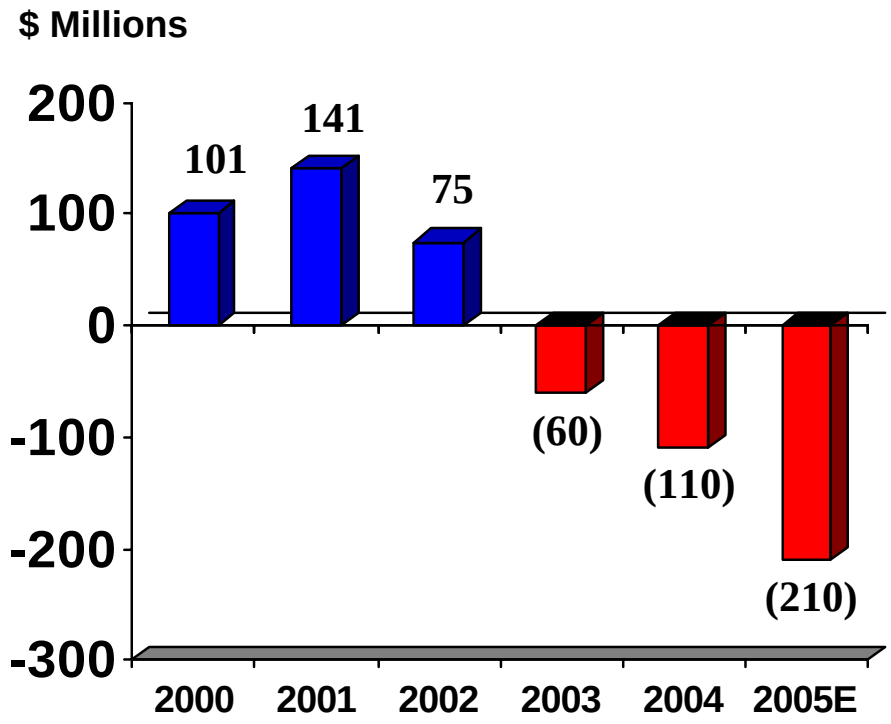
U.S. pension plans

INTERNATIONAL PAPER

Actual Rates of Return



*Income (Expense)**



**Pension income (expense) reflects discount rate, service cost, amortization of previous periods and anticipated return