

INTERNATIONAL PAPER

# John V. Faraci
# Chairman & CEO

*CS First Boston Global Basics Conference*

***March 3, 2005***

# Forward Looking Statement

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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 the Use of Non-GAAP Financial Measures

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

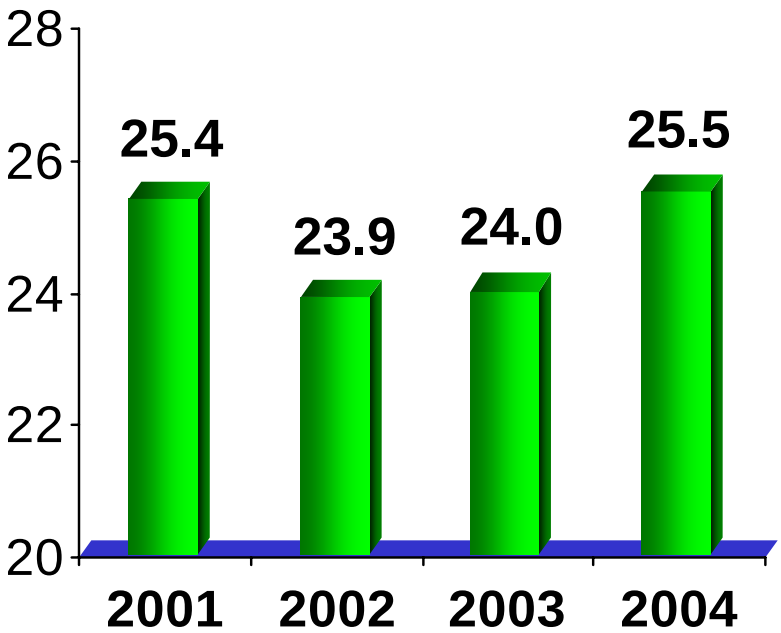
# Agenda

- **Progress & 2005 Outlook**
- **Current Priorities**
  - Deliver Non-Price Improvement
  - Maintain Financial Discipline
- **Strategic Goals**
  - Achieve ROI Target
  - Rebalance Portfolio
  - Expand in High Return, Growth Markets

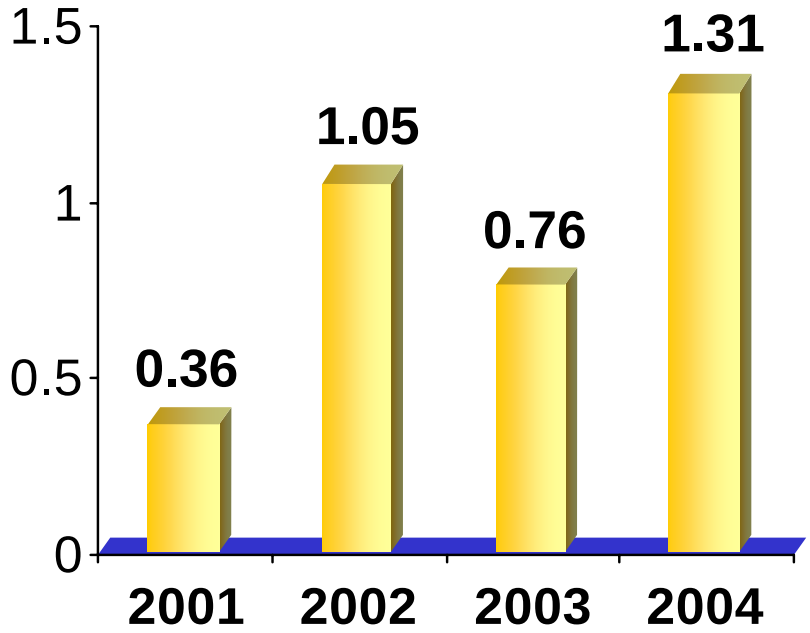
# Financial Performance

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## Revenues ($B)




## Earnings Per Share* ($)

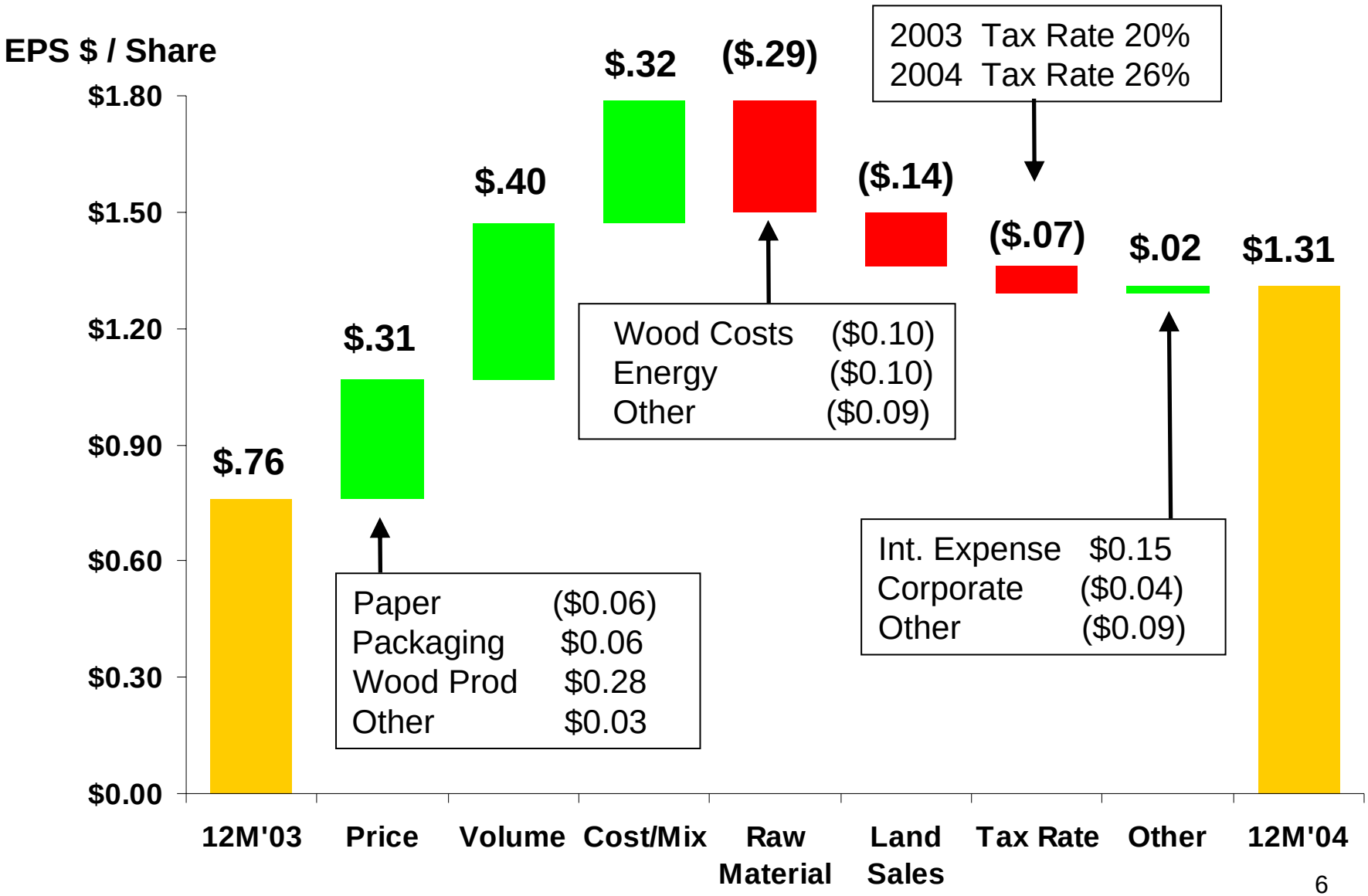



*Basic EPS from continuing operations and before special items

# 12M'04 vs. 12M'03

## *EPS from cont. ops before special items*

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# 2005 Outlook

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- **2-3% demand growth**
- **Good operating rates**
- **Prices**
  - Previously announced IP 2004 paper increases continue to be implemented
  - IP announced 2005 price increases – full effect later in the year
- **Costs**
  - High energy & chemical costs. Wood costs moderate with dry weather
  - Higher pension expenses & increased supply chain expenses

# Current Priorities

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## *Deliver non price improvement*

- Lower costs
- Improve mix & volumes

## *Maintain financial discipline*

- Optimize capital allocation
- Strengthen the balance sheet

# Internal Initiatives

## *Non price improvement status*

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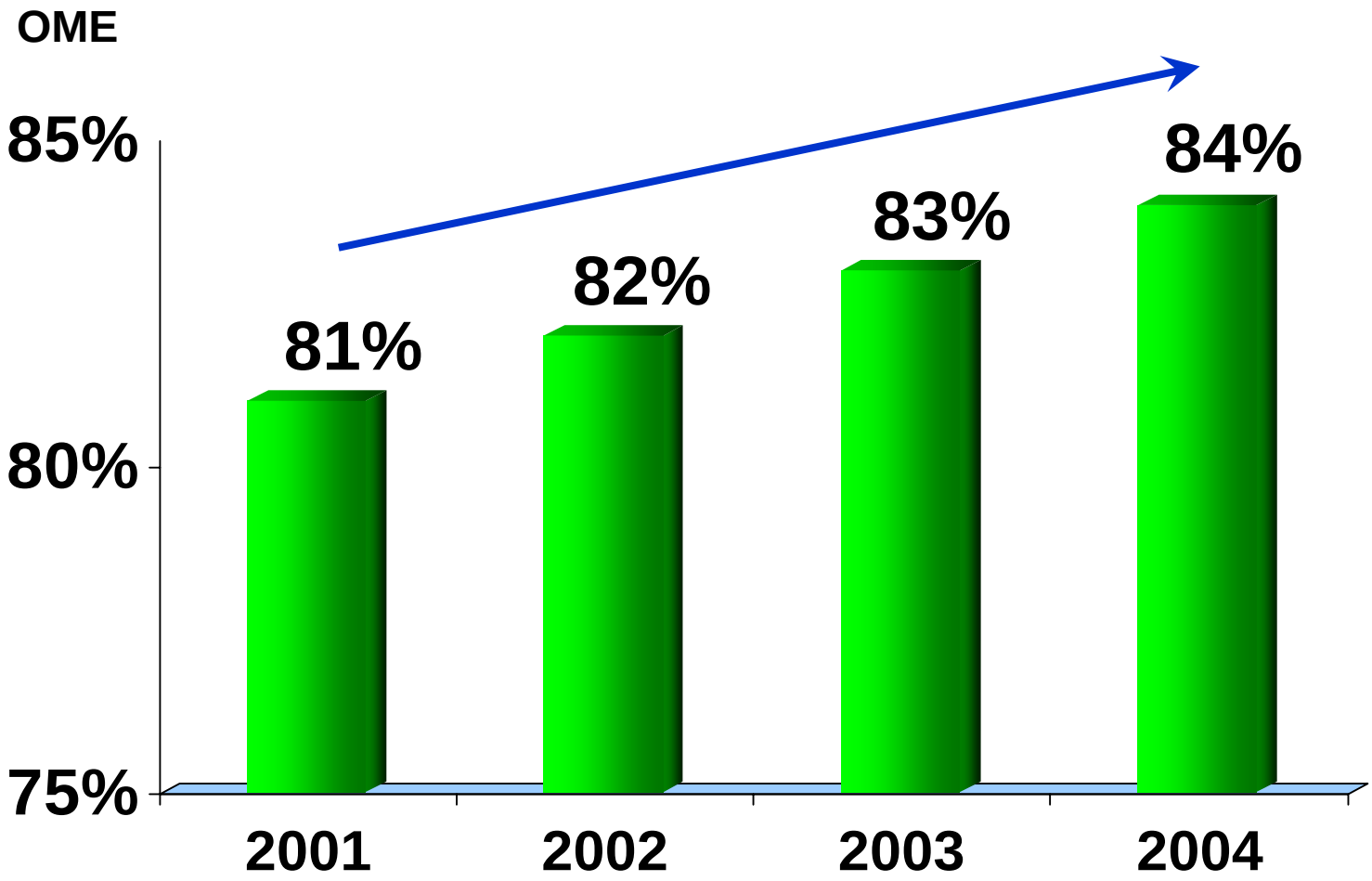
*$ billions*

| | | Target | 2003 | 2004 |
|---|---|---|---|---|
| **Lower Costs & Create Efficiencies** | ▪ Manufacturing Excellence<br>▪ Supply Chain<br>▪ Lower S&A/Other | $1.6 | $0.4 | $0.4 |
| **Improve Mix** | ▪ Segmenting<br>▪ Solutions<br>▪ New Products | $0.7 | $0.0 | $0.3 |
| **Grow Volumes** | ▪ Targeted Segments<br>▪ Market Recovery | | | |
| **Gross Improvement** | | **$2.3** | **$0.4** | **$0.7** |
| **Higher Costs/Inflation** | | **($0.8)** | **($0.5)** | **($0.4)** |
| **Non-Price Improvement After Inflation** | | **$1.5** | **($0.1)** | **$0.3** |

# Lower Costs - Manufacturing Excellence

*Machine efficiency up 3 percentage points*

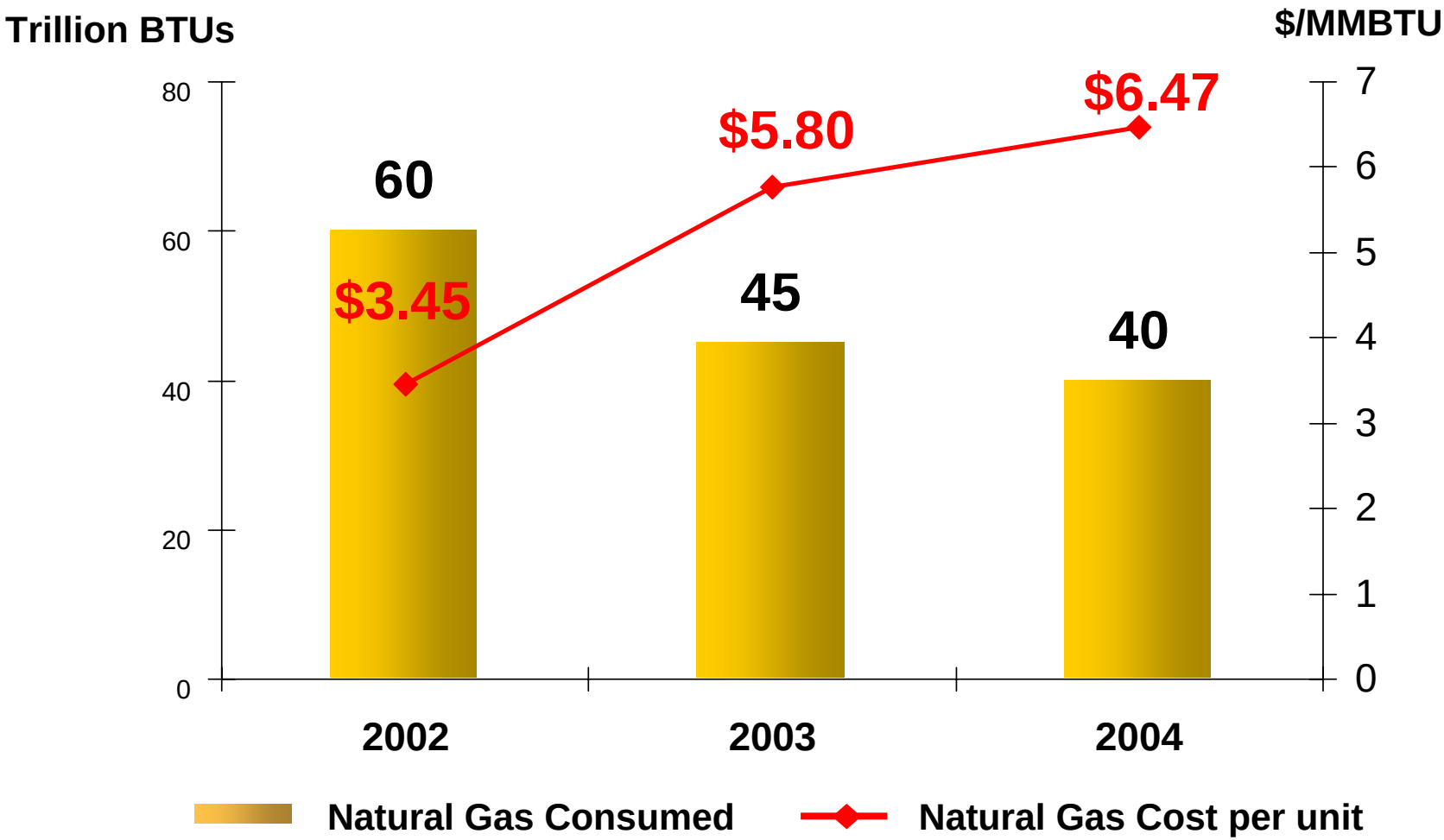
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# Lower Costs - Energy

## *Natural gas consumption down 33% since 2002*

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| Total US Mill Energy Purchases before Natural Gas Hedges - $MM | | |
|---|---|---|
| $680 | $815 | $845 |

# Supply Chain Initiative

*Lower costs, improve efficiencies & service*

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**Improve processes related to IP's $3.5 billion costs to serve & deliver**

- Procurement
- Order Management
- Transportation
- Scheduling
- Warehousing
- Invoicing
- Working Capital Management

# Supply Chain Initiative

*Lower costs, improve efficiencies & service*

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## Costs

- **$500+ million external spending**
- **$100 million incremental hires**
- **Major expense $180 million/year in 2005 & 2006**

## Benefits

- **$400 - 500 million annual savings beginning 2007/08:**

***Lower sourcing $200***
***Lower logistics $180***
***Better scheduling $50***
***Improved mfg. $50***
***Efficient ordering $20***

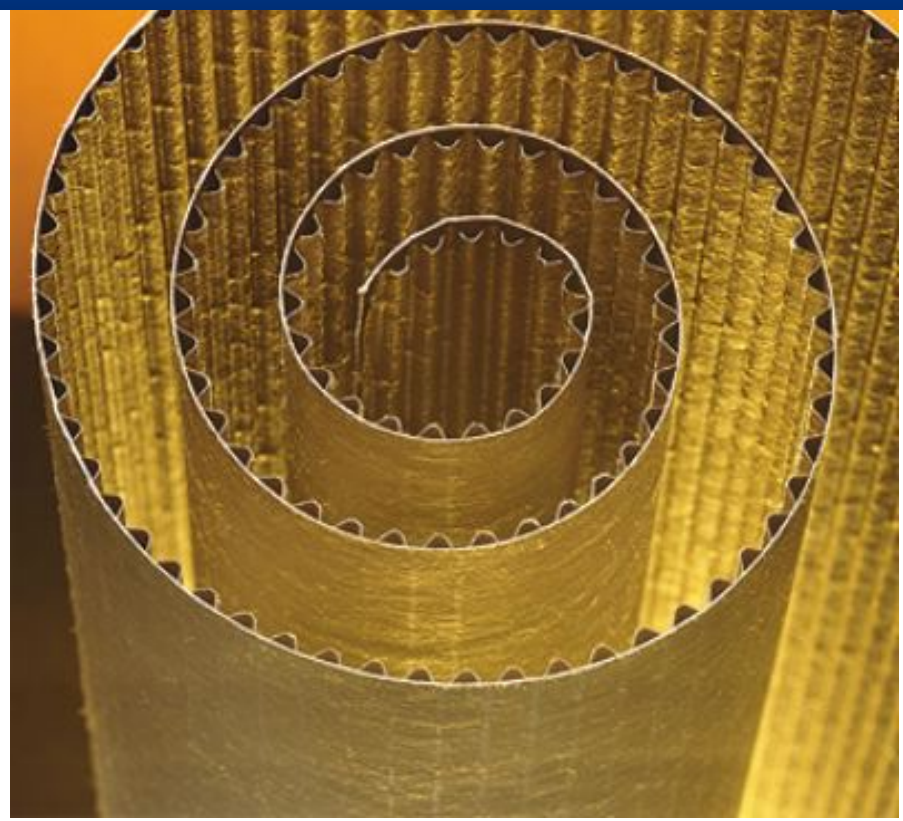
***Enterprise-wide initiative to standardize processes & information from order entry to invoicing***

# Supply Chain

*Helping IP and its customers*

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## *Supply Chain Initiative Increases IP's & Customer's Profitability*



# Supply Chain

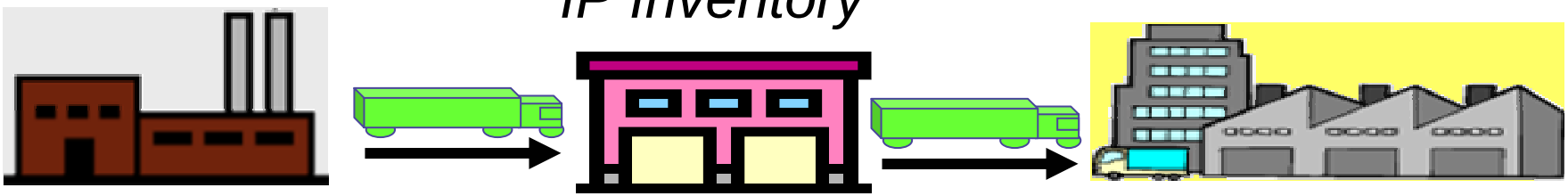
*Helping IP and its customers*

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## Old Method

*Customer tracks usage & orders*

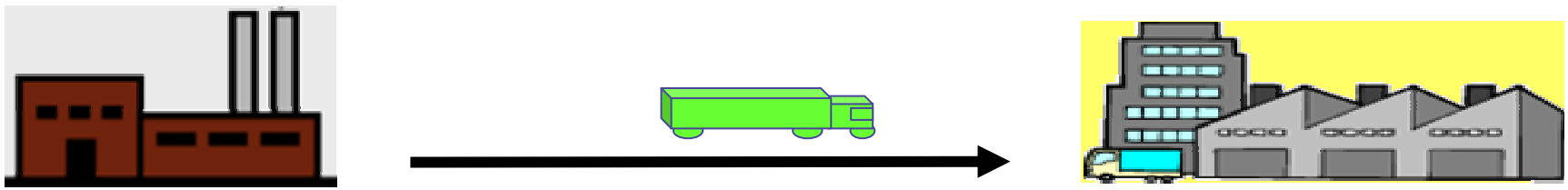
*IP Inventory*



**Mill** **IP Warehouse** **Customer**

## New Supply Chain

*IP tracks usage & automatically replenishes IP Inventory*



**Mill** **Customer**

# Supply Chain

*Helping IP and its customers*

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## IP Benefits

- Lower freight costs
- Eliminated warehouse
- Reduced working capital
- Lower invoice processing
- More business

## Customer Benefits

- Fewer stock outs
- Reduced working capital
- Lower procurement/ buyer eliminated
- Less emergency premium purchases
- More business

# Improve Mix & Volumes

*Winning with customers*

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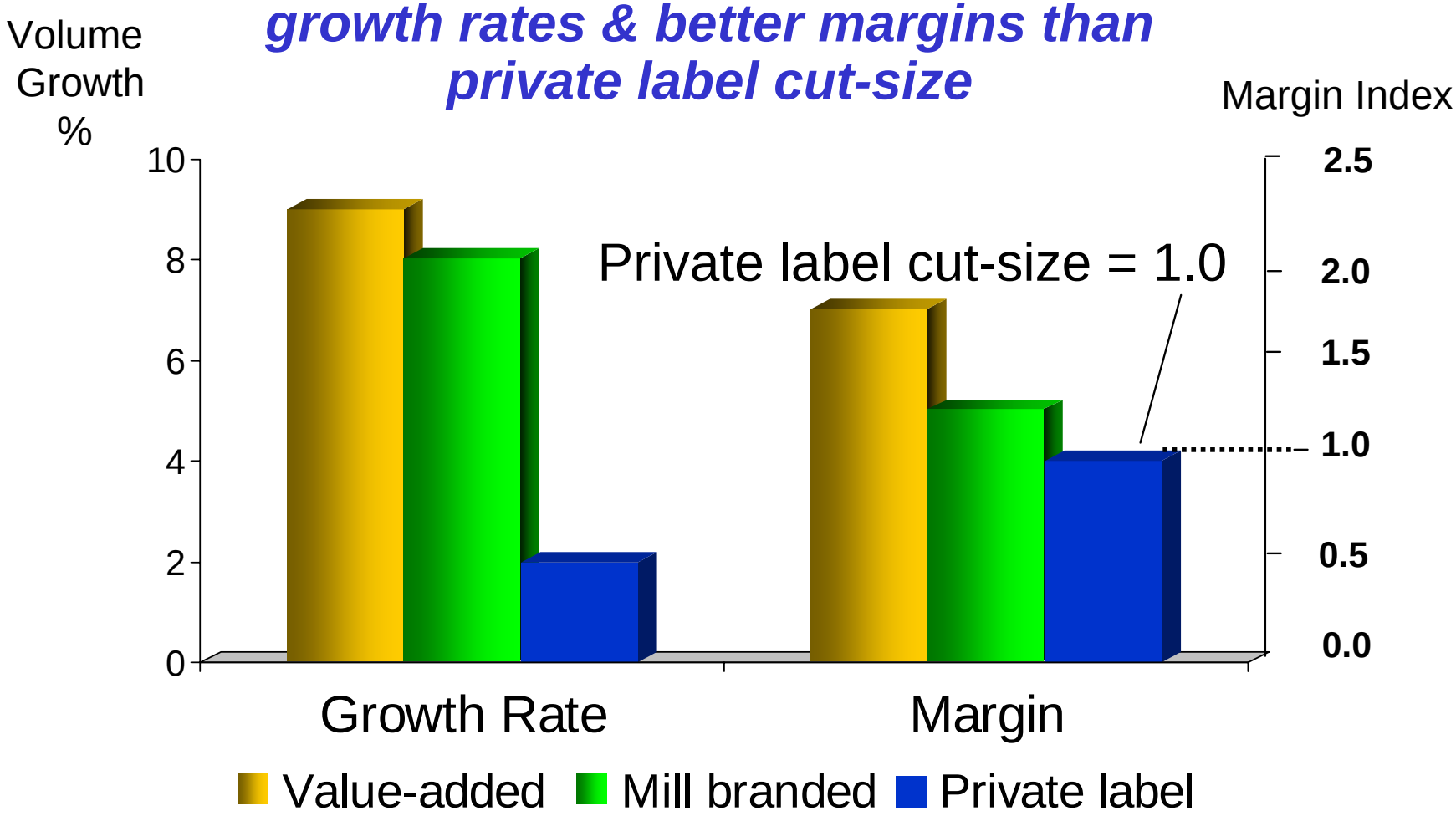
| | Rank Order by IP Sales Revenue | 2004 vs. 2002 Revenue Change |
|---|---|---|
| FedEx/Kinko's | 11 | 320% |
| National Envelope | 7 | 50% |
| Home Depot | 13 | 40% |
| Altria | 12 | 30% |
| Xerox Corp. | 4 | 30% |
| Perseco | 6 | 30% |
| Staples, Inc. | 1 | 20% |
| RR Donnelly | 2 | 10% |
| Cenveo/Mail-Well | 9 | 10% |

# Improve Mix & Volumes

## *Grow value-added products*

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***Value-added and mill branded cut-size have significantly higher growth rates & better margins than private label cut-size***



# Maintain Capital Discipline



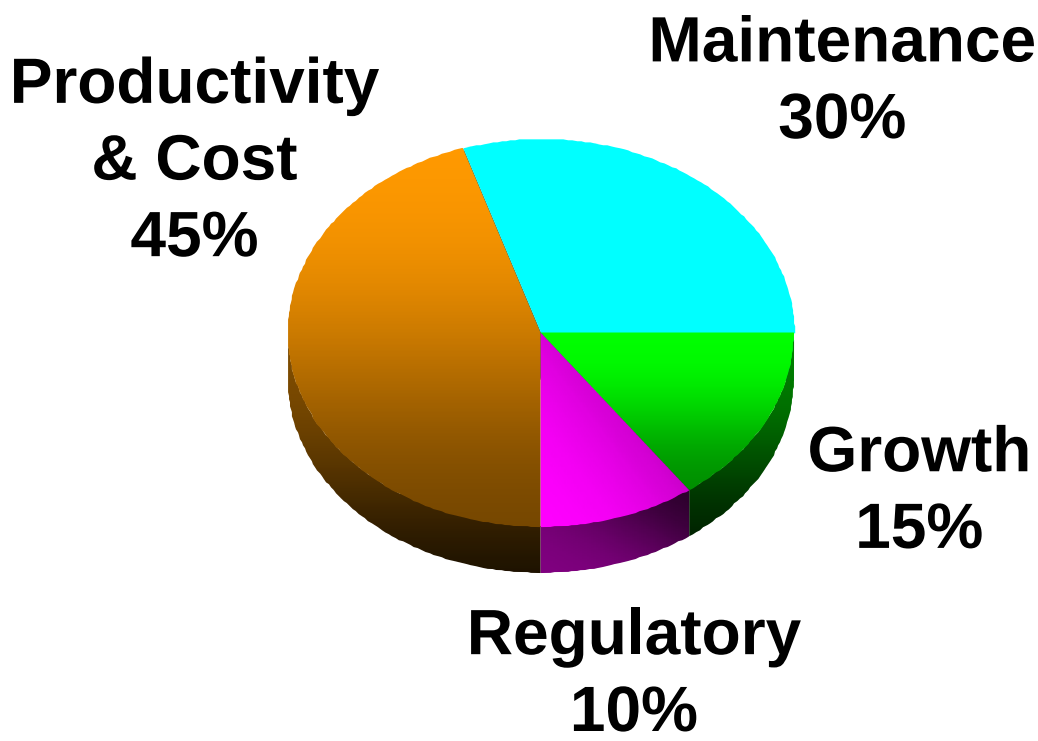
## Optimize capital allocation

- **Maintain capex at 75-85% of depreciation over a cycle ($1.2 - 1.4 billion per year)**
- **Allocate capital to those businesses with best returns in North America & elsewhere**

# Maintain Capital Discipline



## 2005 Capex $1.4 billion



# Maintain Capital Discipline



## Reduce debt 2005-2006

- Targeting $3 billion reduction to $12 billion gross debt by year-end 2006
- Since year-end 2004, repaid $1.3 billion debt

# Strategic Goals

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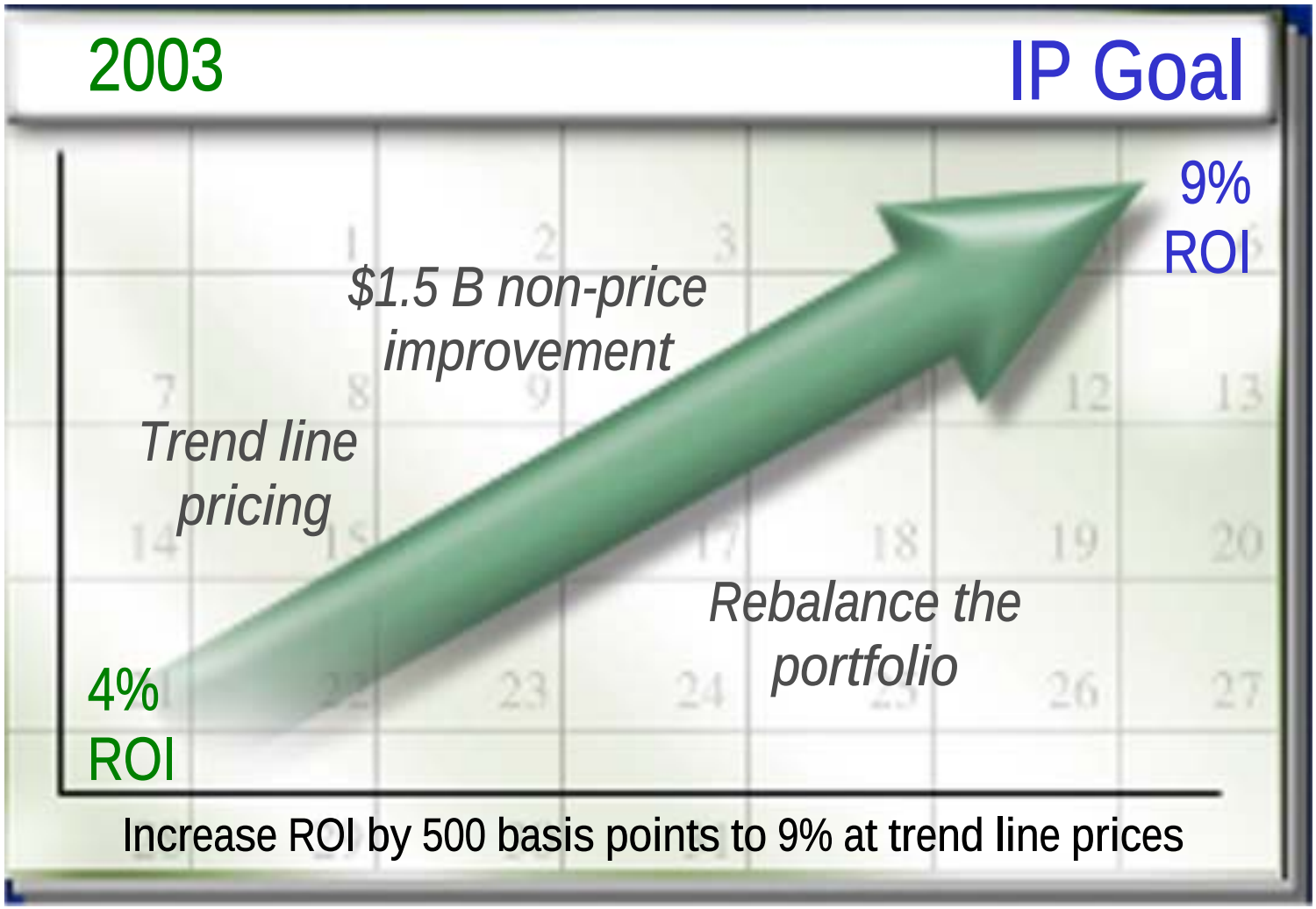
***Achieve ROI target***

***Rebalance portfolio***

***Expand in emerging markets***

# Achieve ROI Target: To Be Among BEST Industrials

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# Rebalance the Portfolio

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- **Divest non-strategic assets**
- **Invest in best performing strategic businesses**
  - North America
  - Emerging economies
- **Expand in fast growing, low cost markets**
  - Eastern Europe
  - Latin America – focus on Brazil
  - Asia – focus on China

# Rebalancing the Portfolio

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## Exit

***Completed***

- CHH Tissue
- Minor European assets
- Weldwood Canada
- Maine/NH Timberlands

***Pending***

- Fine Papers
- Industrial Papers
- CHH Forests (25%)

## Invest

***Completed/Ongoing***

- Box USA
- E. Europe capex
- Eastover capex - UFS

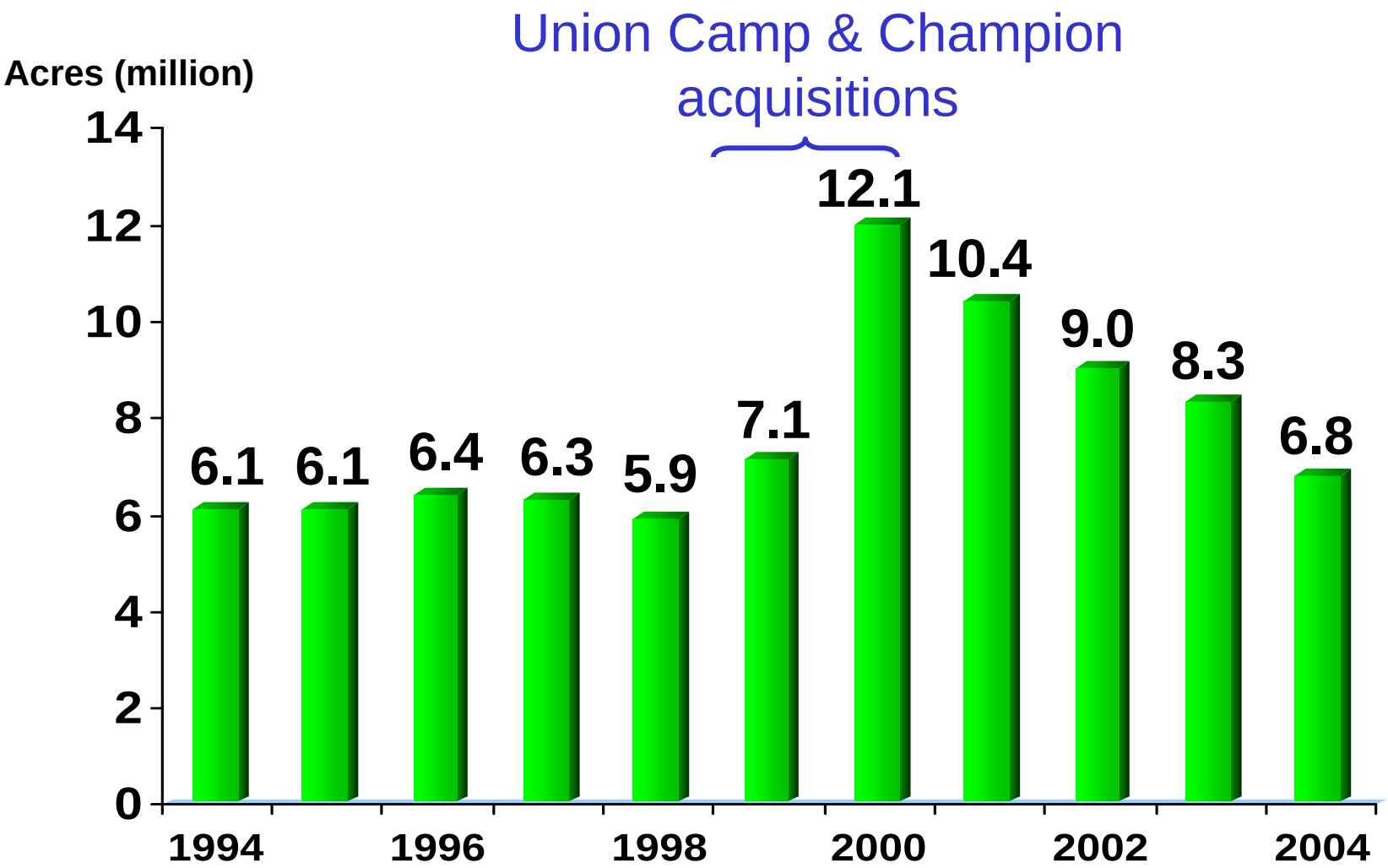
***Pending***

- Brazil pulp/paper mill

# Forest Products

## *U.S. forestlands*

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# Rebalancing the Portfolio

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## Exit

***Completed***

- CHH Tissue
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***Pending***

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## Invest

***Completed/Ongoing***

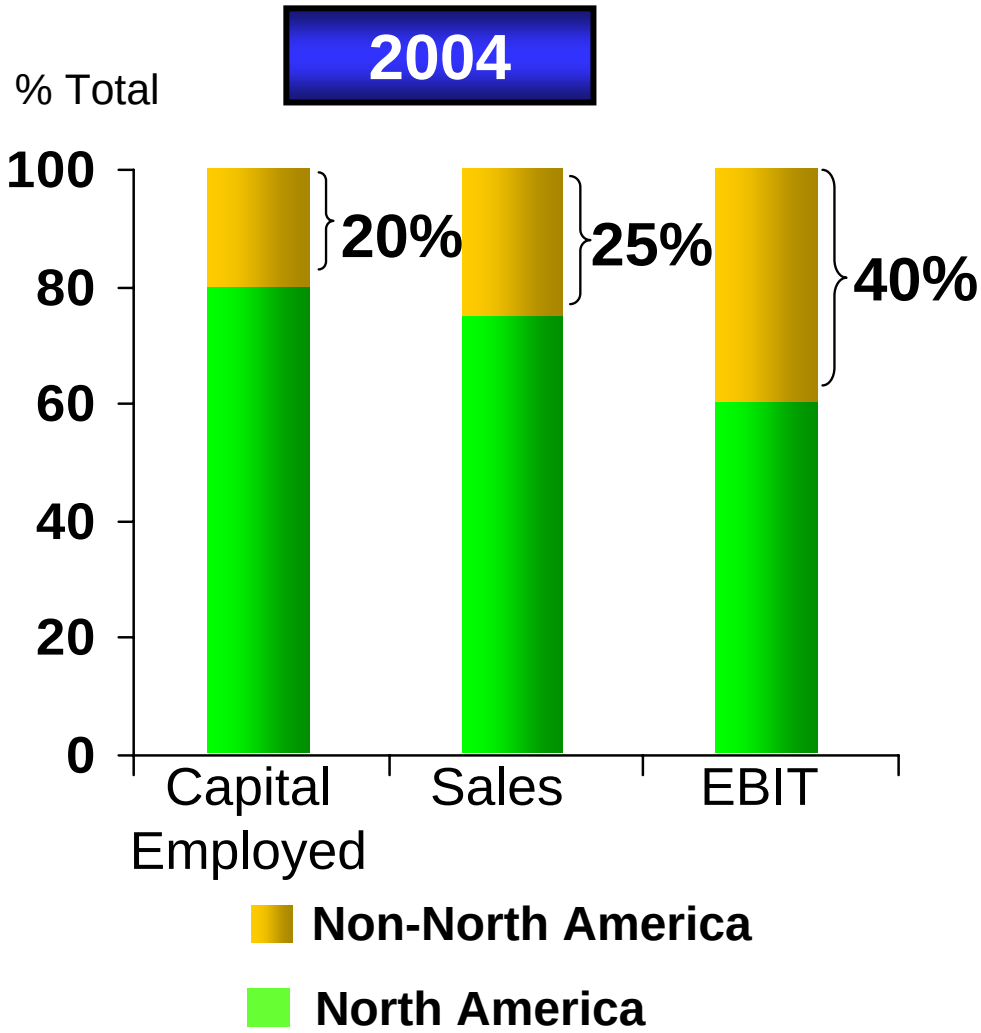
- Box USA
- E. Europe capex
- Eastover capex - UFS

***Pending***

- Brazil pulp/paper mill

# Expand Globally

*High returns and current expertise*




- Better than average margins
- Low cost
- Growth markets
- IP already there with proven track record & management
- Customers seek global partners
- Channel access established

# IP European Paper Mills



# Success in Russia

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## Svetogorsk, Russia



| | |
|---|---|
| Uncoated 300,000 tpy | Liquid Pkg. Board 100,000 tpy |

# Success in Russia

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# Success in Russia

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# Success in Russia

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# Success in Russia

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# Success in Russia

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## 1999



## Today



# Success in Russia

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## Tomorrow





+15,000 tpy liquid packaging board

+60,000 tpy uncoated paper

+200,000 tpy BCTMP pulp line

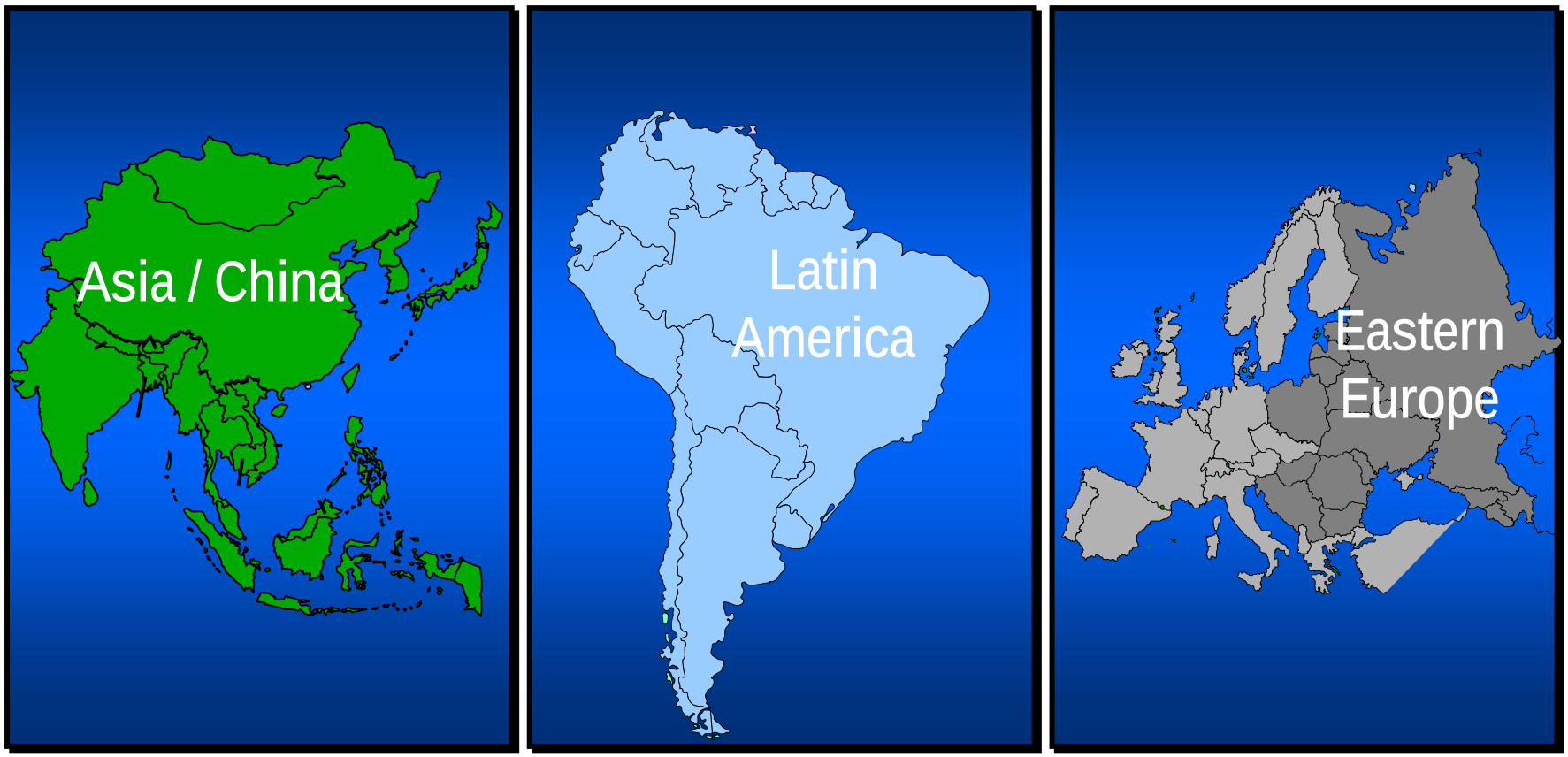
# Success in Russia



# High Return, Emerging Markets

*Current & future opportunities*

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# First Year Reflections as CEO

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- Think globally
- Maintain focus on customers
- Adapt to changing world
- Invest in best returns & businesses / make choices
- Execution is key
- Listen to shareowners

# IP into the Future



## Current Priorities

- Committed to increasing profitability & returns
- Focus on non-price improvement
- Narrow business focus

## Strategic Goals

- Profitably grow in emerging markets
- Increase value to shareholders


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# Appendix

# International Paper Profile

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***Global paper and forest products company***



***$26 billion in revenues***

***80,000 employees worldwide***

***Focused on three core businesses***



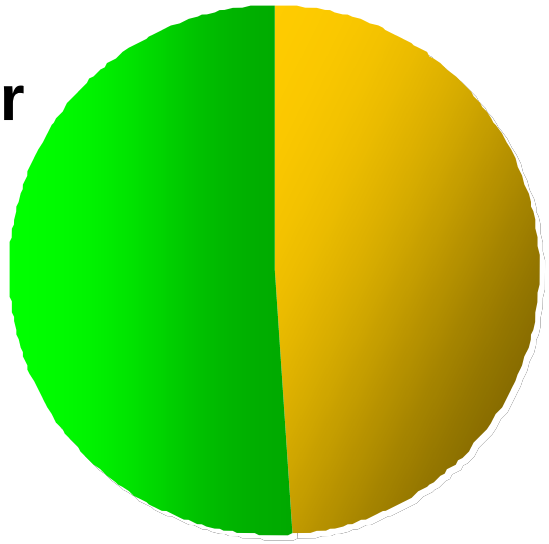
***Operations in over 40 countries and selling products in more than 120 nations***

# Focus on Three Core Businesses

## *Paper*

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**Paper**



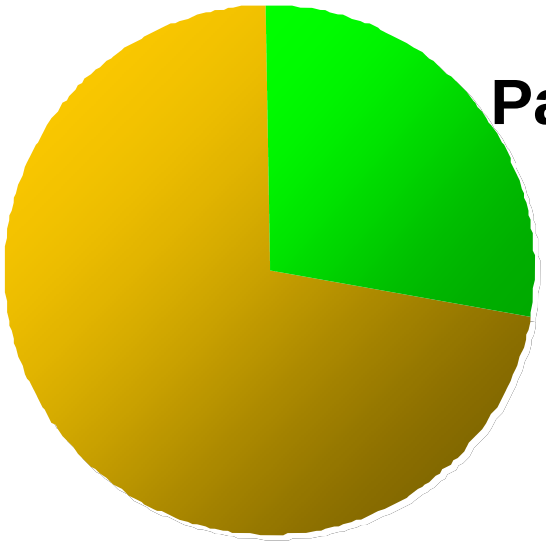
***51% of 2004 Revenue***




- 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***

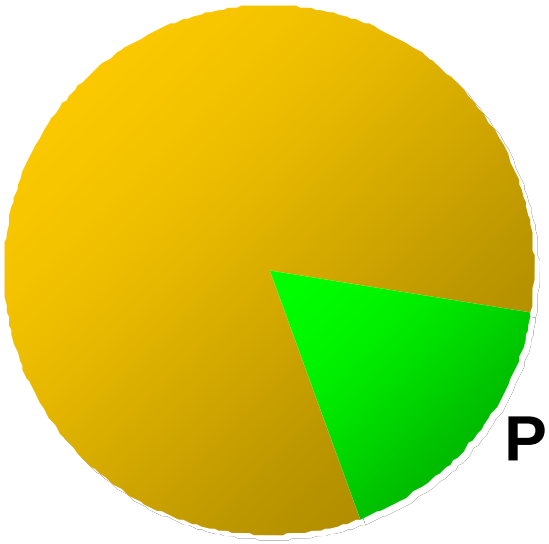



- Largest bleached board producer globally
- Number three containerboard position globally
- Strong corrugated box businesses in U.S. and Europe

# Focus on Three Core Businesses

## *Forest Products*

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**Forest Products**

***17% of 2004 Revenue***



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