

INTERNATIONAL PAPER

Transformation

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July 19, 2005

Presentation includes additional slides
from International Paper's
second quarter 2005 earnings
conference call on July 26, 2005

Forward-Looking Statements

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These slides contain forward-looking statements. Such statements reflect management's current views and are subject to risks and uncertainties that could cause actual results to differ materially, including but not limited to, the ability of the company to accomplish its transformation plan and to realize anticipated cost savings, the demand and pricing 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, changes in energy costs, unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations, performance of the company's manufacturing operations, results of legal proceedings, changes related to international economic conditions, specifically in Brazil, Russia and China, changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Euro, 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.

Transformation



Significantly improve profitability

Improve the balance sheet

Return value to shareowners

Focused Global Paper and Packaging Company

Transformation Plan Overview

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Key Platform Businesses

Uncoated Papers, Global

Packaging, Global

Improve Profitability

Improvement initiatives

Reduce cost base of transformed company

Realign U.S. mills

Selected Assets to Evaluate

50.5% stake in Carter Holt Harvey

Coated Papers

Beverage Pkg.

Kraft Papers

Arizona Chemical

U.S. Forestlands - (selected)

Wood Products

Priorities for Use of Proceeds

Maintain investment grade credit rating – repay debt

Return value to shareowners

Consider selective investments in best assets / new opportunities

IP Today

Diversified Paper & Forest Products Company

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Paper

51% of 2004 Revenue

Uncoated Papers
- Uncoated free sheet
- Bristols

xpedx
- Distribution

Market Pulp

Coated Papers
- Coated groundwood
- Coated free sheet

Packaging

28% of 2004 Revenue

Industrial Packaging
- Containerboard
- Corrugated boxes
- Kraft paper

Consumer Packaging
- Coated board
- Beverage pkg.
- Shorewood
- Foodservice

Forest Products

21% of 2004 Revenue

Forest Resources
- Tree farming

Wood Products
- Lumber
- Plywood

Carter Holt Harvey
- Forest products

Arizona Chemical

The Case for Transformation

- **The world and our business has changed and IP's strategy has changed with it**
- **Will not wait for the market cycle to improve – must take new steps now**

Transformation Plan

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Today

Diversified N. American Paper and Forest Products Company

Narrow IP's focus to key platform businesses

Improve profitability of key platform businesses

Pursue options for selected assets

Future

Focused Global Paper and Packaging Company

- ***Improved balance sheet***
- ***Returning value to shareowners***
- ***Earning cost of capital returns***

Transformation Plan Overview

Key platform businesses

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Uncoated Papers

IP's distinct market advantages

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- **Low cost producers can earn cost of capital returns**
- **Best ROS in industry segment - U.S., Europe and Brazil**
- **Significant potential**
  - **Cost improvement in U.S.**
  - **Demand growth in E. Europe, Latin America and Asia**
- **IP is the largest, best positioned global producer with distinct market advantages**
  - **Superior access to markets**
  - **Strong positions with global customers**
  - **Product development opportunities**
  - **Supply chain efficiencies**

Uncoated Papers

Leader in uncoated paper

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W. Europe
3 mills
600,000 tpy

E. Europe
2 mills
700,000 tpy

U.S.
8 mills
4.8 MM tpy









Brazil
1 mill
500,000 tpy

△ Uncoated papers mill

*2004 Results**

- $5.8 B revenue
- 14 paper mills
  - 6.6 MM tpy

** Includes Market Pulp revenues ($660MM) but excludes Fine Papers ($165MM)*

Distribution - xpedx

Key channel to market for paper & packaging

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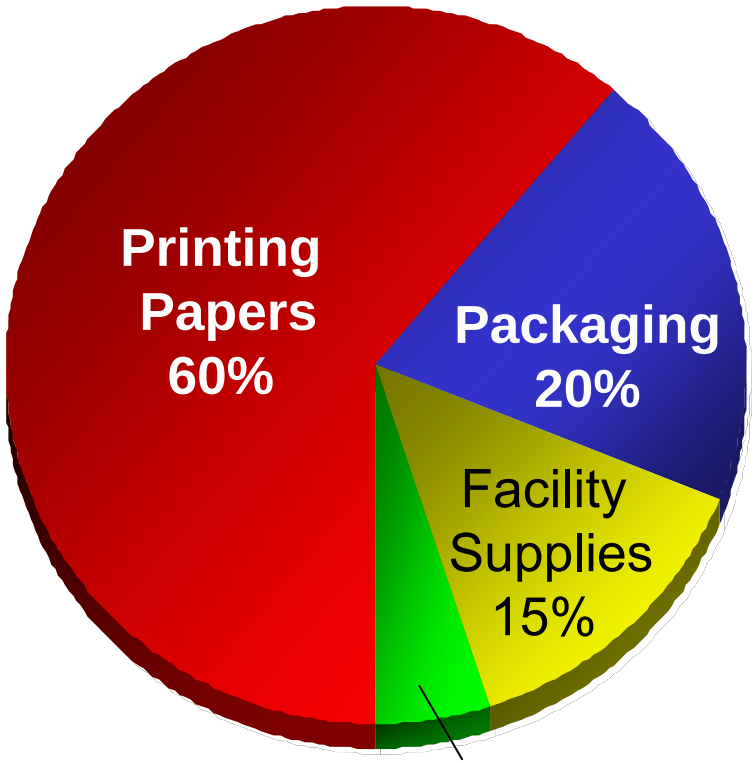
#1 North American merchant with synergy and supply chain opportunities with IP's paper and packaging segments



xpedx 2004 sales revenue by category

- xpedx represents
  - 35% of IP's total merchant sales
  - 15% of IP's total uncoated paper sales

Packaging

Global platform in packaging

- **Strong U.S. industrial packaging and European corrugated box businesses**
- **A top global producer of coated board**
- **Global packaging customers**

U.S. Industrial Packaging

Strong businesses

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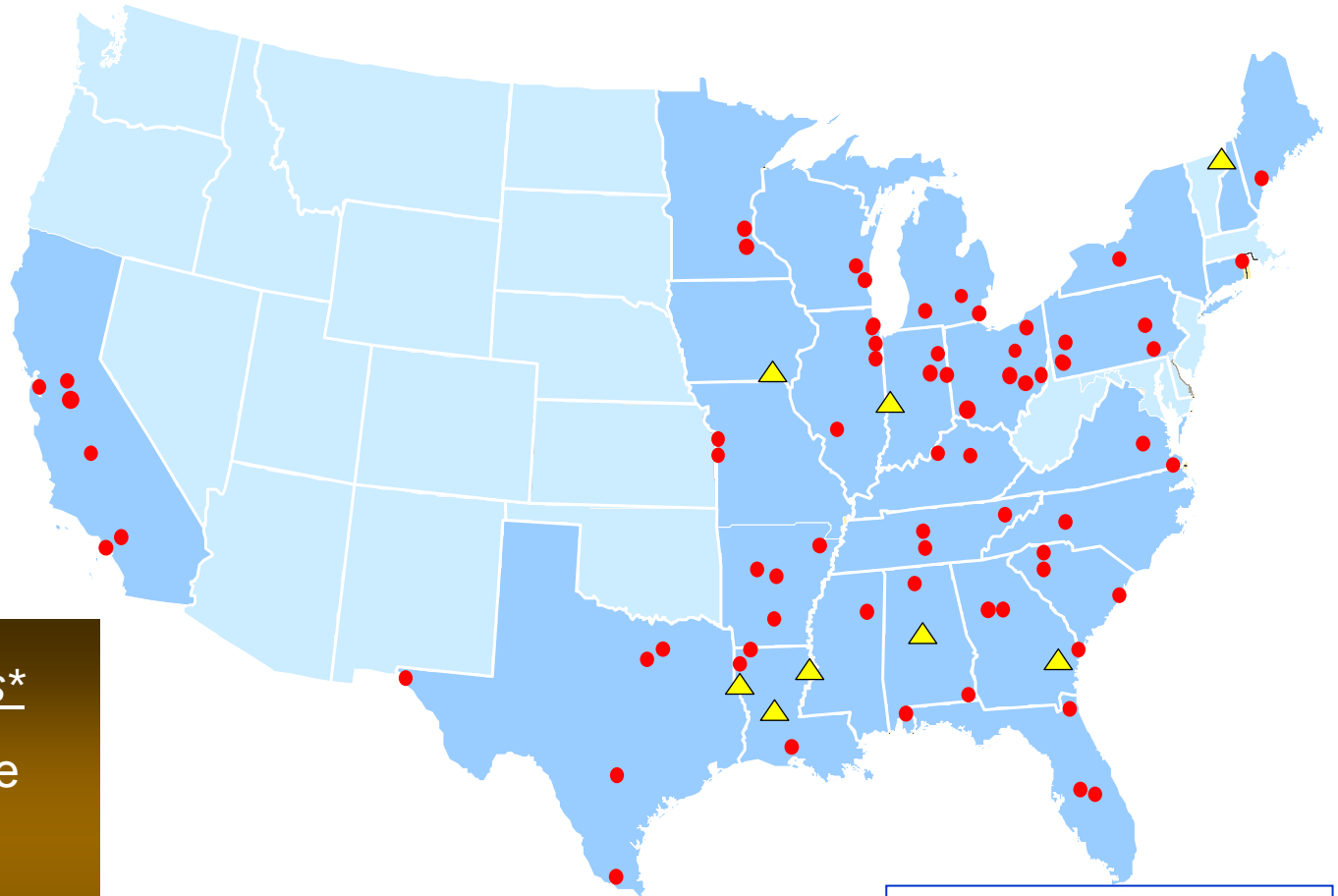


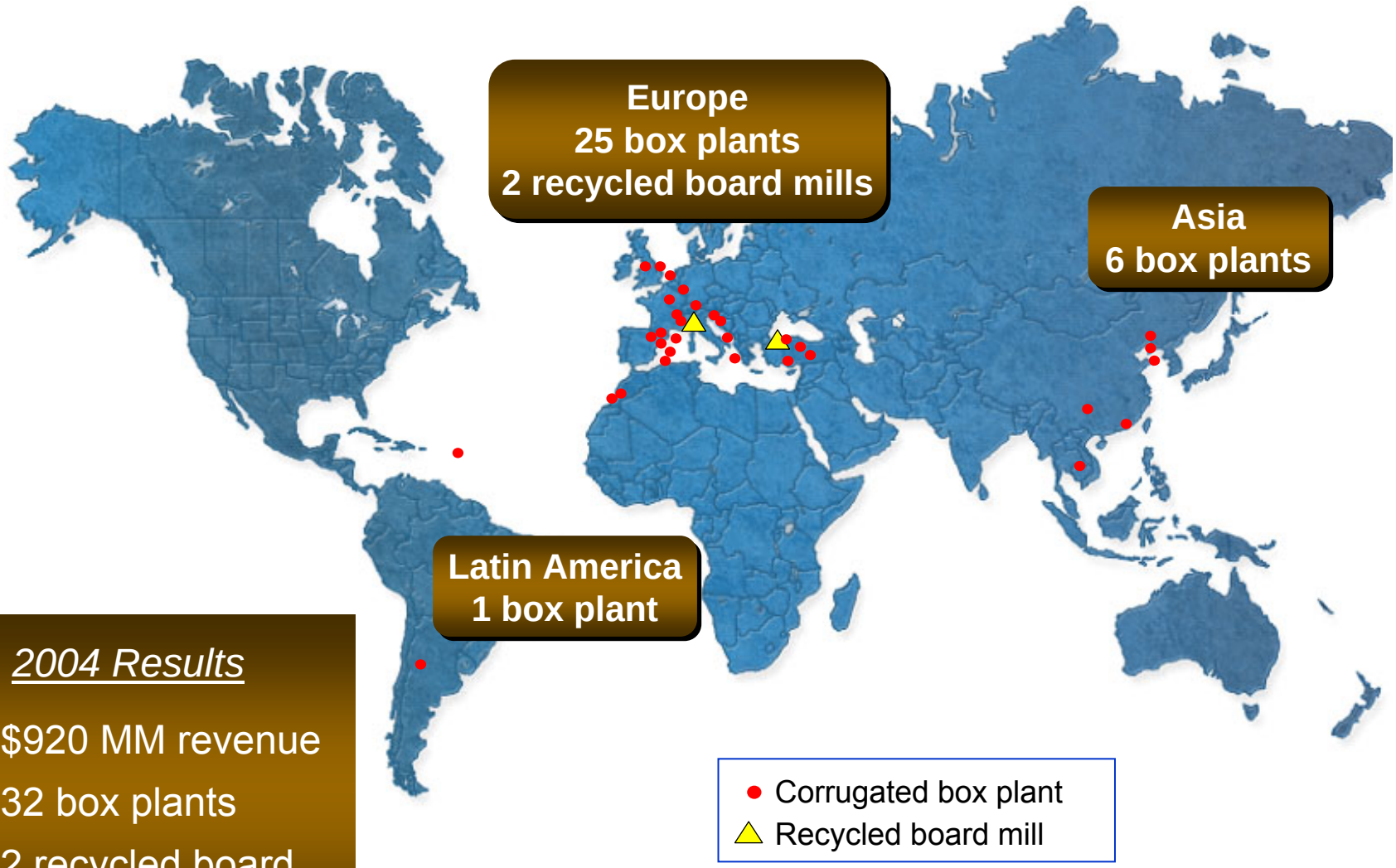
*2004 Results**

- $3.3 B revenue
- 70 box plants
- 8 board mills
  - 4.6 MM tpy

** Excludes Specialty Papers revenues ($680MM)*

International Container

Strong business



2004 Results

- $920 MM revenue
- 32 box plants
- 2 recycled board mills

Consumer Packaging

Global customers & differentiated products

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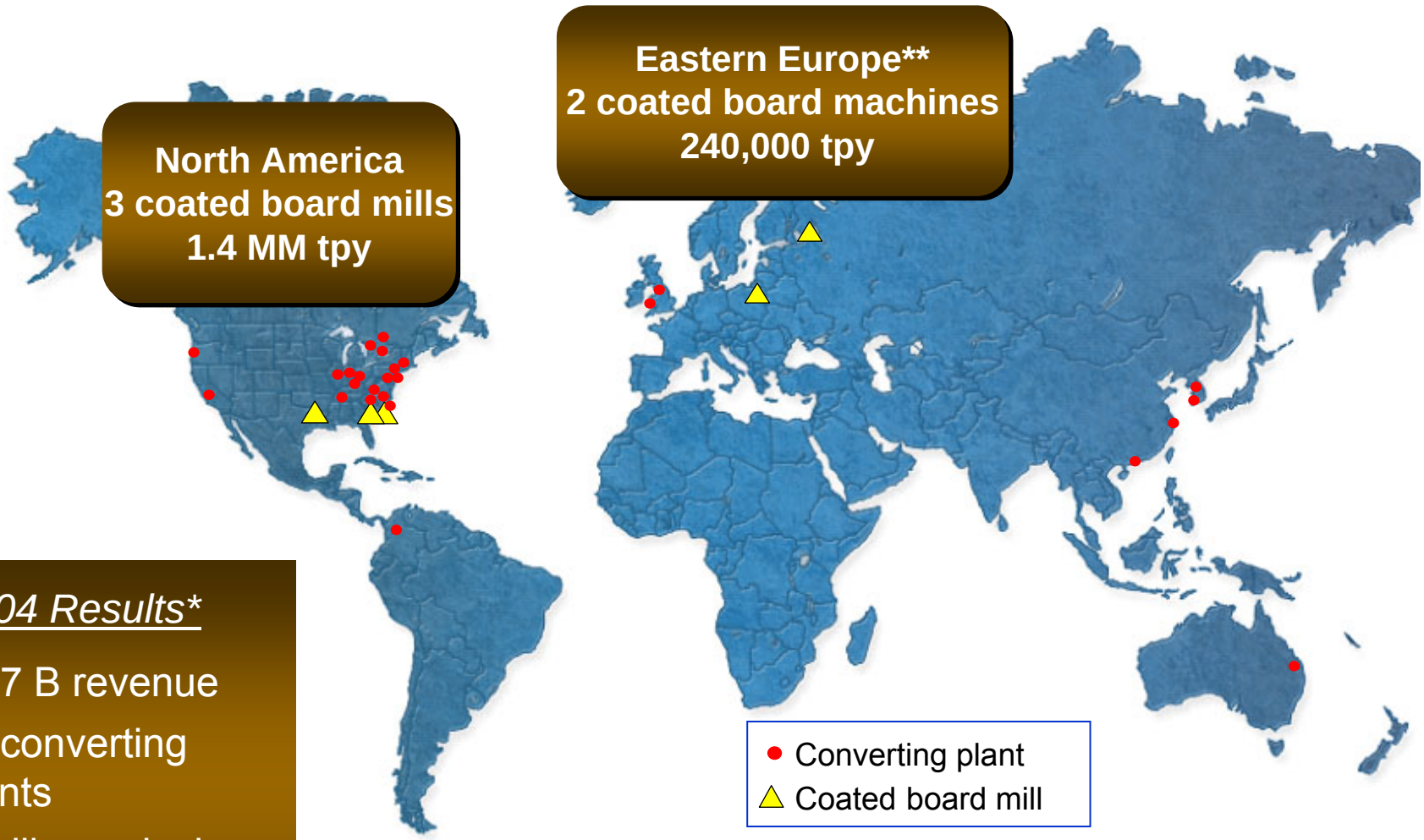

*2004 Results**

- $1.7 B revenue
- 27 converting plants
- 5 mills producing coated board
  - 1.6 MM tpy

** Excludes Beverage Packaging plants and business revenues ($600MM).*
*** E. European coated board revenues included in Uncoated Papers segment.*

Transformation Plan Overview

Improve profitability

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Key Platform Businesses

Uncoated Papers, Global

Packaging, Global

Improve Profitability

Improvement initiatives

Reduce cost base of transformed company

Realign U.S. mills

Selected Assets to Evaluate

50.5% stake in Carter Holt Harvey

Coated Papers

Beverage Pkg.

Kraft Papers

Arizona Chemical

U.S. Forestlands - (selected)

Wood Products

Priorities for Use of Proceeds

Maintain investment grade credit rating – repay debt

Return value to shareowners

Consider selective investments in best assets / new opportunities

Improve Profitability

Initiatives

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- **Improvement initiatives on more focused asset base**
  - **Manufacturing excellence**
  - **Supply chain**
  - **Lower S&A**
  - **Mix improvements**
  - **Targeted customer segments (volume)**
  - **U.S. mill realignment**
- **Targeting $400 MM average annual savings**
  - **Assumes no change in input costs from current levels**

Improve Profitability

Realign U.S. mill system

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- **Improve profitability of U.S. mill system without increasing capacity**

Next Steps

- Transform high cost uncoated paper mill into low cost linerboard mill (Pensacola, FL)
- Close 1 small medium mill (Ft. Madison, IA)

Evaluate Options

- Downsize 1 small uncoated paper mill (Bastrop, LA)
- Close / sell 2 small medium mills (Terre Haute, IN & Groveton, NH)
- Close 1 small linerboard mill (Pineville, LA)
- Selective investments in low cost uncoated paper and containerboard mills

Improve Profitability

Realign U.S. mill system - Uncoated Papers

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- **Rationalized 1 million tons of uncoated paper capacity 2000-2003**
- **Indefinitely shut three uncoated paper machines removing 430K tpy of capacity in 1H'05**

Next Steps

- **Convert Pensacola, FL mill to linerboard removing 350K tpy of uncoated paper capacity in 2006/2007**

Evaluate Options

- **Downsize Bastrop, LA mill removing up to 300K tpy of uncoated paper capacity**
- **Consider selective investment in low cost uncoated paper mills**

Improve Profitability

Realign U.S. mill system - Uncoated Papers

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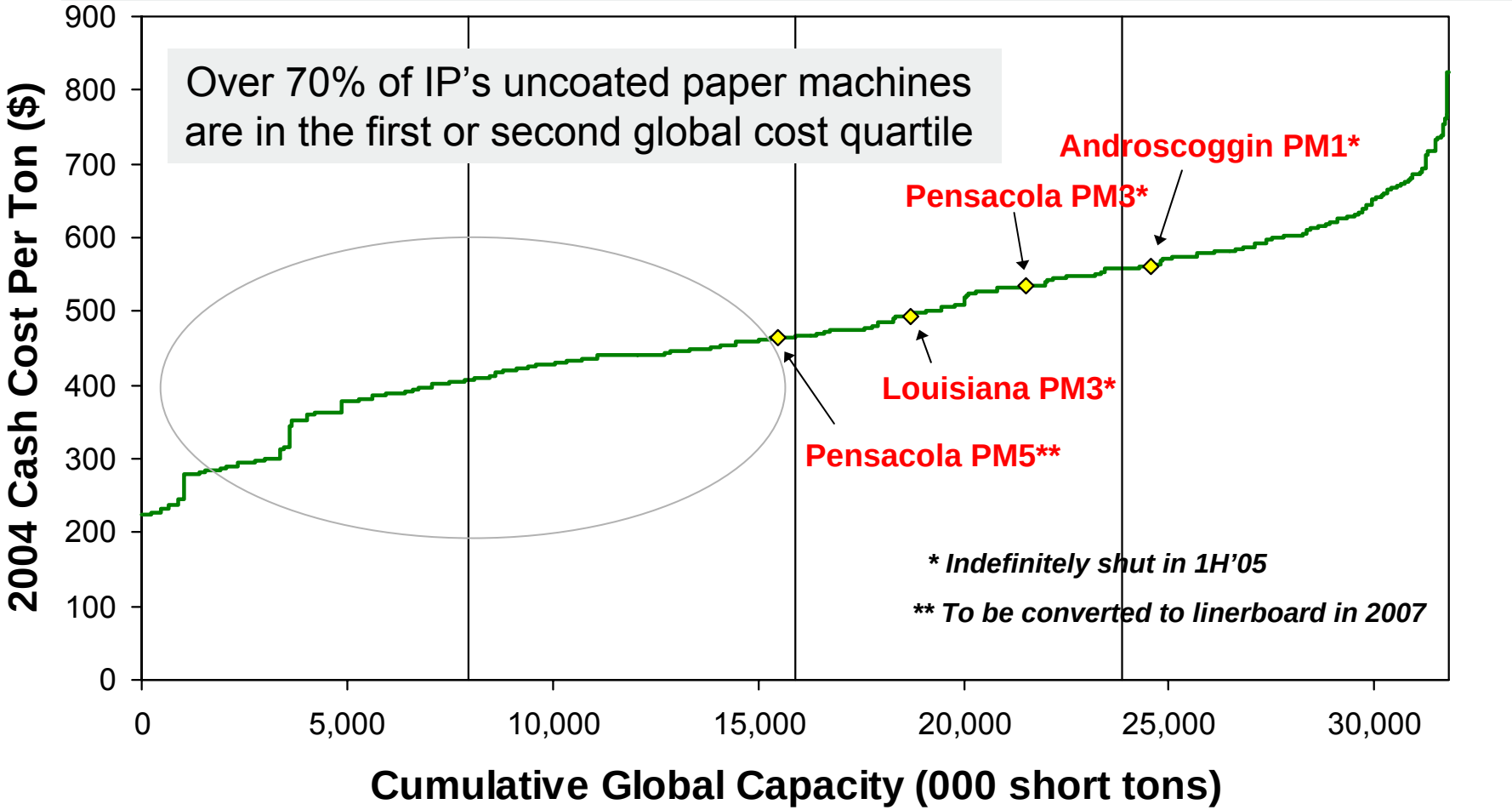
Improving IP's uncoated paper machines position on global cost curve



Data from Jaakko Poyry CostTrac Model and IP Data for 4Q 2004

Improve Profitability

Realign U.S. mill system - Containerboard

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Next Steps

- **Convert Pensacola, FL mill to lightweight linerboard adding 500K tpy of high-value capacity in 2006/2007**
- **Close 100K tpy of medium capacity at Ft. Madison, Iowa**

Evaluate Options

- **Close Pineville, LA mill removing 400K tpy of linerboard capacity**
- **Close / Sell Terre Haute, IN and Groveton, NH medium mills (260K tpy)**
- **No net increase in capacity**

Improve Profitability

Realign U.S. mill system summary

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- **Targeted results of U.S. mill realignment:**
  - **Fewer, larger, lower-cost, more profitable mills**
  - **Lowest cost and able to run at full capacity**
  - **Mill system will be sized to match IP capacity to our customer demand**

Transformation Plan Overview

Selected assets to evaluate

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Key Platform Businesses

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Selected Assets to Evaluate

50.5% stake in Carter Holt Harvey

Coated Papers

Beverage Pkg.

Kraft Papers

Arizona Chemical

U.S. Forestlands - (selected)

Wood Products

Priorities for Use of Proceeds

Maintain investment grade credit rating – repay debt

Return value to shareowners

Consider selective investments in best assets / new opportunities

Focus on Uncoated Papers & Packaging

Pursue strategic options – Carter Holt Harvey

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50.5% stake in Carter Holt Harvey

2004 Results

- $2.2 B revenue
- 4 paper mills
  - 1.1 MM tpy of linerboard & pulp
- 29 wood products plants
- 785,000 acres
- $100 MM op. profit
- $210 MM D&A
- $3.3 B capital employed



Carter Holt Harvey is Australasia's leading forest products company, with significant interests in wood products, pulp, paper and packaging, supported by forests

Focus on Uncoated Papers & Packaging

Pursue strategic options – Coated & SC Paper

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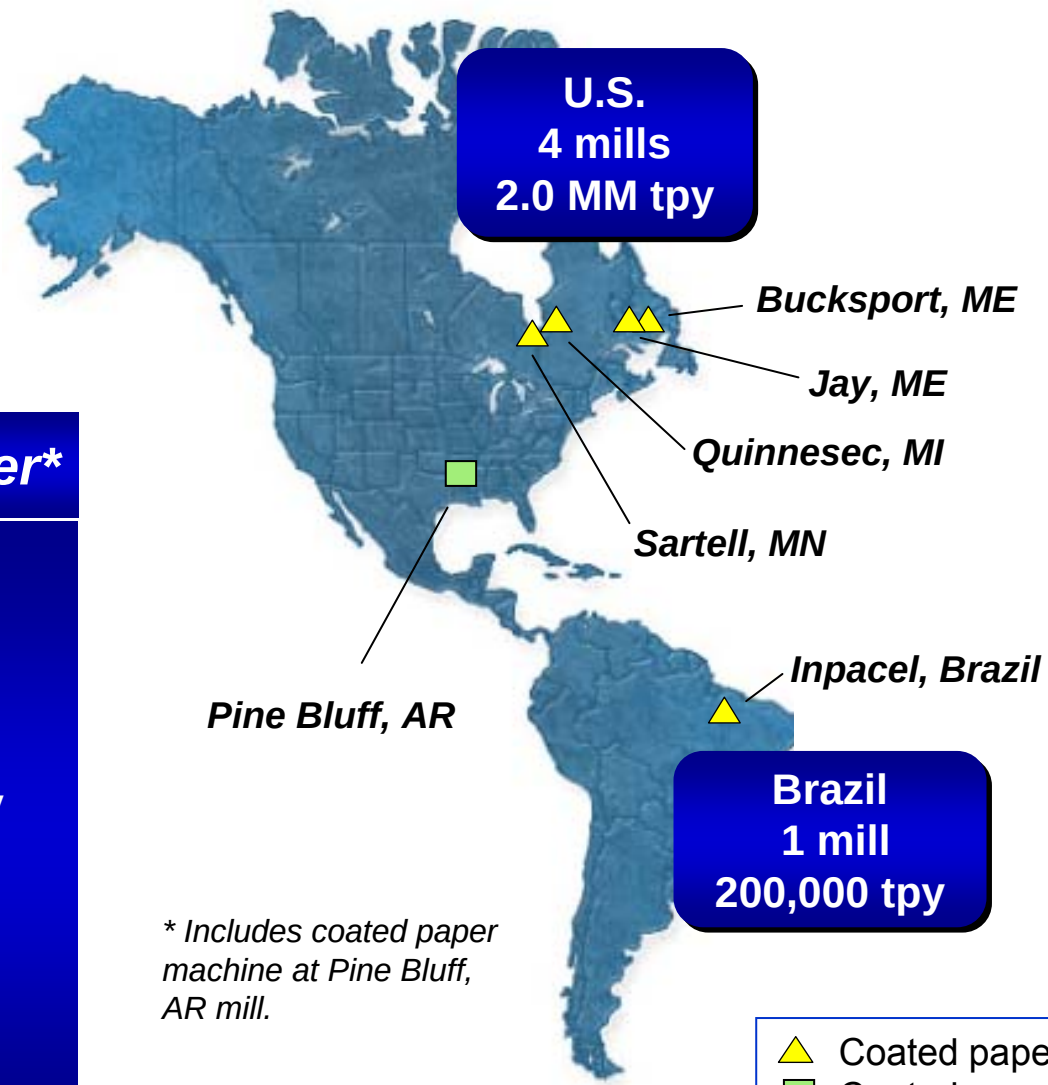
*Coated & SC Paper**

2004 Results

- $1.6 B revenue
- 5 coated paper mills - 2.2 MM tpy
- $5 MM op. profit
- $140 MM D&A
- $3.0 B capital employed



** Includes coated paper machine at Pine Bluff, AR mill.*

Focus on Uncoated Papers & Packaging

Pursue strategic options – Beverage Pkg.

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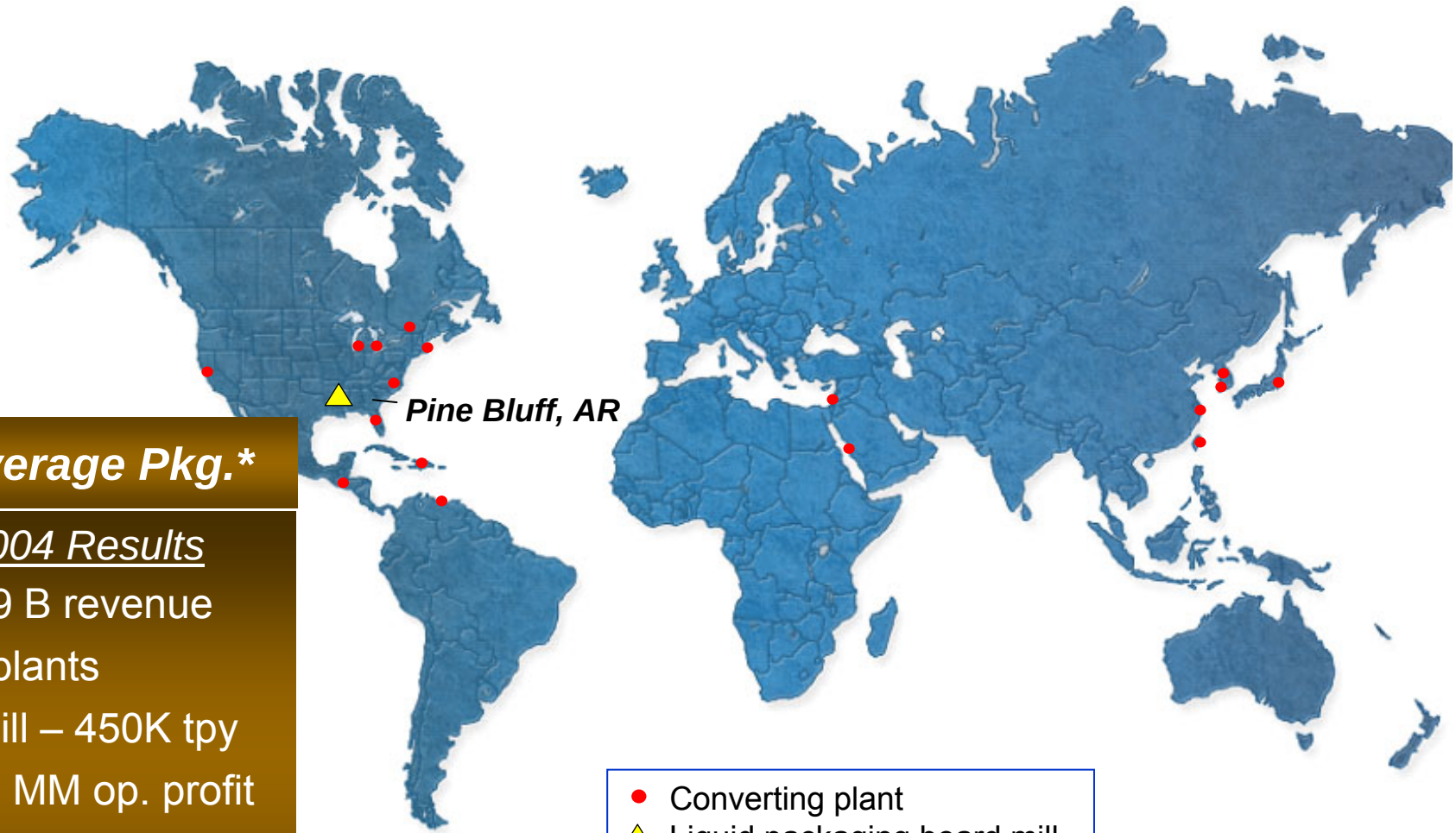

*Beverage Pkg.**

2004 Results

- $0.9 B revenue
- 17 plants
- 1 mill – 450K tpy
- $40 MM op. profit
- $35 MM D&A
- $480 MM capital employed

** Includes Pine Bluff, AR liquid packaging board mill*

Focus on Uncoated Papers & Packaging

Pursue strategic options – Kraft Papers

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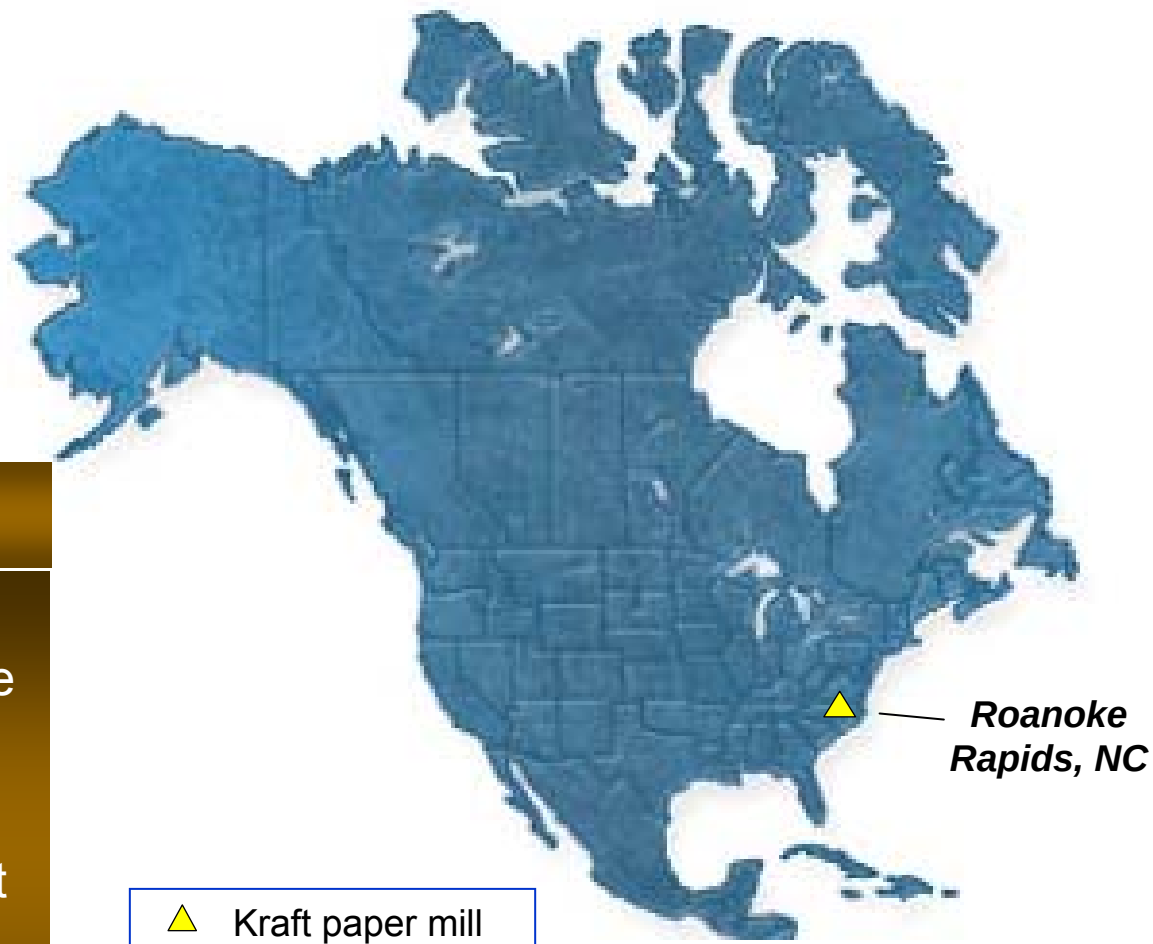
*Kraft Papers**

2004 Results

- $160 MM revenue
- 1 mill – 400K tpy Kraft paper
- ($5) MM op. profit
- $17 MM D&A
- $240 MM capital employed



* *Includes Roanoke Rapids Kraft paper mill.*

Focus on Uncoated Papers & Packaging

Pursue strategic options – Arizona Chemical

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Arizona Chemical

2004 Results

- $0.7 B revenue
- 12 plants
- $40 MM op. profit
- $25 D&A
- $320 MM capital employed

Focus on Uncoated Papers & Packaging

Pursue strategic options – Forest Products

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Forest Resources

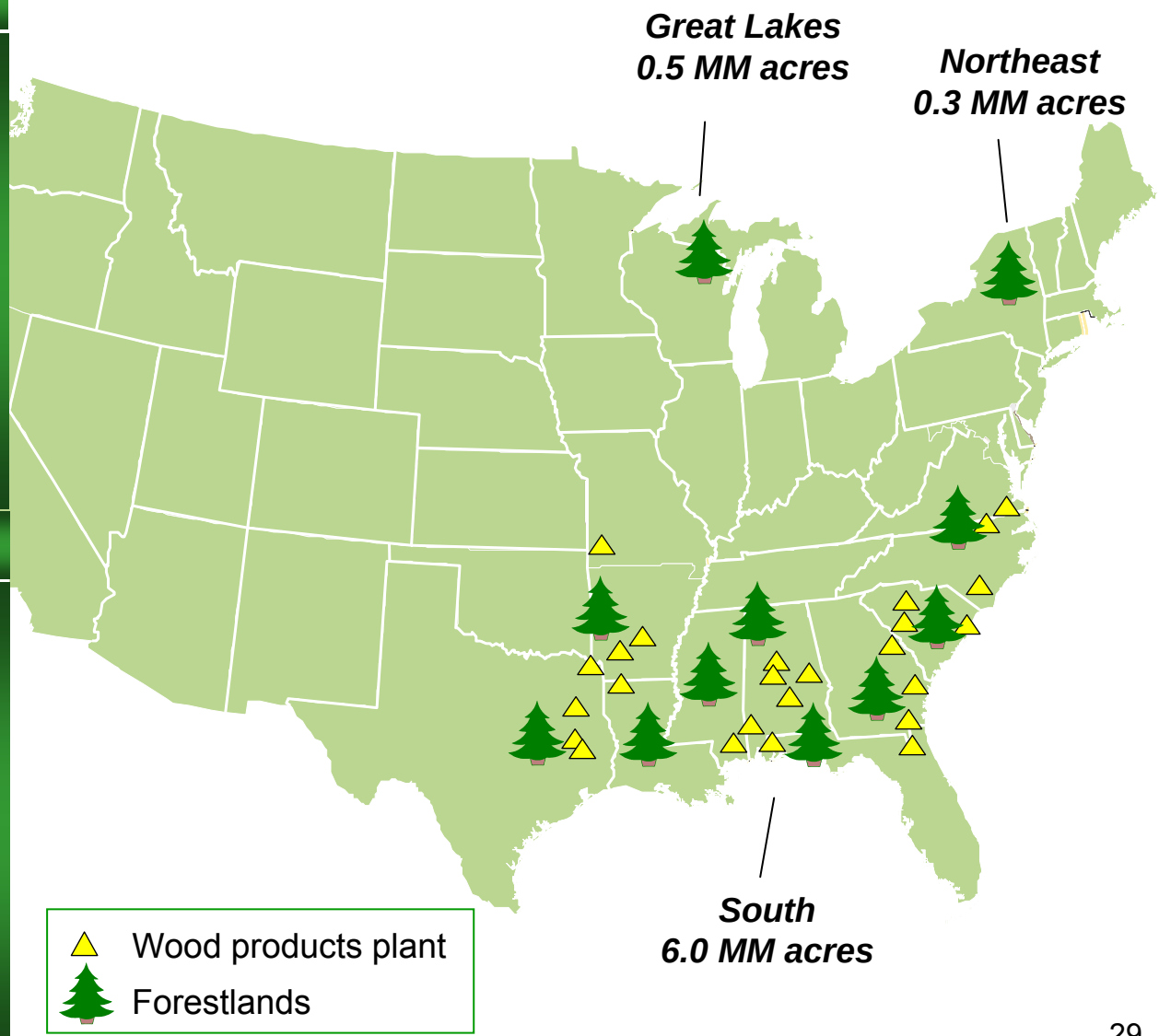
2004 Results

- $0.9 B revenue
- 6.8 MM acres
- $540 MM op. profit
- $60 MM COTH
- $2.5 B capital employed

Wood Products

2004 Results

- $1.5 B revenue
- 25 plants
- $250 MM op. profit
- $50 MM D&A
- $0.8 B capital employed



Focus on Uncoated Papers & Packaging

Pursue strategic options for selected assets

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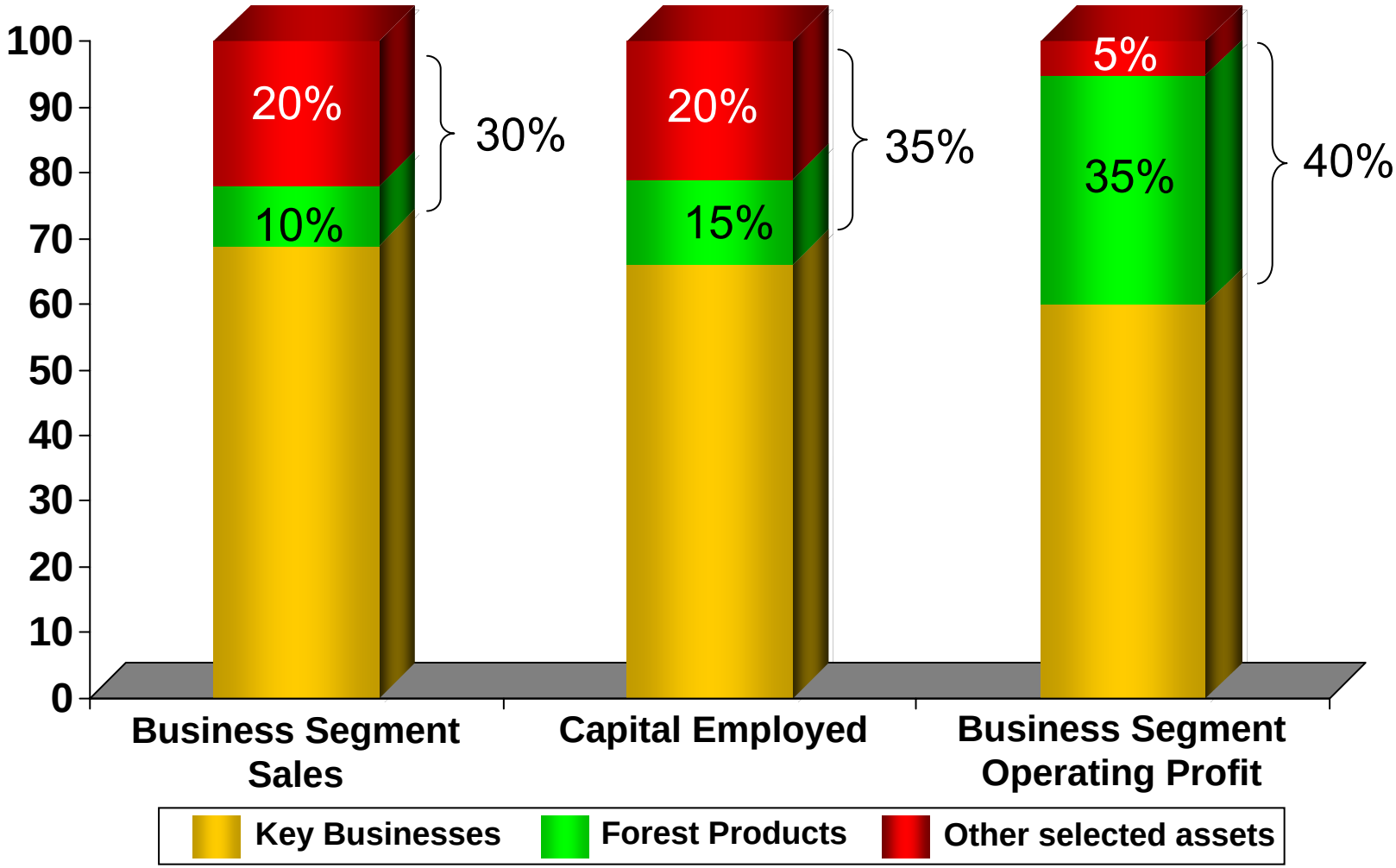
Selected assets contribution to 2004 results



Transformation Plan Overview

Priorities for use of proceeds

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Key Platform Businesses

Uncoated Papers, Global

Packaging, Global

Improve Profitability

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Reduce cost base of transformed company

Realign U.S. mills

Selected Assets to Evaluate

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Beverage Pkg.

Kraft Papers

Arizona Chemical

U.S. Forestlands - (selected)

Wood Products

Priorities for Use of Proceeds

Maintain investment grade credit rating – repay debt

Return value to shareowners

Consider selective investments in best assets / new opportunities

Priorities for Use of Proceeds

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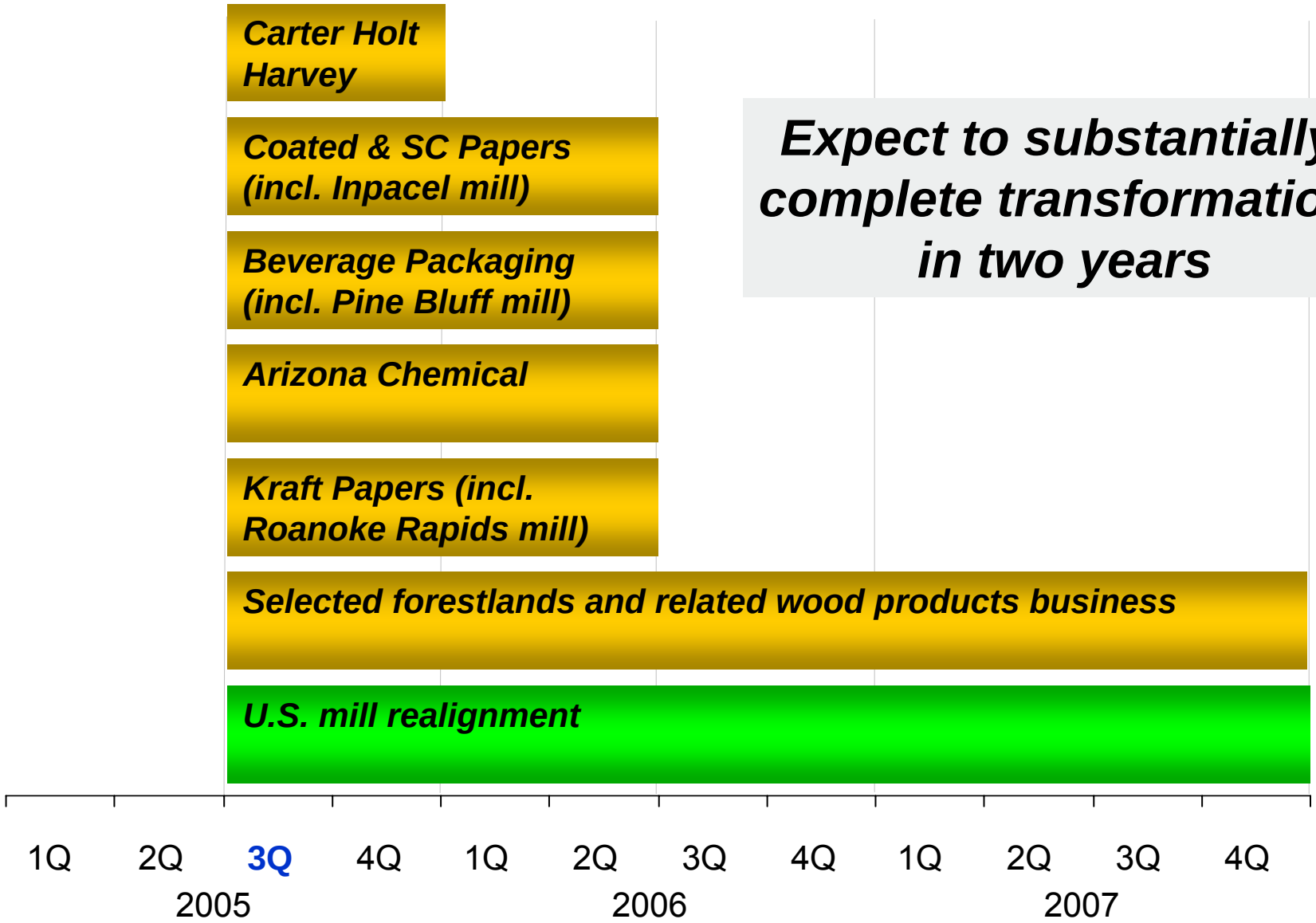
- **Asset sales after-tax proceeds are anticipated to be in the range of $8-10 B, depending on the mix of businesses sold or spun off**
- **Priorities for use of asset sales proceeds:**
  1. **Maintain investment grade credit rating – repay debt beyond target of $12 B (40-50%)**
  2. **Returning value to shareowners (25-30%)**
  3. **Selective reinvestment to be considered (20-25%)**

Transformation Timeline



Expect to substantially complete transformation in two years

IP Going Forward

- More focused
- Improved profitability
- Higher earnings per share
- Less debt
- Improved return on investment

Summary

- **Executing transformational portfolio choices**
- **Improving our key platform businesses**
- **Strengthening the balance sheet**
- **Returning value to shareowners**

Q & A

Supplemental Information

The following slides are from International Paper's second quarter 2005 earnings conference call presentation on July 26, 2005

Transformation Plan

Summary

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- **Focusing on 2 key platform businesses**
  - Uncoated Papers
  - Packaging
- **Evaluating strategic options for 7 businesses**
  - Carter Holt Harvey
  - Coated Papers
  - Beverage Packaging
  - Kraft Papers
  - Arizona Chemical
  - U.S. Forestlands (selected acreage)
  - Wood Products

Transformation Plan

Summary (cont'd)

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- **Use of after-tax proceeds ($8-10 billion)**
  - 40-50% - Debt repayment (maintain investment grade credit rating)
  - 25-30% - Return value to shareowners
  - 20-25% - Selective reinvestments
- **Improve profitability of key platform businesses**
  - **Targeting $400 million of profit improvement each year (i.e. $1.2 billion over a three-year period)**

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Profit improvement initiatives

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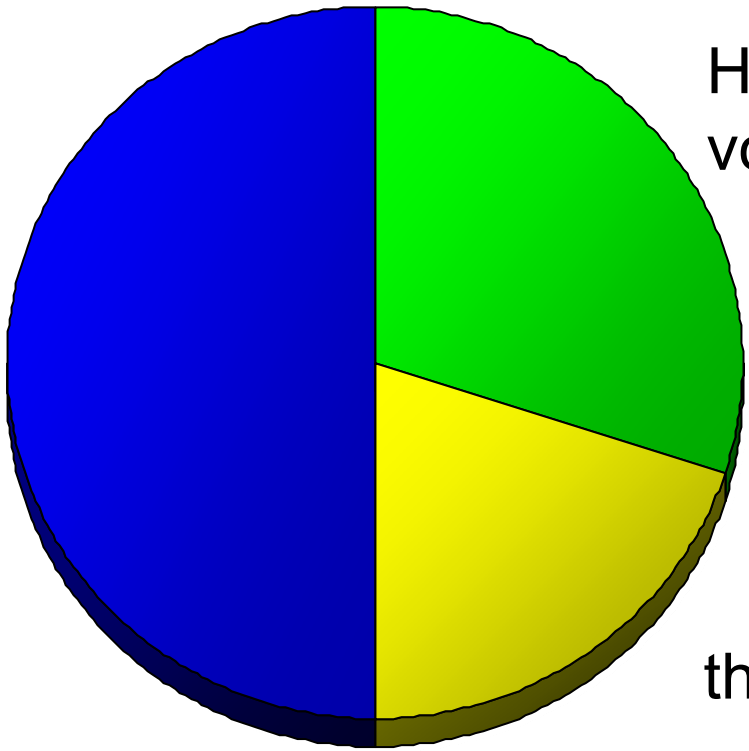
Targeting $400 million of annual profit improvement through three initiatives



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Strategic options for IP's forestlands

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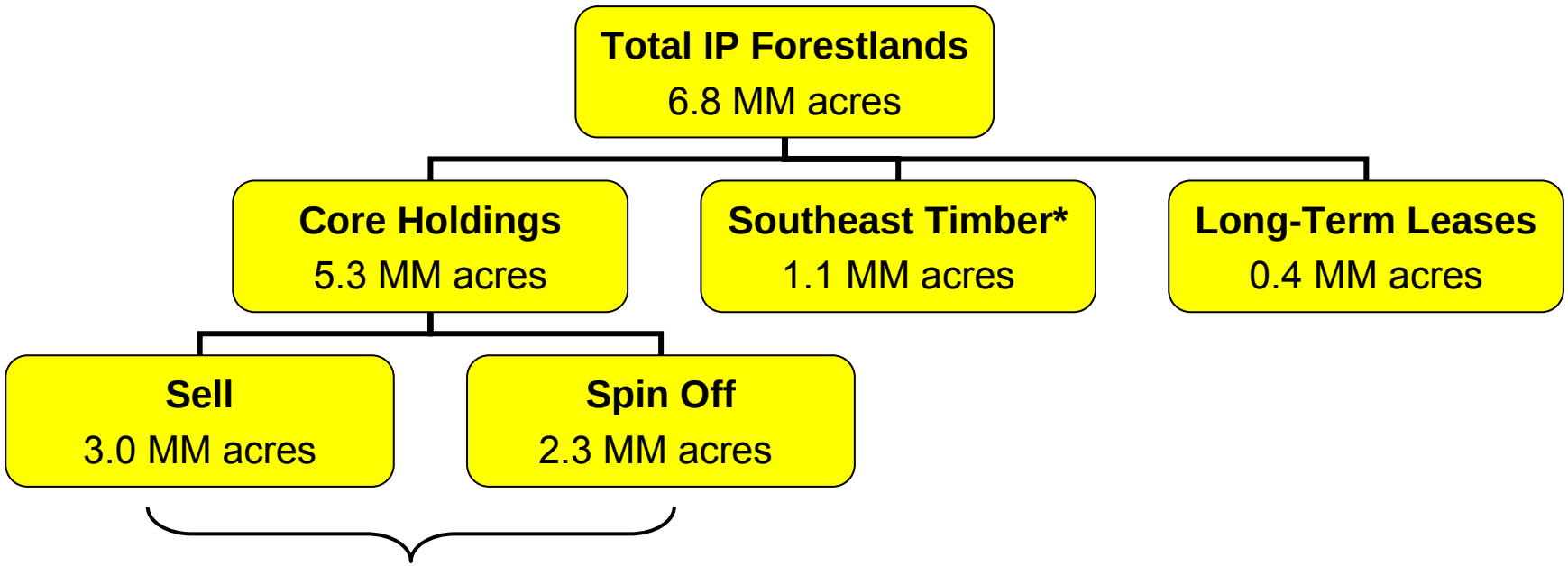
As part of the transformation plan, IP is pursuing strategic options for part or all of its U.S. forestlands



IP acreage included in estimated after-tax proceeds from selected assets valuation of $8-10 billion

* Southeast Timber is a consolidated subsidiary which sells IP forestlands in the U.S. South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