

INTERNATIONAL PAPER

Second Quarter 2005 Review

July 26, 2005

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Forward-Looking Statements

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These slides contain forward-looking statements. Such statements 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.

Statements Relating to Non-GAAP Financial Measures

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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 Investors.

Agenda

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- Second Quarter Review
- Third Quarter Outlook
- Transformation Plan Summary

Second Quarter 2005 Summary

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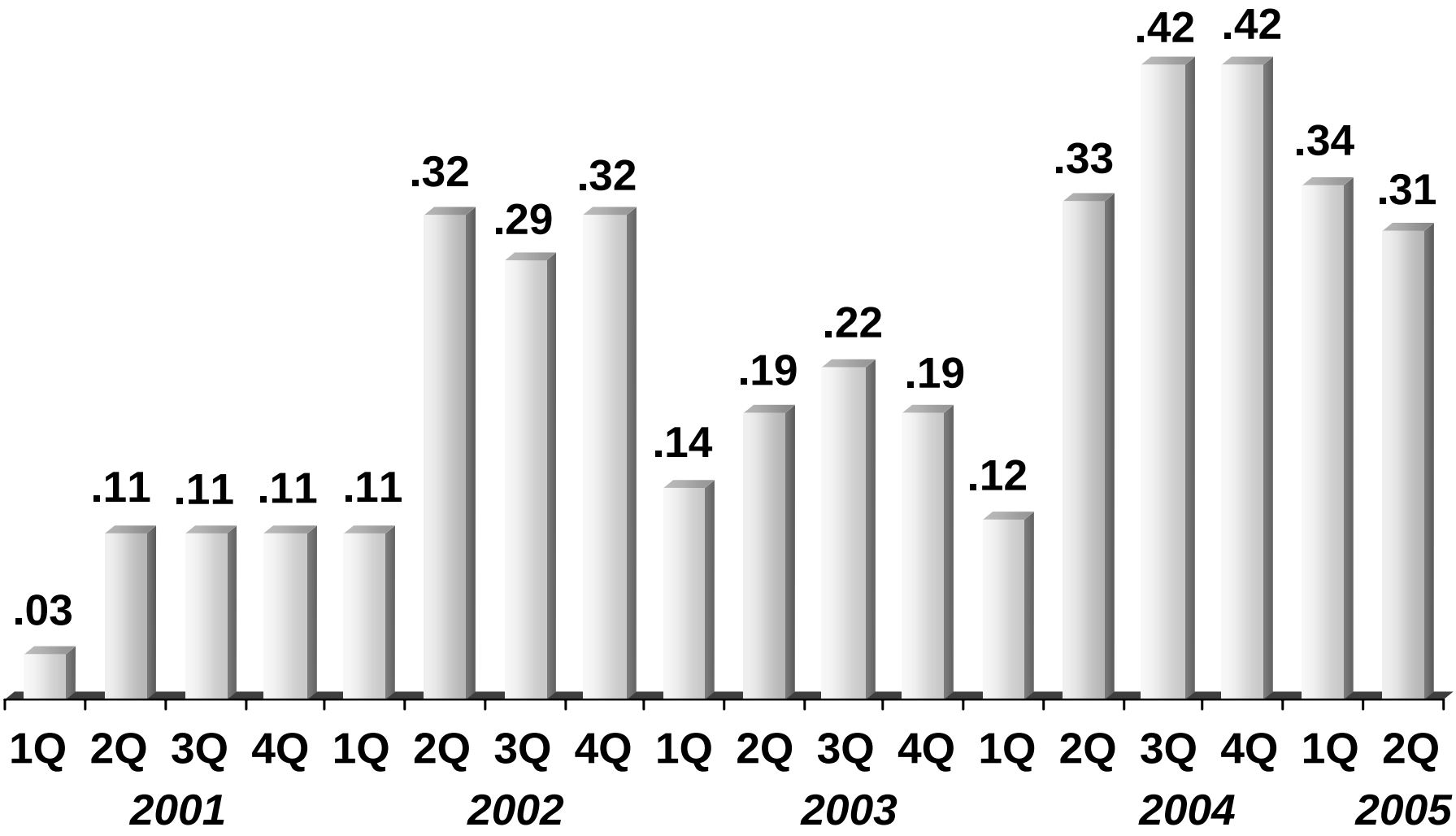
- Volumes down from first quarter
  - Balanced our supply with customer demand by taking downtime
- Continued to realize our announced price increases in coated and uncoated papers, and bleached board. Benefited from higher lumber prices
- Mill operations improved
- Raw material costs increased

Diluted EPS from Continuing Operations and Before Special Items*



** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investors*

2Q'05 vs. 1Q'05

EPS from cont. ops before special items

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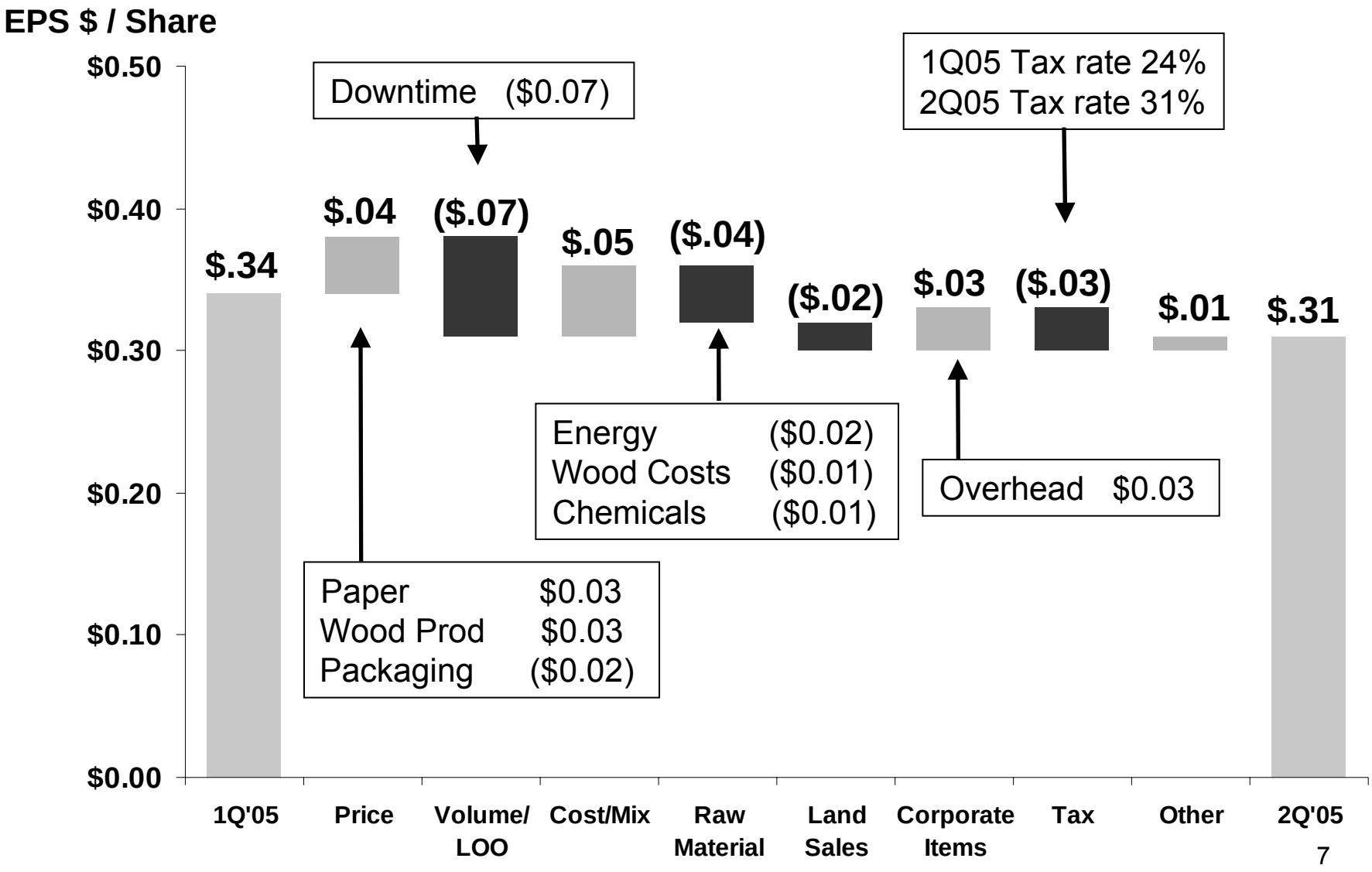

6M'05 vs. 6M'04

EPS from cont. ops before special items

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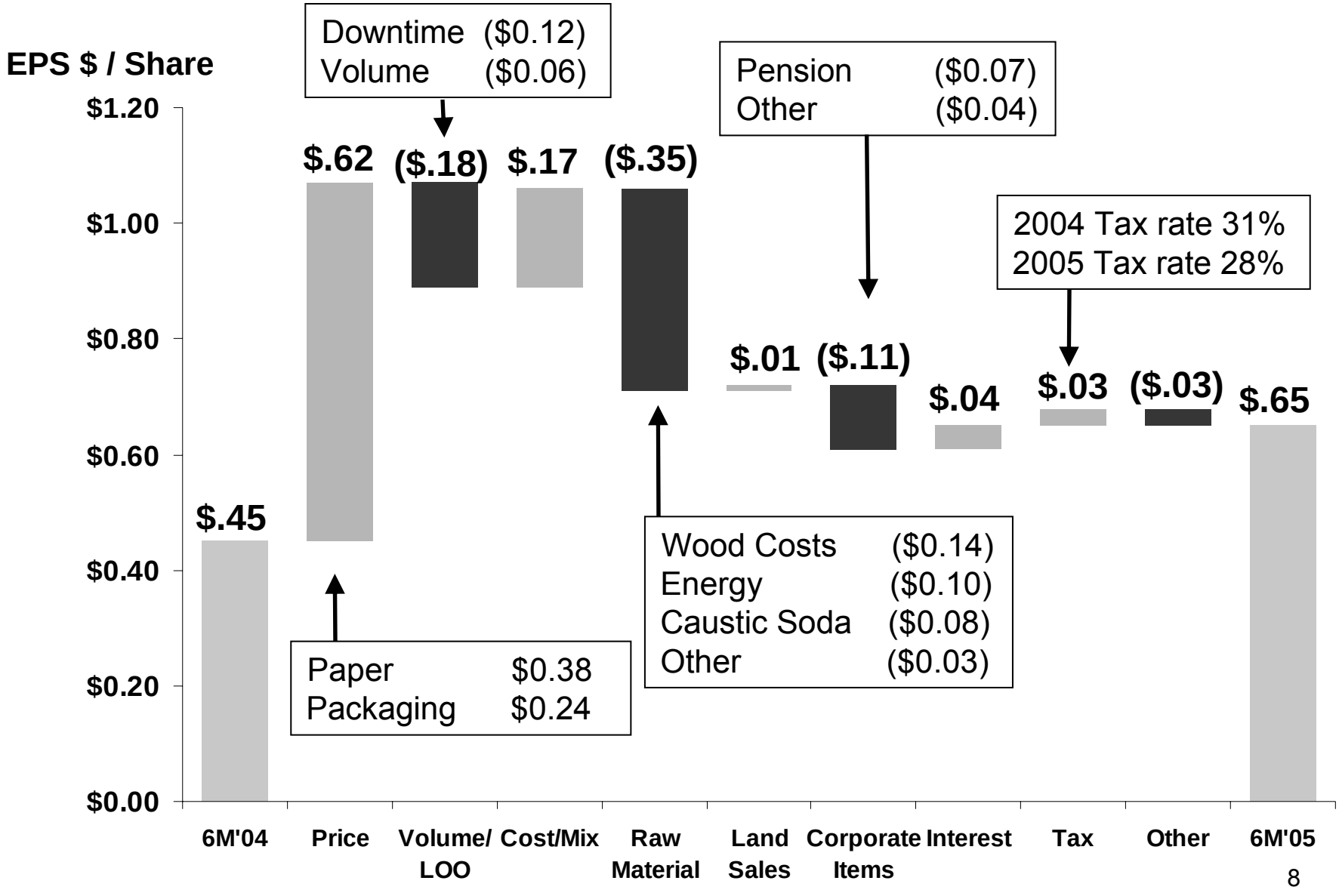
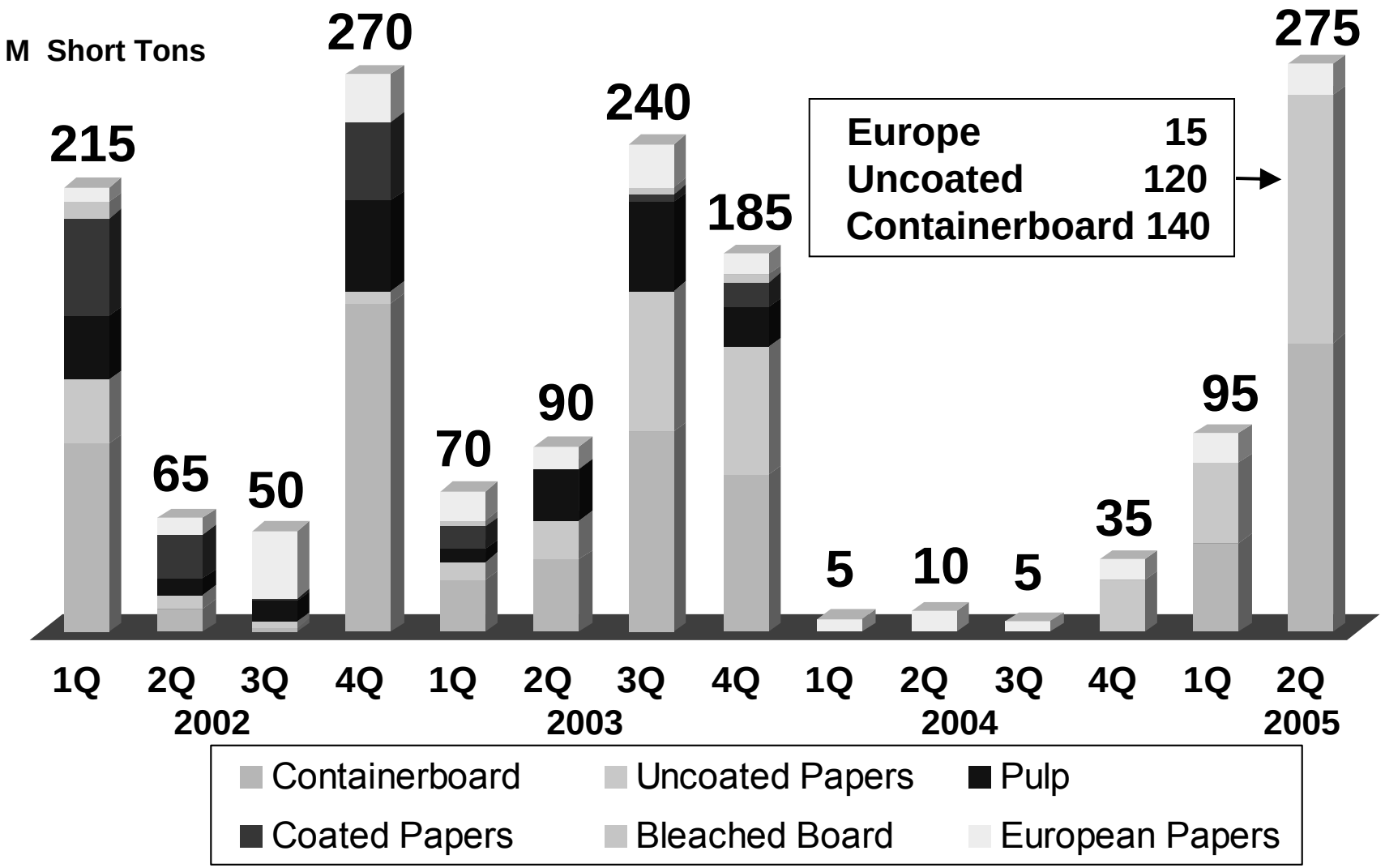


Lack of Order Downtime



*Downtime is in thousand short tons after rationalization actions, excludes maintenance

Printing Papers

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$ Millions	*2Q'05*	*1Q'05*
Sales	$ 1,895	$ 1,985
Earnings	149**	183

2Q'05 Change vs 1Q'05:

	Volume	*Realizations/ton*
Uncoated*	(9%)	$15
Coated*	(2%)	$30
Pulp*	5%	$5
Europe (uncoated)	Flat	($5)

* US operations only, excluding Fine Paper
Average IP realizations include the effect of mix across all grades
Europe is average commodity cut size price excluding Russia

** Includes special charge of $17 million for severance and other charges related to the indefinite shutdowns of 3 U.S. paper machines

Industrial Packaging

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$ Millions	*2Q'05*	*1Q'05*
Sales	$ 1,240	$ 1,295
Earnings	85	105

2Q'05 Change vs 1Q'05:

	Volume	*Realizations/ton*
Containerboard	(7%)	$ (5)
U.S. Container	2%	$(15)

Average IP realization (includes the impact of mix across all grades)

Consumer Packaging

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$ Millions	*2Q'05*	*1Q'05*
Sales	$ 650	$ 630
Earnings	41	23

2Q'05 Change vs 1Q'05:

	Volume	*Realizations/ton*
Bleached Board*	(4%)	$ 10

	Sales Revenue
Converting Businesses	5%

* U.S. operations only

Average IP realization (includes the impact of mix across all grades)

Forest Products

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$ Millions	*2Q'05*	*1Q'05*
Sales	$605	$ 610
Earnings	191*	207

2Q'05 Change vs 1Q'05:

	Volume	*Realizations/unit*
Lumber (mbf)	8%	$ 40
Plywood (msf)	(9%)	Flat

Average IP realization (includes the impact of mix across all grades)

* Includes special charge of $14 million for costs associated with relocations of Forest Products headquarters to Memphis

Special Items 2Q'05

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	$MM	Diluted EPS
Special Items		
• Insurance Recoveries	35	
• Restructuring Charges	(31)	
• Adjustments to Divestitures	19	
• Interest	11	
• Tax Impact of Above	(13)	
• Deferred Tax	(94)	
Special Items Total	(73)	$(0.15)

Reconciliation to 2Q'05 Diluted Earnings Per Share

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	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$0.31
Special Items	(0.15)
Earnings from Continuing Operations	$0.16
Net Earnings	$0.16

Third Quarter 2005 Outlook

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- Volumes mixed
- Some pricing pressures in uncoated papers and industrial packaging offset our announced increases in coated paper
- Operational improvements should continue to be realized
- Raw material costs expected to be flat versus second quarter

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

Strategic options for IP's forestlands

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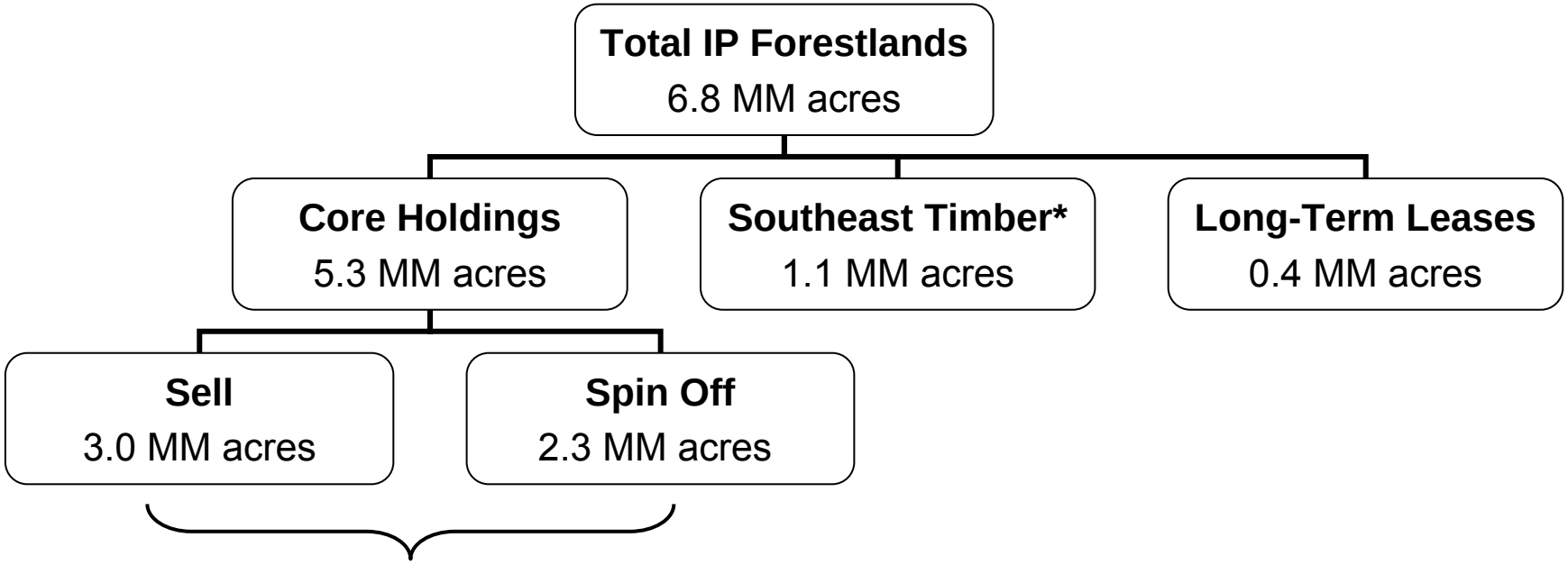
As part of the transformation plan, IP is pursuing strategic options for part or all of its U.S. forestlands



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

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)**

Transformation Plan

Profit improvement initiatives

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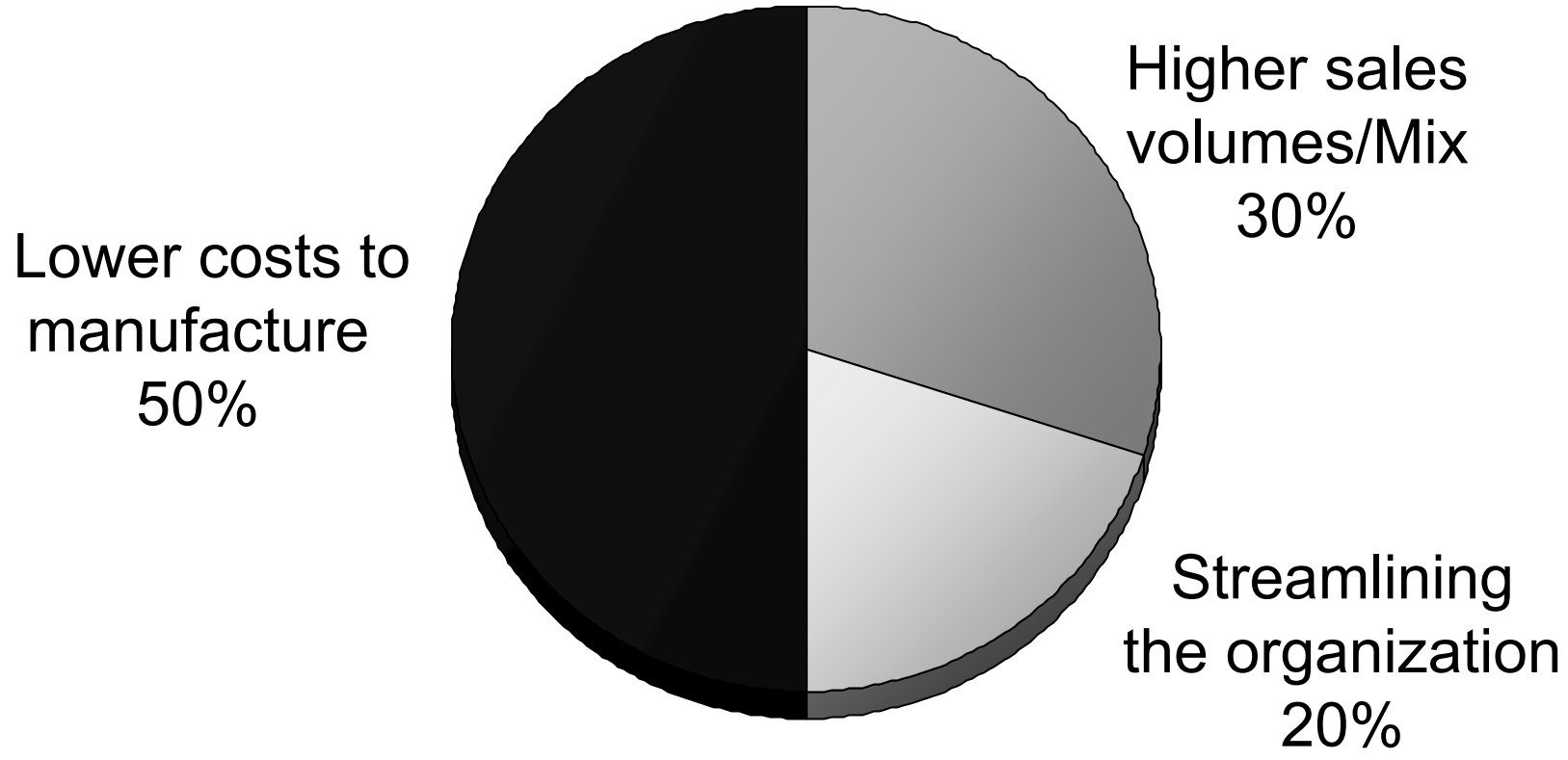
Targeting $400 million of annual profit improvement through three initiatives



Transforming to a Stronger IP

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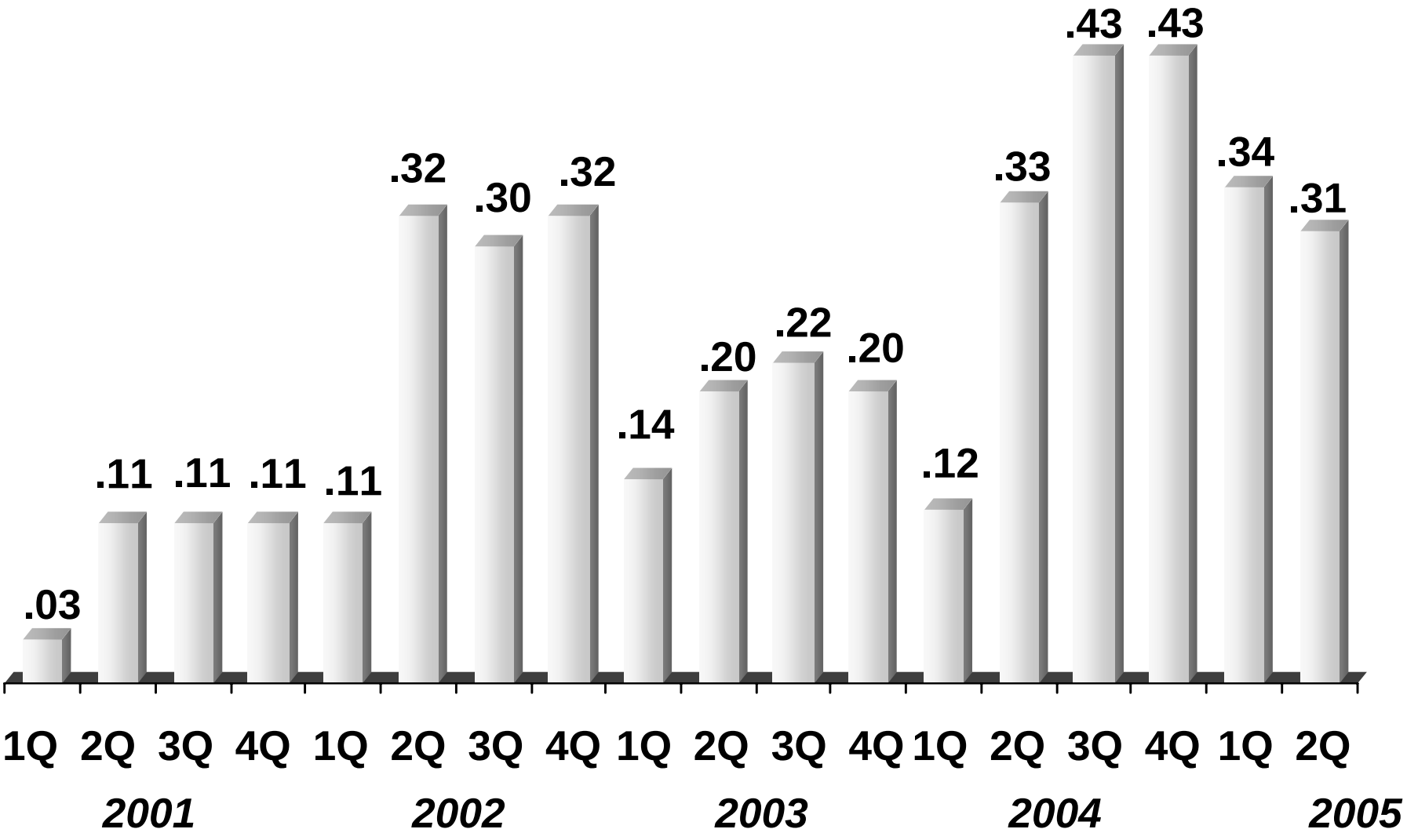
- **Market conditions continue to be challenging**
- **Managing factors we can control**
- **Transforming IP to**
  - Improve profitability
  - Better serve customers
  - Increase shareholder return

Q & A

Appendix

Basic EPS from Continuing Operations and Before Special Items*



** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investor Information*

Capacity Closures

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Shutting high-cost manufacturing capacity to match IP supply with customer demand

Mill Location	Grade	Capacity TPY	Date Shut
Pensacola, FL	UFS	150,000	4/1/05
Androscoggin, ME	UFS	100,000	4/1/05
Bastrop, LA	UFS	180,000	6/9/05
TOTAL		430,000	

UFS – uncoated free sheet

Forest Resources

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$ Millions

	2Q'05	1Q'05	2Q'04
▸ Earnings Sources – Gross Margin			
• Sales of Forestlands	$67	$69	$78
• Harvest & Recreational Income	62	69	61
▸ Forestland Expenses	(39)	(34)	(38)
▸ Land Utilization (real estate), Net of Expenses	39	54	20
Total EBIT	$129	$158	$121

Average Sales Realizations

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		Average Sales Realizations				
Segments	**Grades**	**June 05**	**June 04**	**2Q'05**	**1Q'05**	**2Q'04**
Printing Papers*	Uncoated	827	762	831	815	749
	Coated	840	723	836	806	715
$/ton	Pulp	478	489	495	488	473
Packaging	Containerboard	442	416	450	454	406
$/ton	Corrugated boxes*	681	638	687	702	630
Forest Products	Lumber, $/MBF	416	362	406	366	373
	Plywood, $/MSF	309	332	300	299	368

*** U.S. only. Uncoated excludes fine papers**

Average IP realization (includes the impact of mix across all grades)

2005 Earnings from Continuing Operations

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	Pre-Tax	Tax	MI	Net	ETR	Average Shares**	Diluted EPS
	$ MM	*$ MM*	*$ MM*	*$ MM*		*MM Shares*	*$/Share*
Before Special Items							
Q1	223	(54)	(4)	165	24%	488.9	0.34
Q2	235	(73)	(12)	150	31%	485.9	0.31
Special Items							
Q1	(145)	36	21	(88)	25%	488.9	(0.18)
Q2	34	(107)	-	(73)	-	485.9	(0.15)
Earnings from Operations							
Q1	78	(18)	17	77*	23%	488.9	0.16
Q2	269	(180)	(12)	77	67%	485.9	0.16

MI – Minority Interest; Net – Net Income; ETR – Effective Tax Rate; EPS – Earnings per Share

** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investor Information*

*** Assuming dilution*

Impact of Higher Raw Material Costs

EBIT impact 2Q'05 vs. 1Q'05

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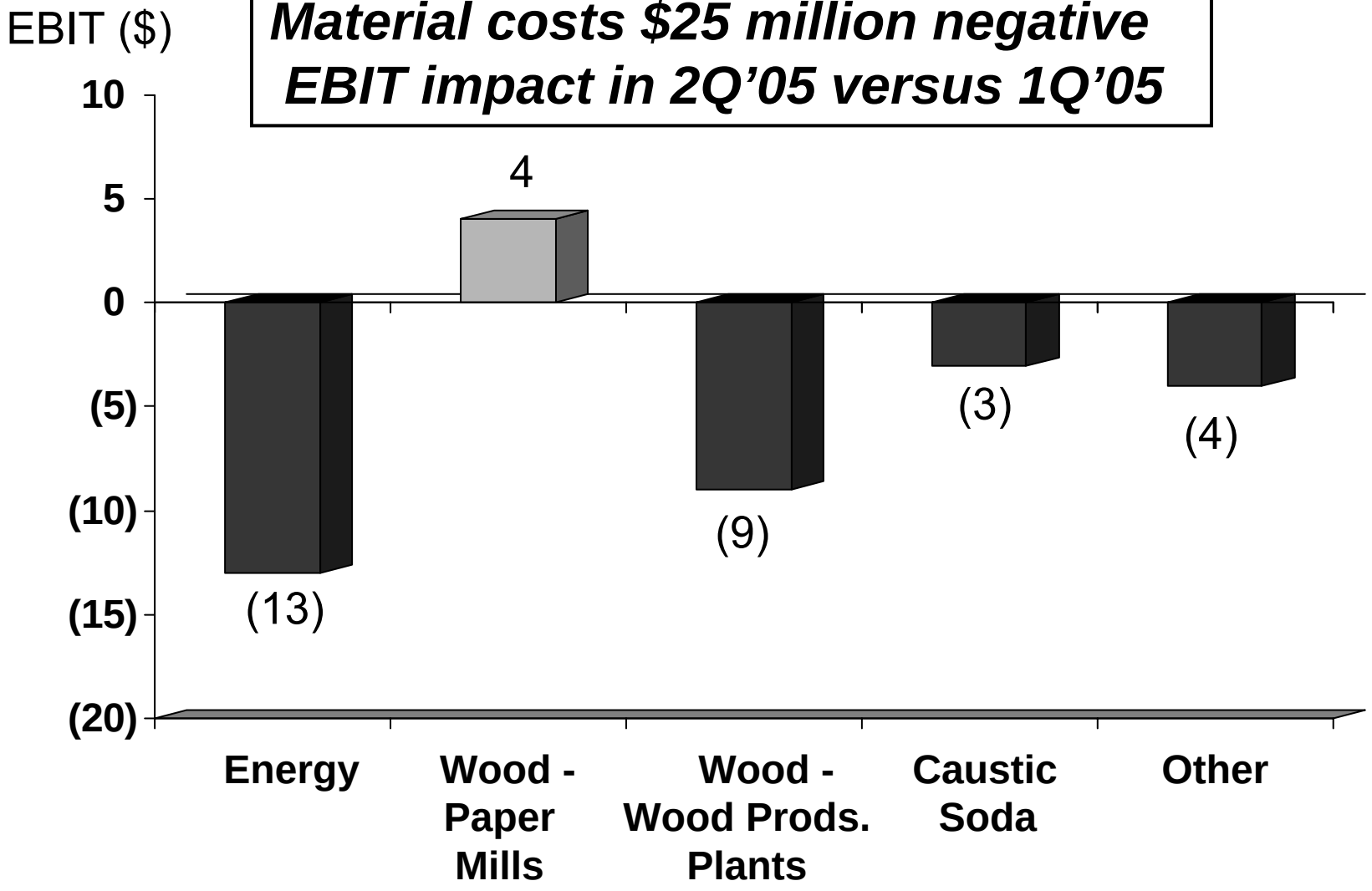
Material costs $25 million negative EBIT impact in 2Q'05 versus 1Q'05



Impact of Higher Raw Material Costs

EBIT impact 6M'05 vs. 6M'04

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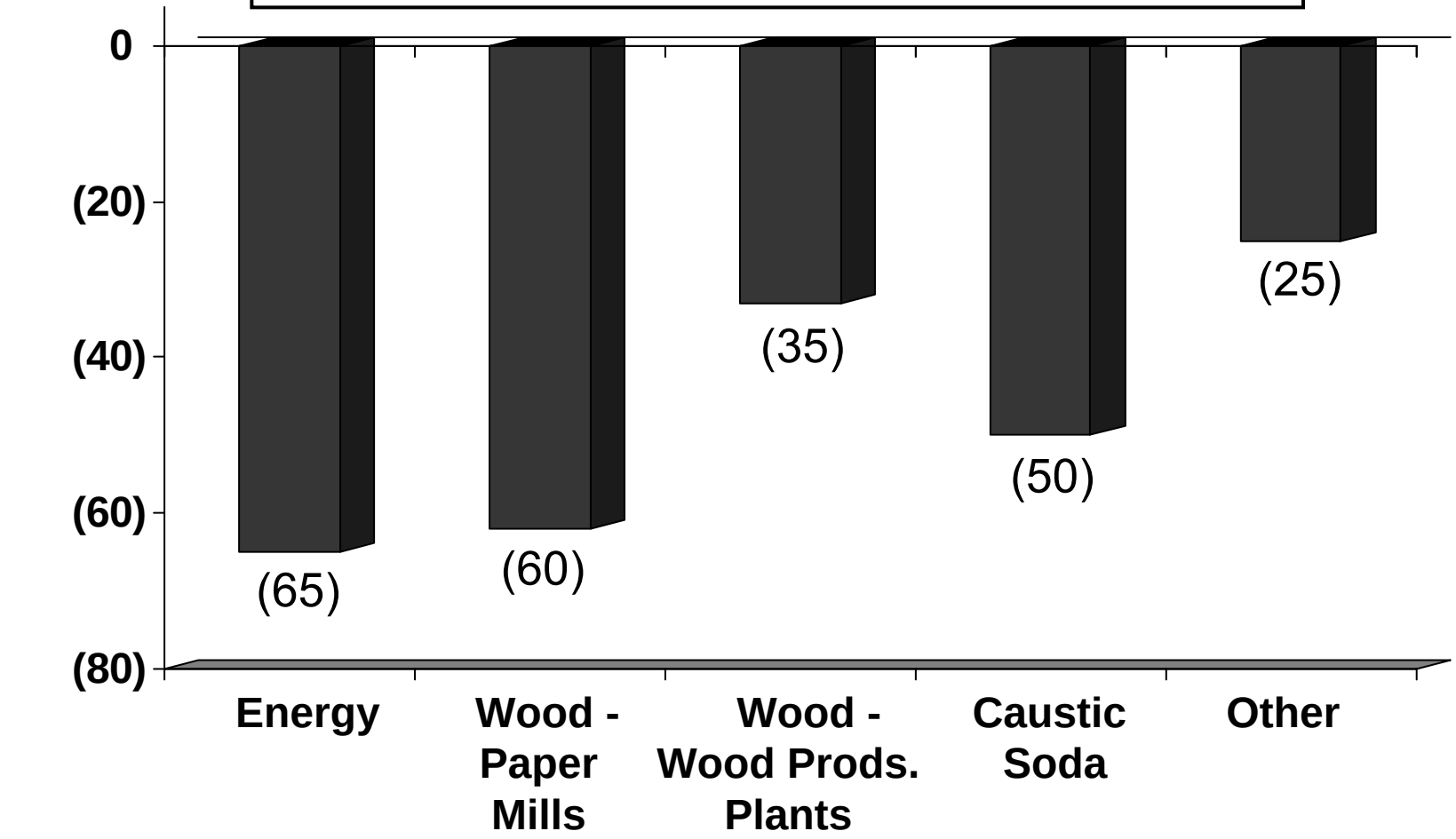
Material costs $235 million negative EBIT impact in 6M'05 versus 6M'04



High U.S. Mills Wood Costs

Trended downward in 2Q'05

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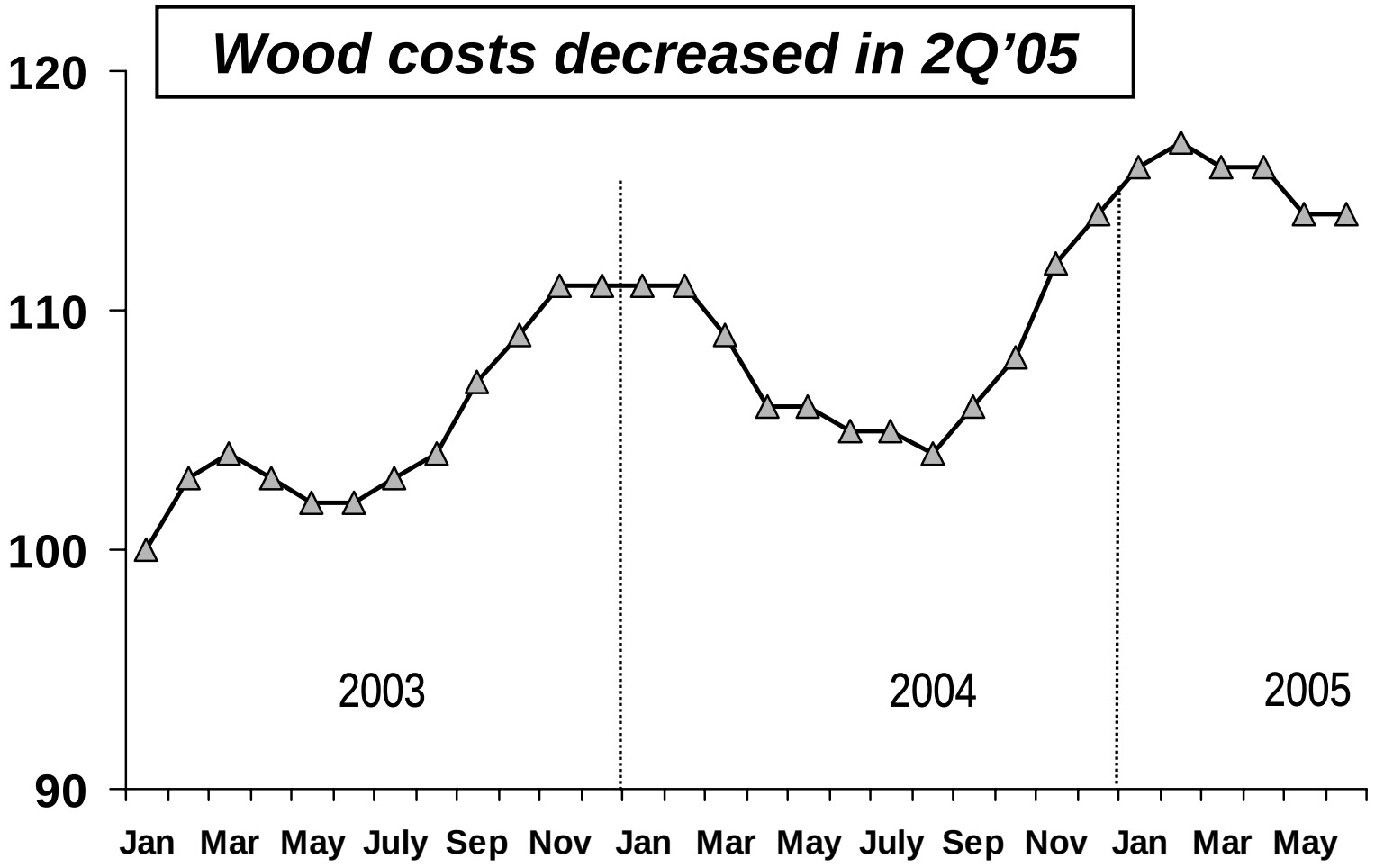
Index: Jan 2003 Wood Costs = 100



*** Delivered cost to U.S. pulp & paper mills**

Rising Caustic Soda Costs

Continued upward pressure in 2Q'05

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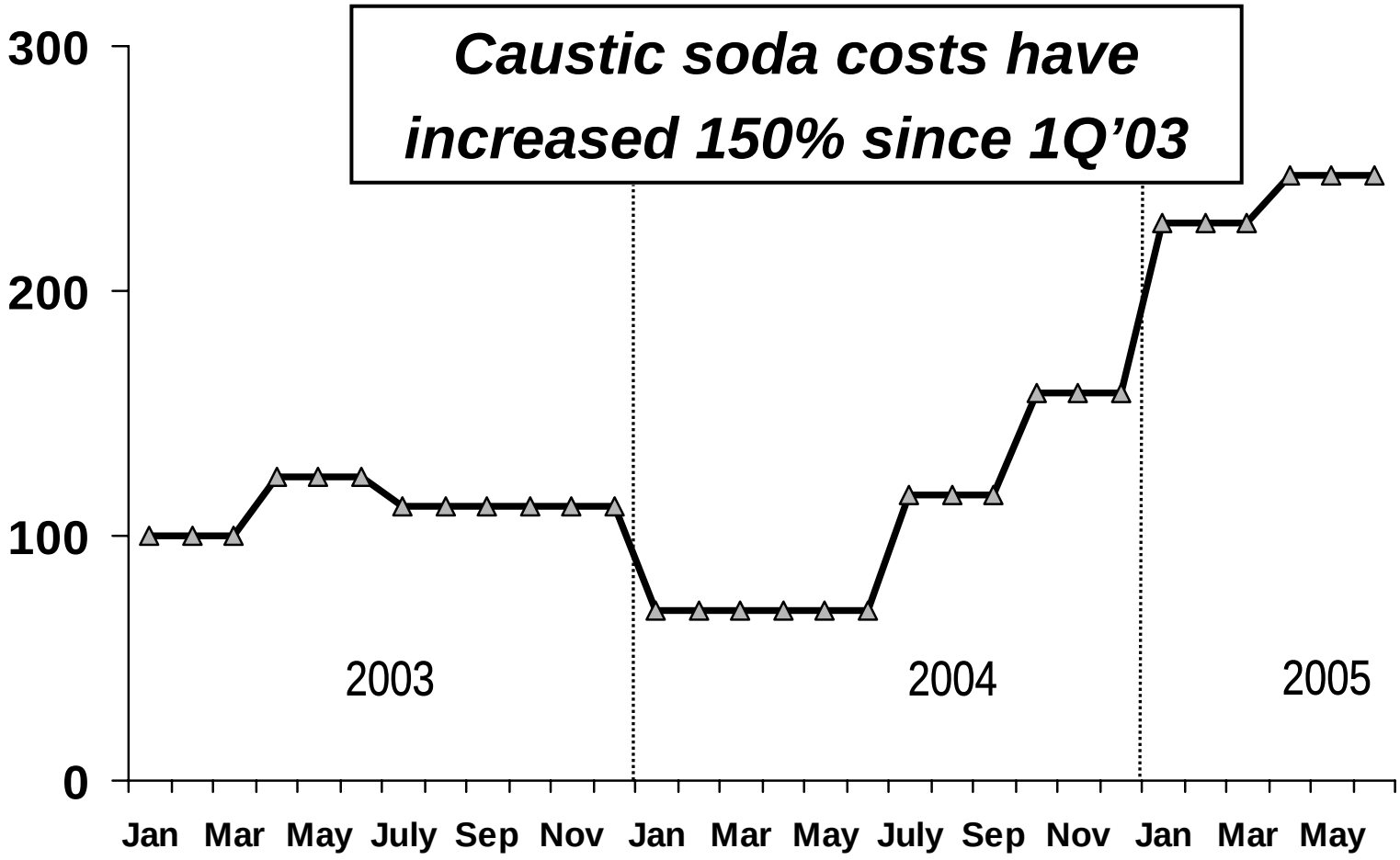
Index: Jan 2003 Caustic Soda Costs = 100



Natural Gas Costs

Costs averaged higher in 2Q'05

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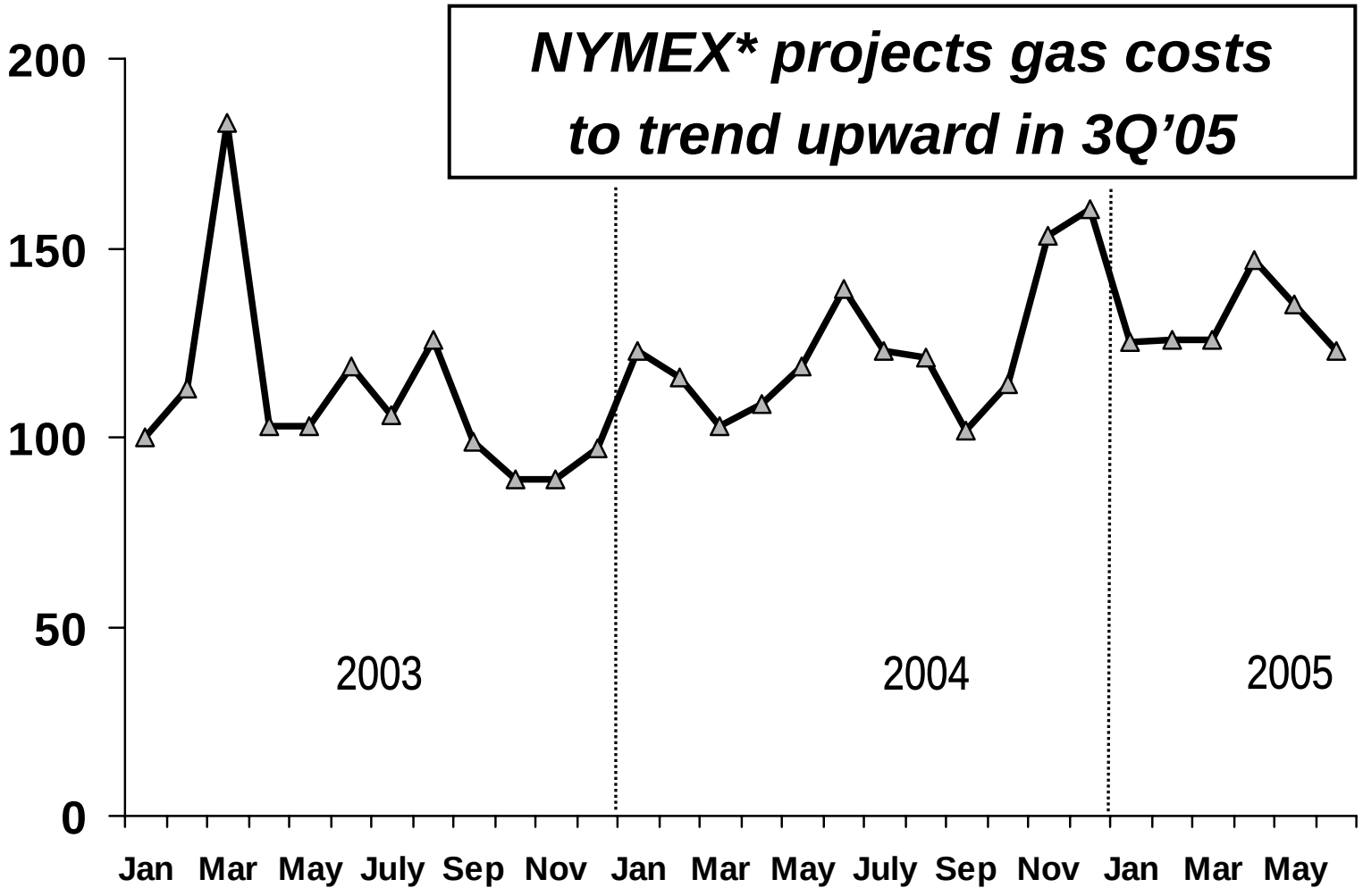
Index: Jan 2003 Natural Gas Costs = 100



*** NYMEX projection on July 7, 2005**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