

INTERNATIONAL PAPER

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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.

Agenda

- **Transformation**
  - **Objective**
  - **Two Key Platform Businesses**
  - **Businesses Targeted for Divestment**
  - **Use of Proceeds**
  - **Profit Improvement Plan**
  - **Summary**
- **Hurricane Katrina**

Transformation

Objective

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Significantly improve profitability

Strengthen the balance sheet

Return value to shareholders

Focused Global Paper and Packaging Company

Choice Making Framework

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- **IP Position**
  - **Assets**
  - **Returns**
  - **Customers**
  - **Capabilities**
- **Competitor Strategies**
- **Industry Fundamentals**
  - **Supply / Demand**
- **Ability to Resource (People & Capital)**

Focusing on Two Key Platform Businesses

Uncoated papers

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- **Uncoated Papers**
  - **Low cost producer, can earn cost of capital returns**
  - **Top ROS in industry segment - U.S., Europe and Brazil**
  - **Best positioned global producer with significant potential and distinct market advantages**











Uncoated Papers

Best positioned global producer

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IP is the best positioned global uncoated papers producer with 6.6 mm tons of capacity worldwide



Uncoated Papers

Low cost producer

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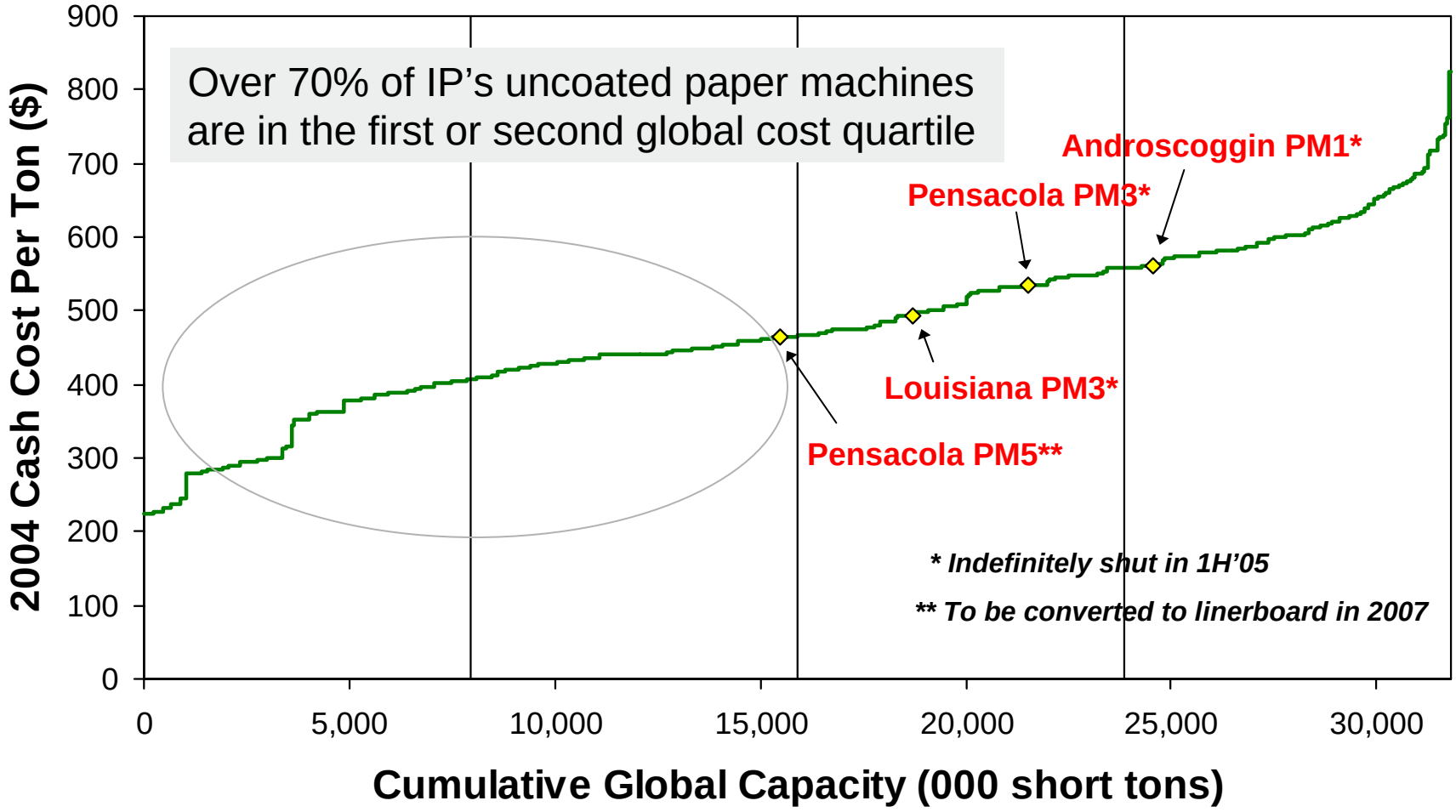
Improving IP's uncoated paper machines position on global cost curve



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

Uncoated Papers

Playing to win using innovation



- **IP recently announced a new product-based opportunity in uncoated papers**
- **A major product and market redefinition using proprietary technology and know how**
- **Improve appearance, runnability and printability of 3.5 million tons of uncoated paper capacity**
- **First mover advantages**
- **Customer reaction has been overwhelmingly positive**

Focusing on Two Key Platform Businesses

Packaging

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- **Packaging**
  - **Strong containerboard and corrugated box businesses in U.S.**
  - **European corrugated box business earns cost of capital returns**
  - **Top global coated board producer**
  - **Well positioned to serve packaging customers worldwide**







Industrial Packaging

U.S. containerboard and box businesses

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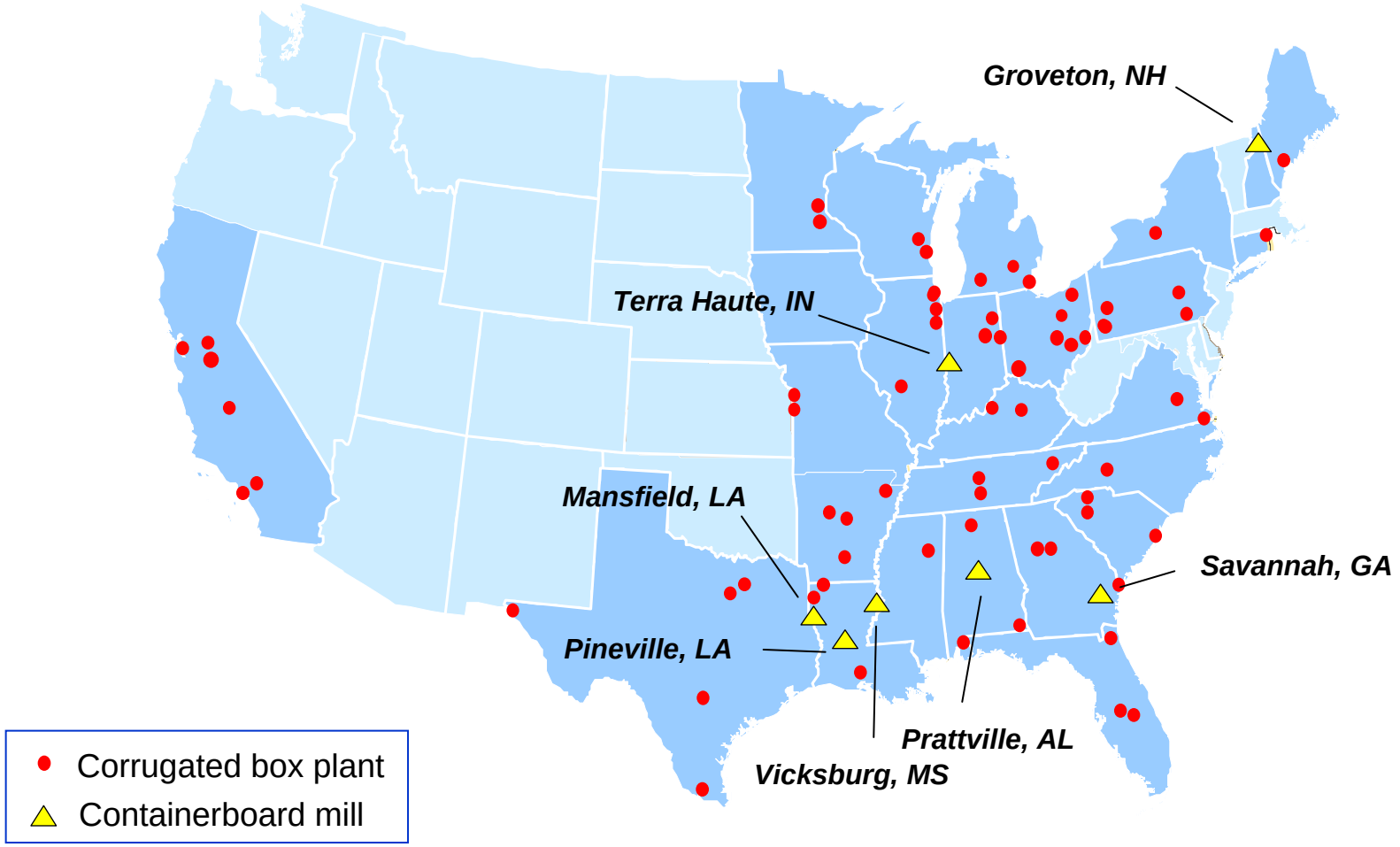
IP has a low-cost containerboard mill system and a growing integrated corrugated box business in the U.S.



Industrial Packaging

International corrugated box business

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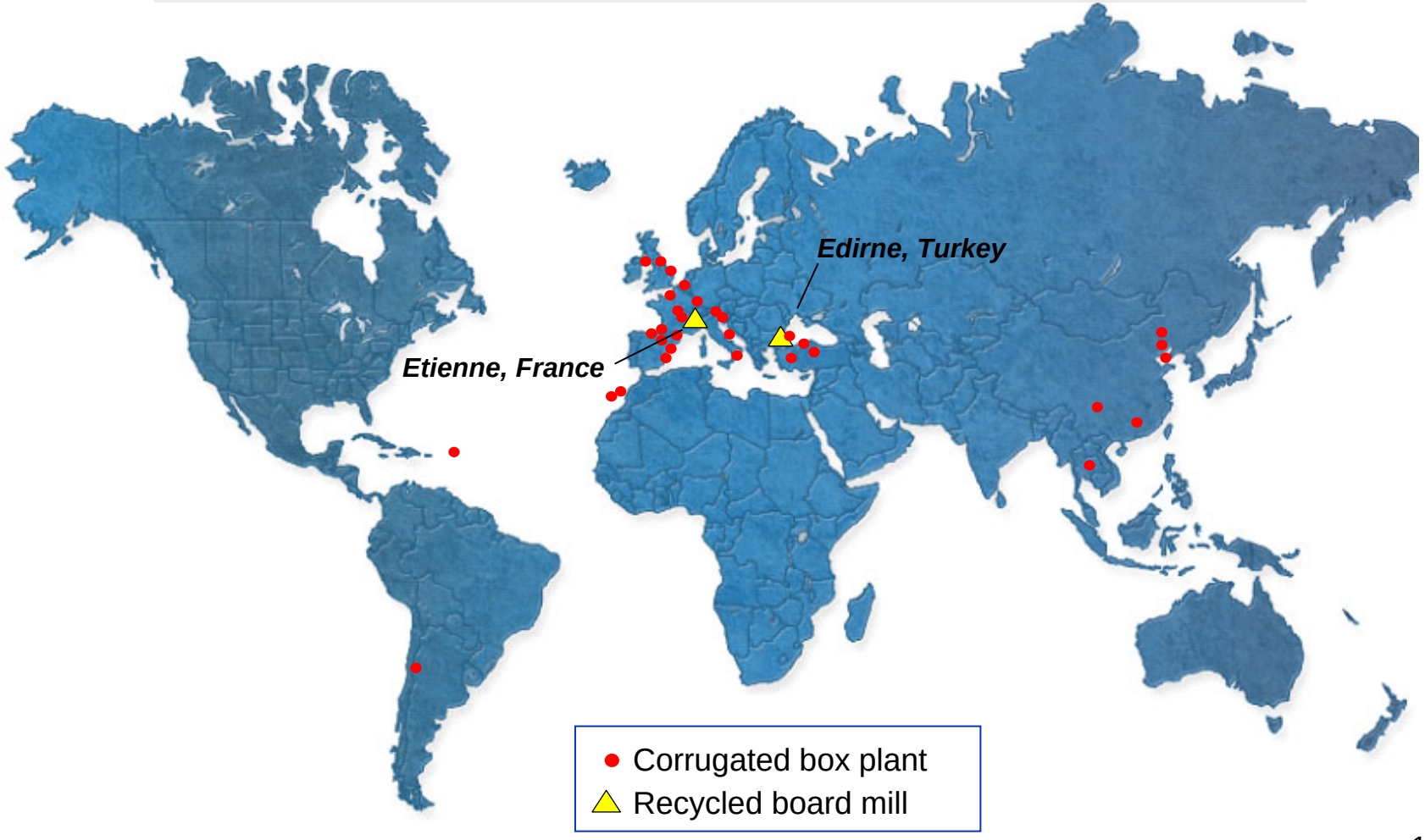
IP's international box business has 32 plants outside N. America, mostly in W. Europe



Consumer Packaging

Global coated board and packaging businesses

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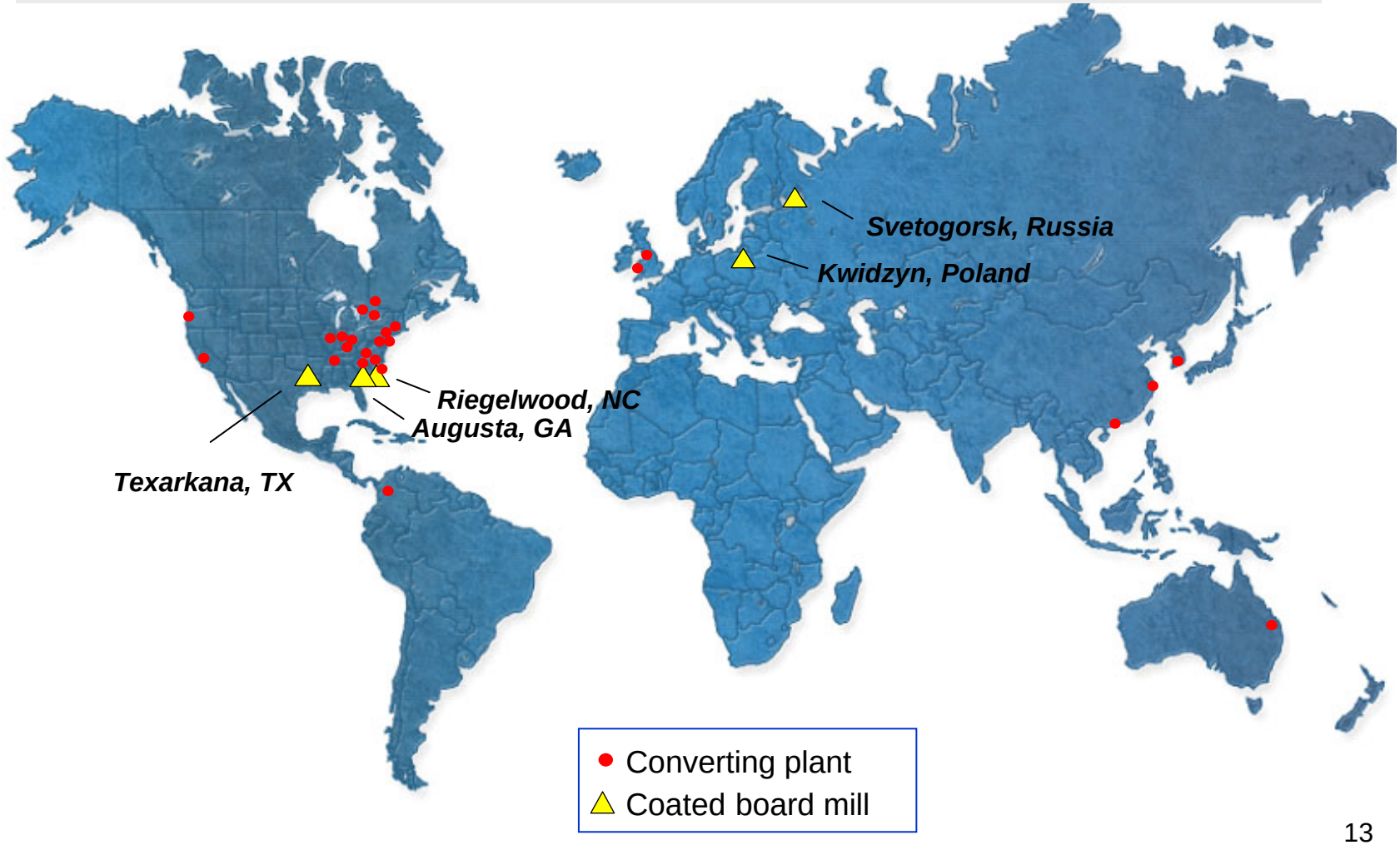
IP is the top global producer of coated board and positioned to serve packaging customers worldwide



Transformation

Focusing the portfolio – making choices

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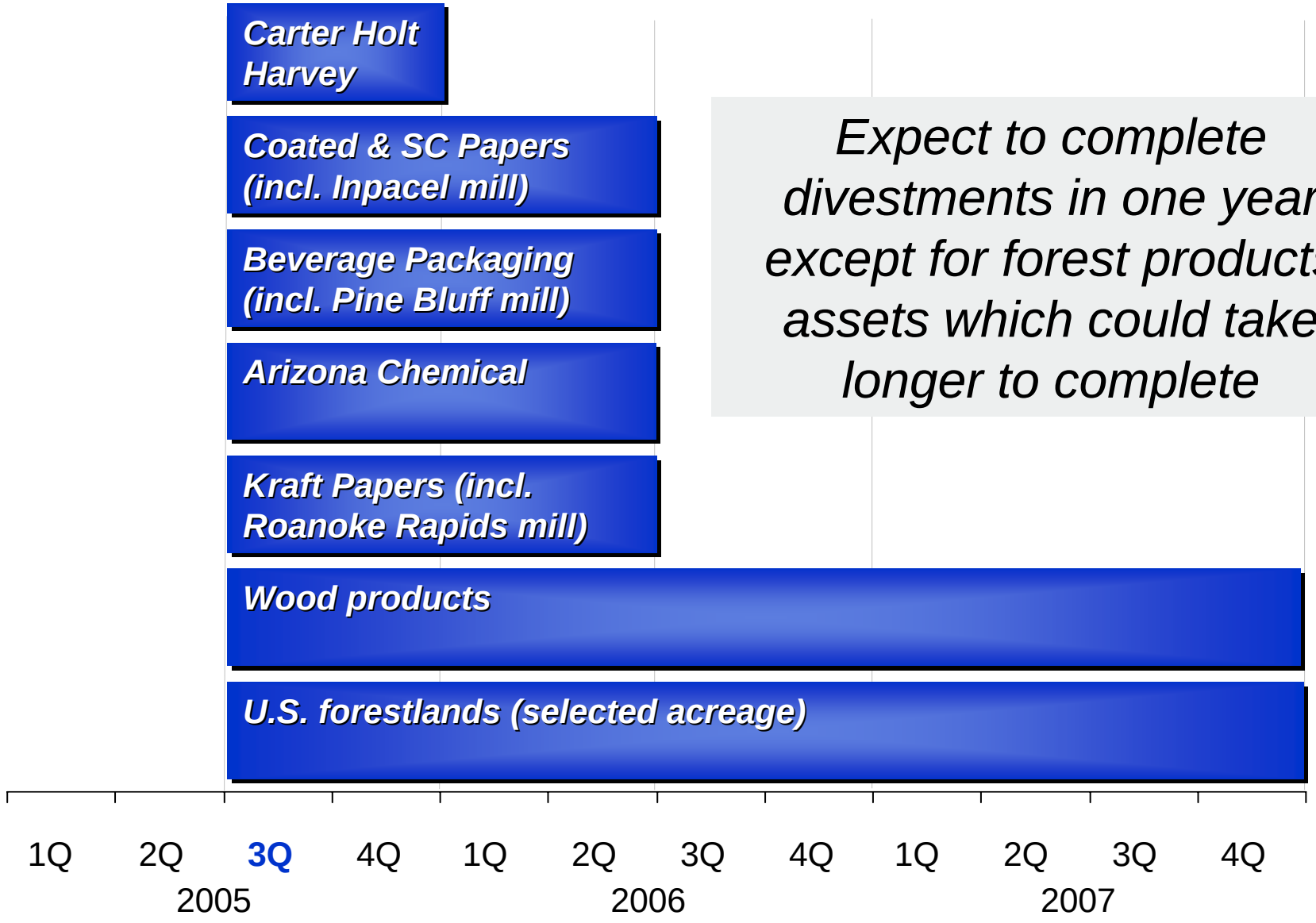

Expect to complete divestments in one year except for forest products assets which could take longer to complete

Businesses Targeted for Divestment

Carter Holt Harvey

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Carter Holt Harvey	Coated Papers	Beverage Packaging	Kraft Papers	Arizona Chemical	Wood Products	U.S. Forestland (selected acreage)

- **Agreed to sell 50.5% Carter Holt Harvey stake to Rank Group**
  - **Signed lock-in agreement on August 16 at NZ$2.50 per share for IP's ordinary shares**
  - **Same price will be offered to all shareowners in a full takeover offer by Rand Group**
  - **Tender offer is expected to be launched in Sept/Oct**
  - **IP's proceeds from sale expected to be about NZ$1.65 billion or US$1.14 billion**

Businesses Targeted for Divestment

U.S. Forestlands

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Carter Holt Harvey	Coated Papers	Beverage Packaging	Kraft Papers	Arizona Chemical	Wood Products	U.S. Forestland (selected acreage)

- **U.S. forestlands are a unique, high-value asset**
  - **Market value exceeds hold and operate value**
  - **Wood sourcing risk mitigated through long-term fiber supply agreements**
  - **Embarking on a more aggressive monetization to speed up unlocking market value of 5.3 mm acres**
  - **Continue to monetize additional 1.1 mm acres in the Southeast Timber subsidiary on a retail basis**

U.S. Forestlands

Industry's top 10 U.S. landowners

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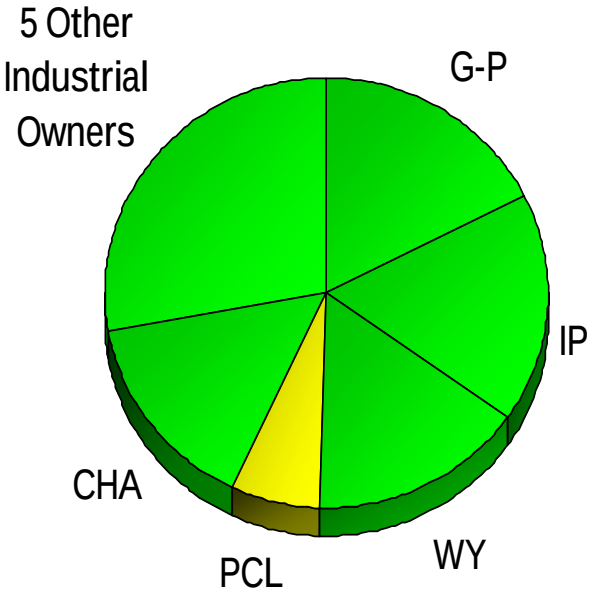
Financial / non-industrial forestland ownership has increased significantly over the past ten years

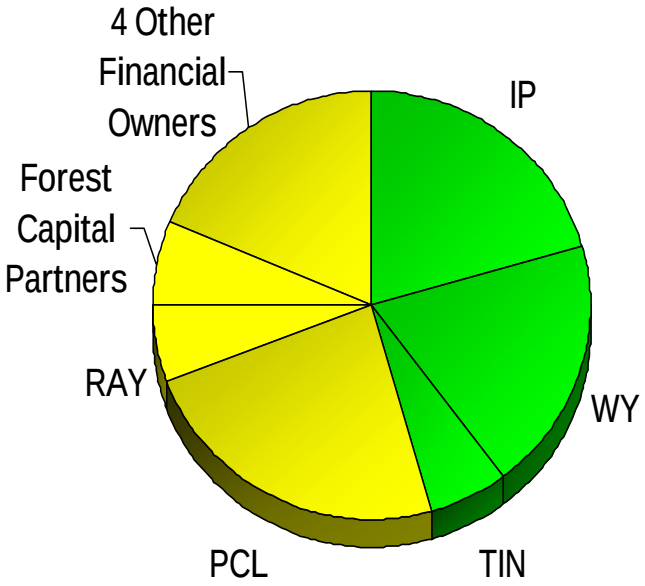
1995

35 MM acres



2005

33 MM acres



Industrial Owners Financial / Non-Industrial Owners

U.S. Forestlands

Southern harvest profile

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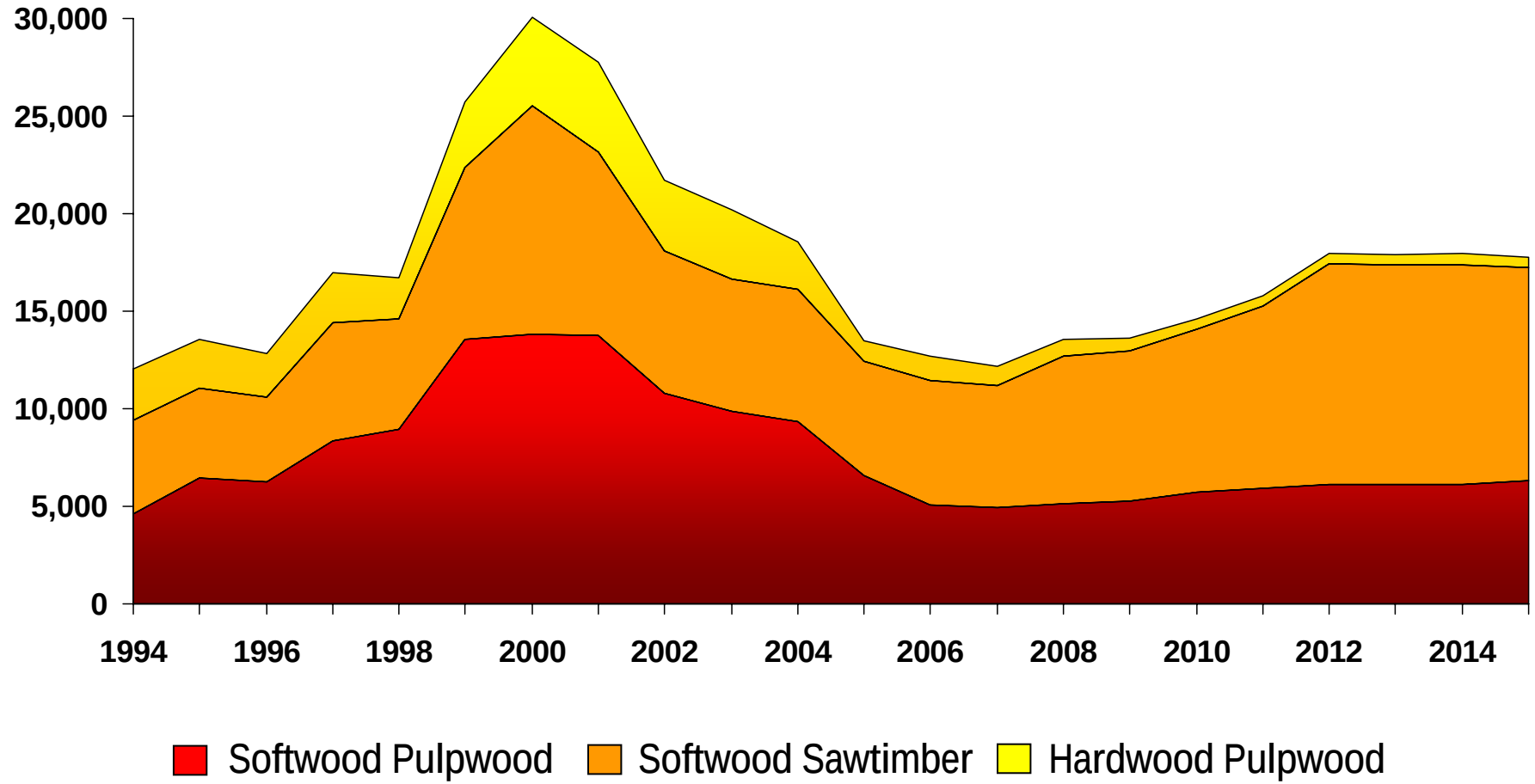
IP's southern harvest profile and mix are projected to improve significantly over time



U.S. Forestlands

Selected acreage in proceeds estimates

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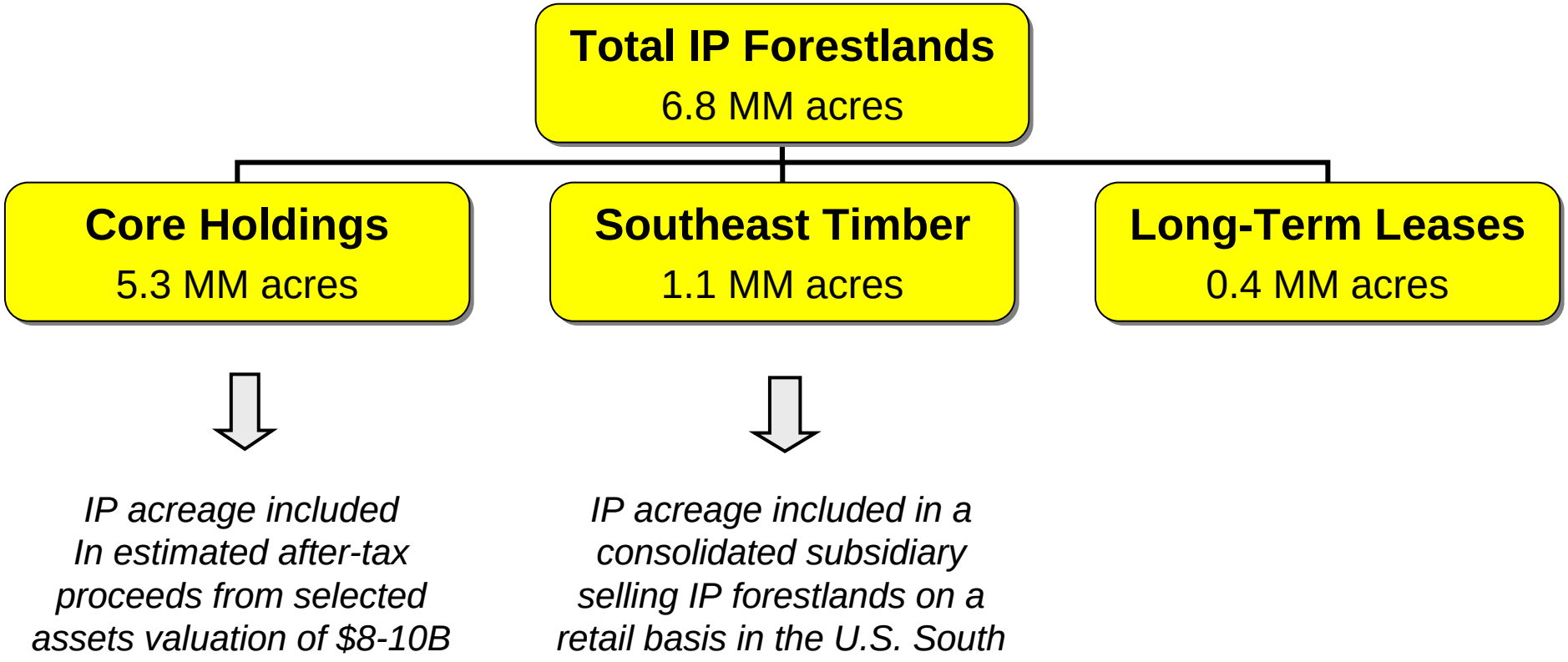
As part of the transformation plan, IP is pursuing strategic options for part or all of its U.S. forestlands



Transformation

Use of proceeds

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- **Indicative use of after-tax proceeds ($8-10 billion)**
  - **~ 50% - Debt repayment**
  - **~ 30% - Return value to shareholders**
  - **~ 20% - Selective reinvestment**

Use of Proceeds

Debt repayment

- **Targeting $4-5 billion of after-tax proceeds for debt repayment**
- **Objectives of debt repayment include:**
  - **Strengthening the balance sheet**
  - **Solidifying investment grade credit rating**
  - **Returning leverage to pre-Champion acquisition levels**
  - **Further reducing average cost of debt**

Use of Proceeds

Return value to shareholders

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- **Targeting $2-3 billion of after-tax proceeds for returning value to shareholders**
- **Potential options include:**
  - **Share repurchases**
  - **Increase regular dividend (if sustainable)**
  - **Special dividend**

Use of Proceeds

Selective reinvestment

- **Targeting $2 billion of after-tax proceeds for selective reinvestment**
- **Look for opportunities to improve the two key platform businesses**
  - **Required internal rate of return of 12+%**
- **Could return the proceeds to shareholders if no reinvestment opportunities meet our IRR**

Selective Reinvestment Options

- **Latin America**
  - **Build out low cost, good return uncoated papers / pulp platform in Brazil**
- **China**
  - **Coated board / packaging opportunities**
- **Eastern Europe / Russia**
  - **Further expansion at Svetogorsk**
  - **Containerboard, pulp options in Russia**
- **Europe (East & Mediterranean)**
  - **Bolt-on corrugated opportunities**

Transformation

Profit improvement initiatives

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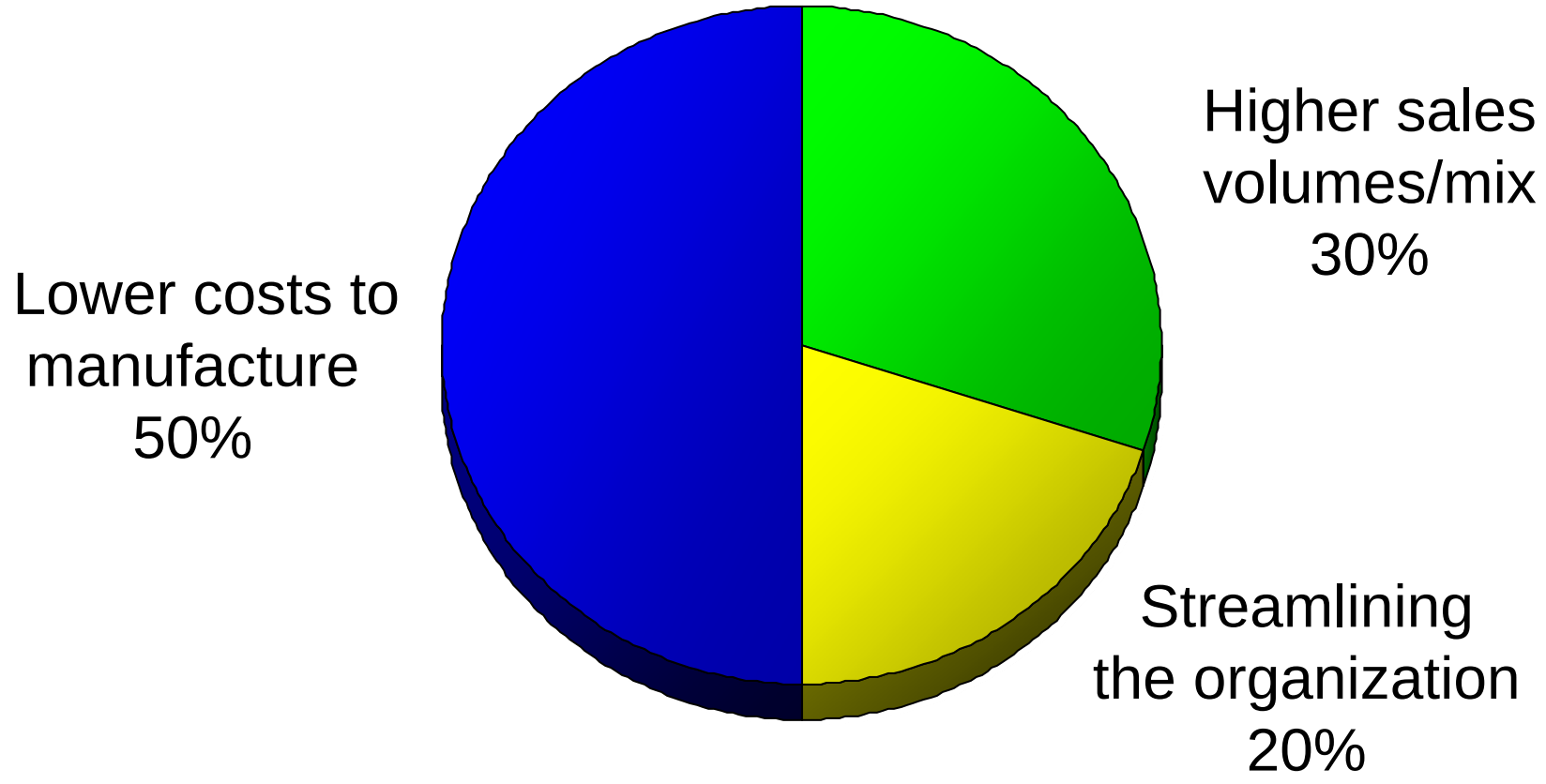
Targeting $400 million per year or $1.2 billion of cumulative profit improvement over three years



Profit Improvement Initiatives

Lower costs to manufacture

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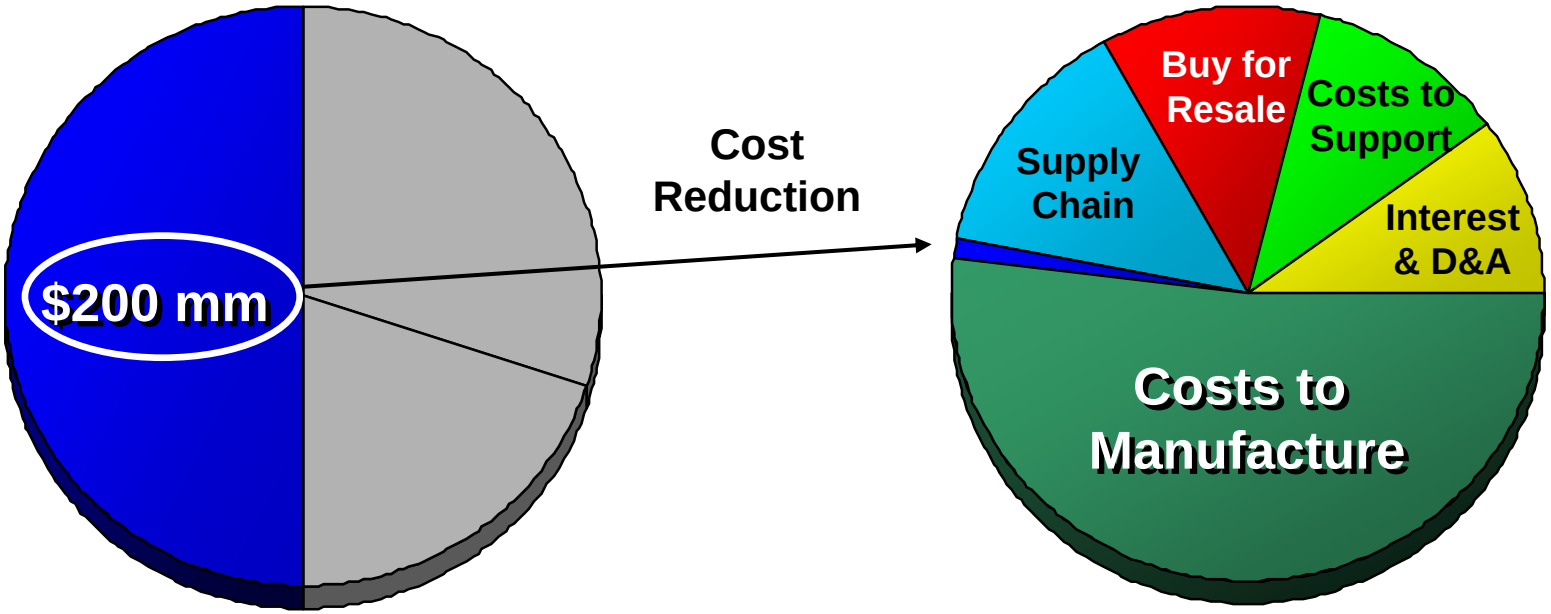
Taking $200 million per year of costs out of a $20 billion cost base is achievable



Annual Profit Improvement Target

Total Cost Base $20 billion

Profit Improvement Initiatives

Higher sales volumes / mix

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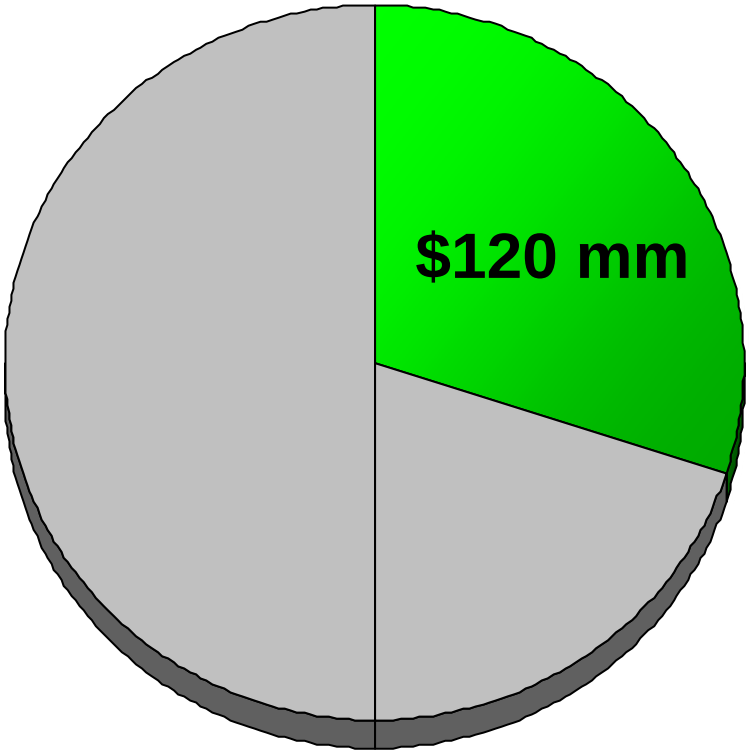
Adding $120 million per year from higher sales volumes and improved mix is achievable



- Volume assumptions:
  - U.S. uncoated paper flat
  - Eastern European and Latin American uncoated paper growth
  - Global packaging and coated board growth

Profit Improvement Initiatives

Streamlining the organization

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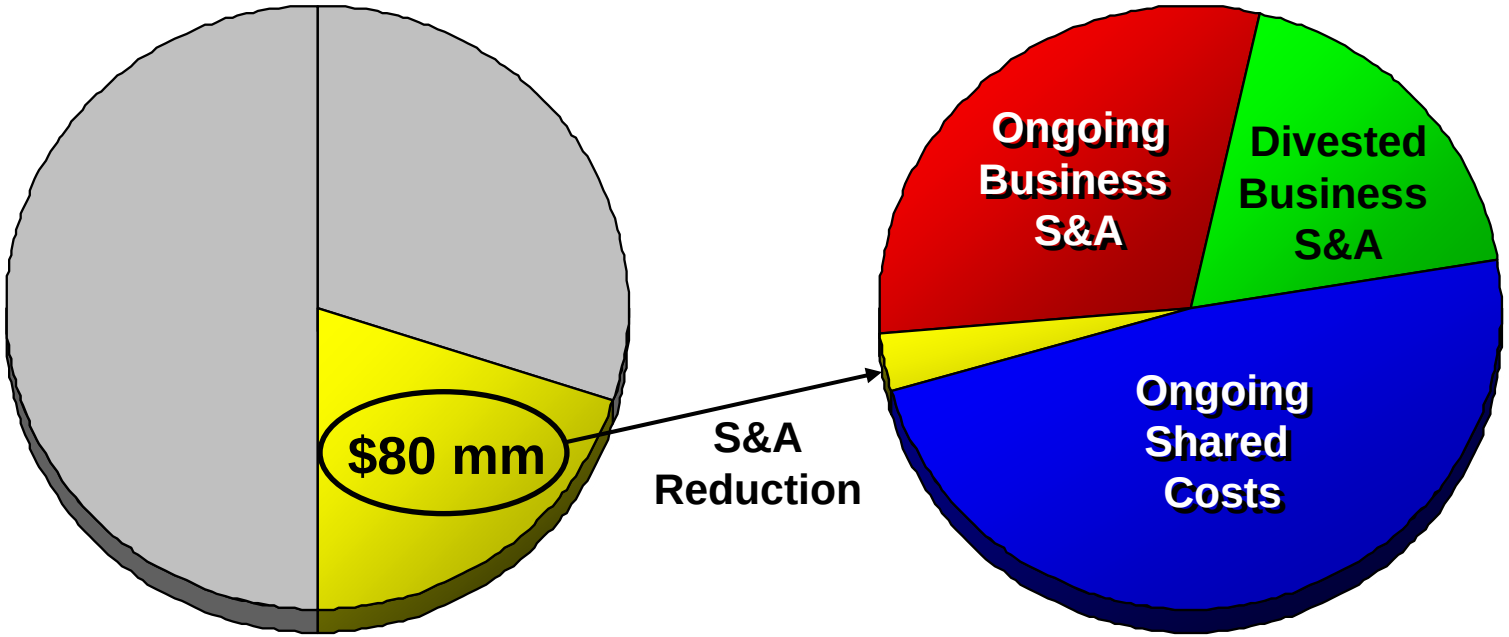
Taking $80 million per year of overhead costs out of a $3.2 billion cost base will happen



Annual Profit Improvement Target

Total Overhead Costs $3.2 Billion

Transformation
Summary

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Value was not created by the transformation announcement – value will be created by executing the transformational strategy

Balancing the length of time required to complete divestments with maximizing shareholder value generated

This is not a bigger is better strategy – not driven to be a certain size company

The ultimate measure of the success of the transformation will be the earnings power of the company going forward

Hurricane Katrina

Impact on IP

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Katrina's impact not yet fully quantifiable but likely to negatively affect third and fourth quarter earnings

- **People**
  - **None of our employees were physically injured by Katrina and the resulting flooding**
- **Facilities**
  - **Sustained no direct damage**
  - **Temporary outages at two wood products facilities and one Arizona Chemical plant**
  - **Production curtailments at some mills due to chemical shortages**
- **Forestlands**
  - **No direct damage to our forests – fuel shortages and FEMA hiring will impact logging and transportation**

Hurricane Katrina

Impact on IP (cont'd)

- **Energy**
  - **Delivery slowdowns due to railroad availability and fuel supply**
  - **Commodity prices up**
- **Chemicals**
  - **Some direct impact on producers of optical brighteners, sulfuric acid, caustic…**
- **Transportation**
  - **Situation has been difficult but manageable**
  - **Rail car supply has been difficult at Vicksburg, Miss., but acceptable at other mill locations in the area**
  - **Diesel fuel supply and higher prices an issue**

Transformation



Significantly improve profitability

Strengthen the balance sheet

Return value to shareholders

Focused Global Paper and Packaging Company



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Q & A

Appendix

Businesses Targeted for Divestment

Coated Papers

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Carter Holt Harvey	**Coated Papers**	Beverage Packaging	Kraft Papers	Arizona Chemical	Wood Products	U.S. Forestland (selected acreage)

- **Optimal time to explore options for the Coated Papers business**
  - **Competitive assets in North America with 2.2 million tons of capacity**
  - **Focused on magazine and catalog business**
  - **Best customer base in the industry**
  - **Includes coated groundwood mill in Parana, Brazil**

Businesses Targeted for Divestment

Beverage Packaging

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Carter Holt Harvey	Coated Papers	**Beverage Packaging**	Kraft Papers	Arizona Chemical	Wood Products	U.S. Forestland (selected acreage)

- **Beverage Packaging is a good business**
  - **Leading market position globally which should be attractive to a potential buyer**
  - **Fully integrated business**
  - **17 converting plants worldwide**
  - **Includes Pine Bluff, Ark. Mill which produces liquid packaging board**

Businesses Targeted for Divestment

Kraft Papers

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Carter Holt Harvey	Coated Papers	Beverage Packaging	**Kraft Papers**	Arizona Chemical	Wood Products	U.S. Forestland (selected acreage)

- **Kraft Papers is a solid business but not core to our industrial packaging business**
  - **Produces Kraft paper for bags and sacks, dunnage and roll wrap**
  - **Includes the Roanoke Rapids, NC mill with an annual capacity of 400,000 tons**

Businesses Targeted for Divestment

Arizona Chemical

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Carter Holt Harvey	Coated Papers	Beverage Packaging	Kraft Papers	**Arizona Chemical**	Wood Products	U.S. Forestland (selected acreage)

- **Arizona Chemical is a thriving business with an exciting future**
  - **Streamlining of company makes IP less of a natural owner of this business**
  - **12 plants in U.S. and Europe**
  - **Plans in place to accelerate its geographic expansion**
  - **New product development opportunities**

Businesses Targeted for Divestment

Wood Products

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Carter Holt Harvey	Coated Papers	Beverage Packaging	Kraft Papers	Arizona Chemical	**Wood Products**	U.S. Forestland (selected acreage)

- **Wood Products is a very good business**
  - **Return on sales at the top of the industry**
  - **25 wood products plants in the U.S. South**
  - **IP will not be a natural owner of the wood products business if divesting forestlands**