

INTERNATIONAL PAPER

John V. Faraci

Chairman & CEO

10th Annual Citigroup Global Paper and Forest Products Conference

December 1, 2005

Forward-Looking Statements

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These slides contain forward-looking statements. These statements reflect management's current views and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors which could cause actual results to differ relate to (i) market and economic factors, including changes in the cost or availability of raw materials and energy, competition, demand and pricing for the Company's products, the level of housing starts, changes in international economic conditions, specifically in Brazil, Russia, Poland and China, changes in currency exchange rates, changes in credit ratings issued by nationally recognized statistical rating organizations, pension and healthcare costs and natural disasters, such as hurricanes, (ii) the Company's transformation plan, including the ability to accomplish the transformation plan, the impact of the plan on the Company's relationship with its employees, customers and vendors and the ability to realize anticipated profit improvement from the plan, and (iii) results of legal proceedings and compliance costs, including unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations and the uncertainty of the costs and other effects of pending litigation. 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.

Transformation Plan



Significantly improve profitability

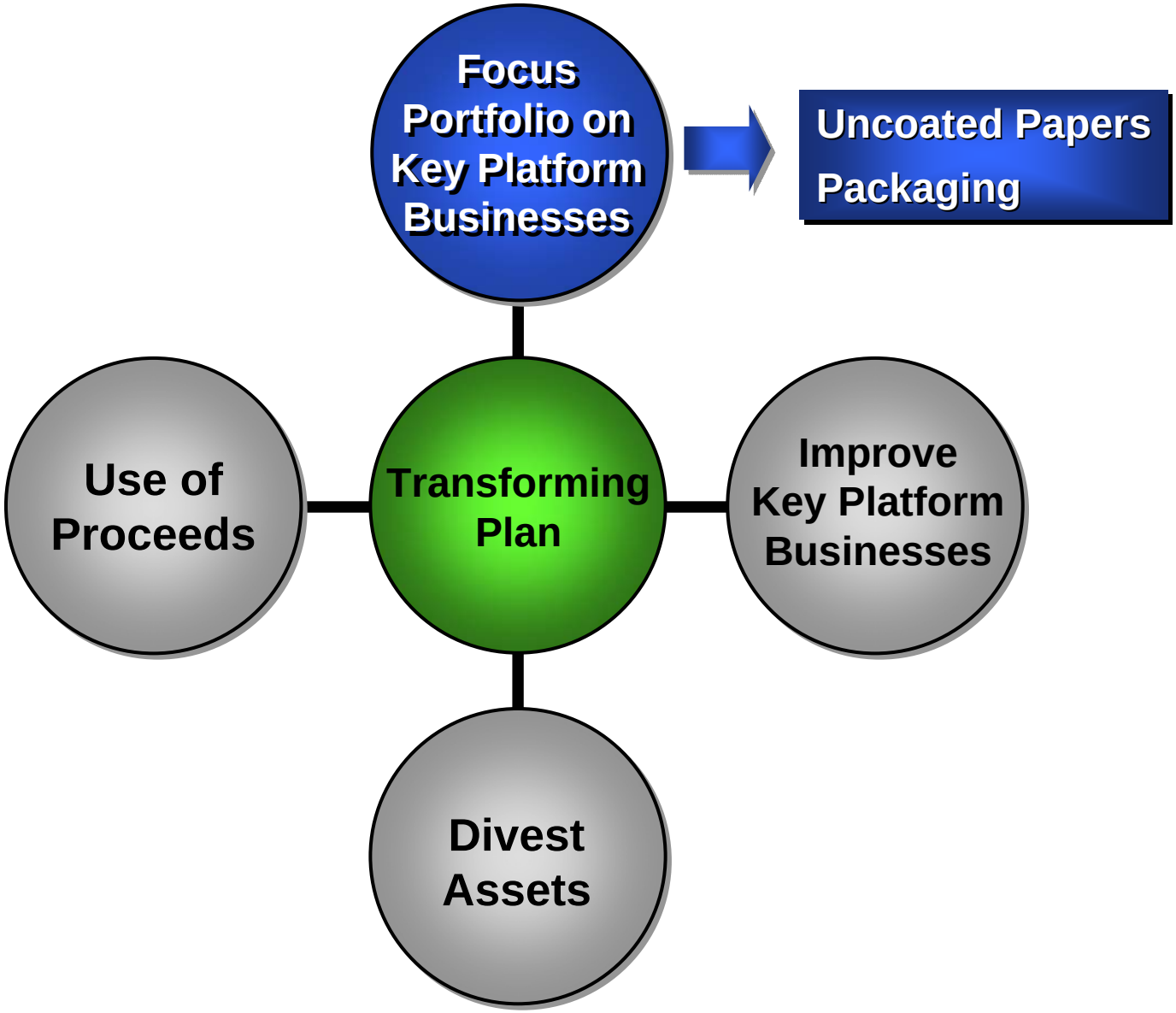
Strengthen the balance sheet

Return value to shareholders

Focused Global Paper and Packaging Company

Key Components of Plan

Focus portfolio on key platform businesses



Uncoated Papers

Leader in uncoated paper

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U.S.
8 mills
4.8 MM tpy

W. Europe
3 mills
600,000 tpy

E. Europe
2 mills
700,000 tpy









Brazil
1 mill
500,000 tpy

△ Uncoated paper mill

2004 Results*

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

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

U.S. Uncoated Papers

Shipments by category – Sept. 2005YTD

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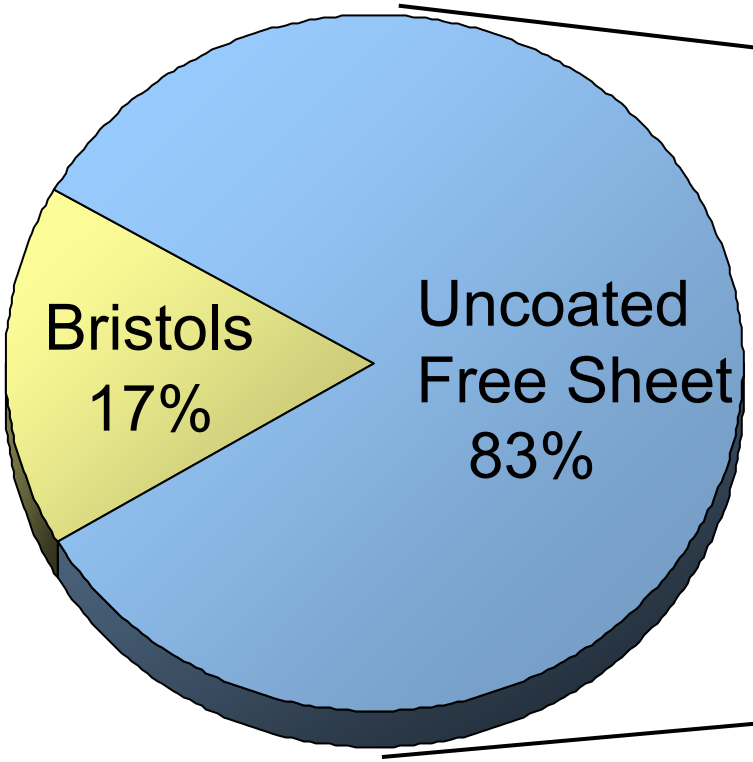
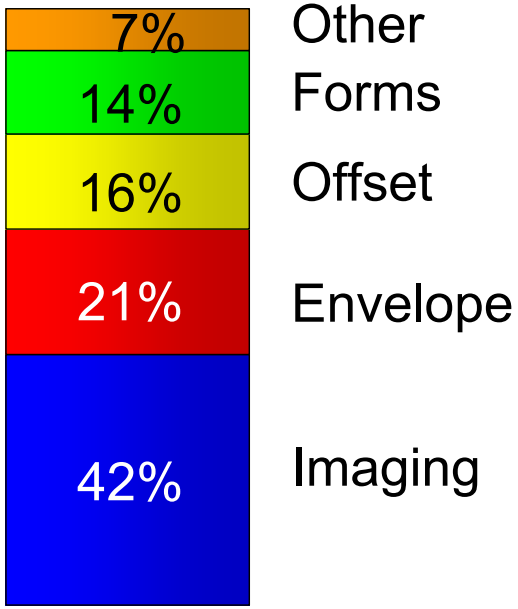
Total Uncoated Papers



3.1 million tons shipped

Uncoated Free Sheet

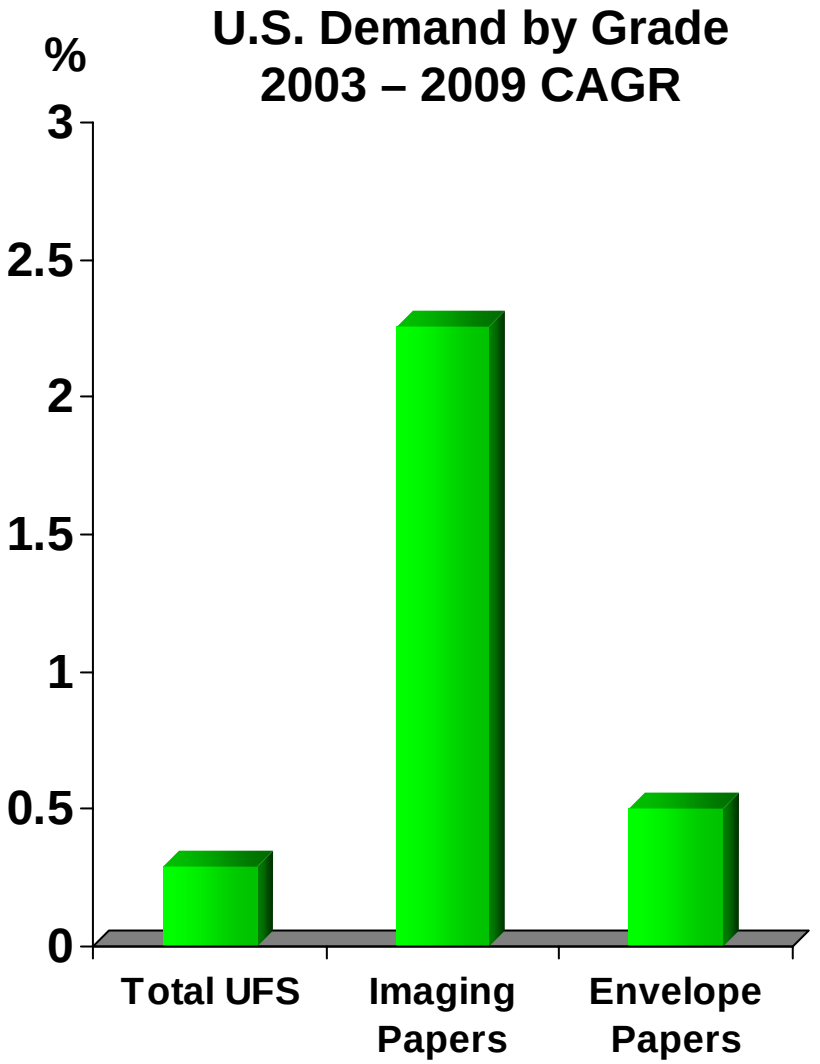


2.6 million tons shipped

U.S. Uncoated Papers

Market opportunities

- Although U.S. demand for uncoated free sheet is projected to be relatively flat, opportunities exist for excelling in this business
  - Imaging paper demand is forecasted to grow over 2% per annum
  - Envelope paper demand should grow faster than the total uncoated free sheet category



Sources: RISI

U.S. Uncoated Papers

Product innovation – VIP

- VIP1 – High Whiteness Papers
  - Moves IP's U.S. uncoated papers to global standard & eliminates perceived quality advantage of imports
- VIP2 – Enhanced Performance
  - More efficient way of making paper & improves commercial printing performance
- VIP3 – Improved Bulk
  - Direct mail applications



U.S. Uncoated Papers

Asset optimization

- Fewer, bigger, better facilities – all low-cost
  - Investing in best performing assets
  - Transforming the Pensacola, Fla. mill from a 3rd quartile uncoated free sheet mill to a 1st quartile lightweight linerboard mill
  - Closing high-cost uncoated paper capacity

U.S. Uncoated Papers

Investing in Eastover, SC uncoated paper mill

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- The Eastover, SC mill is IP's largest and most modern uncoated paper mill
- The mill has a first quartile cost position
- Rebuilding PM1 in 4Q'05 to improve sheet quality and reduce manufacturing costs ($125 million project)
- Focusing the rebuilt machine on value-added grades such as envelope and cut-size papers

Global Uncoated Papers

Low-cost capacity in E. Europe and L. America

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Eastern Europe

- 700,000 tpy of uncoated paper capacity at our Kwidzyn, Poland and Svetogorsk, Russia mills

Latin America

- 500,000 tpy of uncoated paper capacity at our Mogi Guacu, Brazil mill



Uncoated Papers
Summary

- Uncoated papers is a key platform business
- IP is the largest, best positioned uncoated papers global producer with
  - Superior return on sales in each region
  - Strong positions with global customers
  - Innovative, proprietary technology to differentiate products
  - Low-cost positions in U.S., Eastern Europe and Brazil
  - Superior access to markets

U.S. Industrial Packaging

Strong businesses with integrated model

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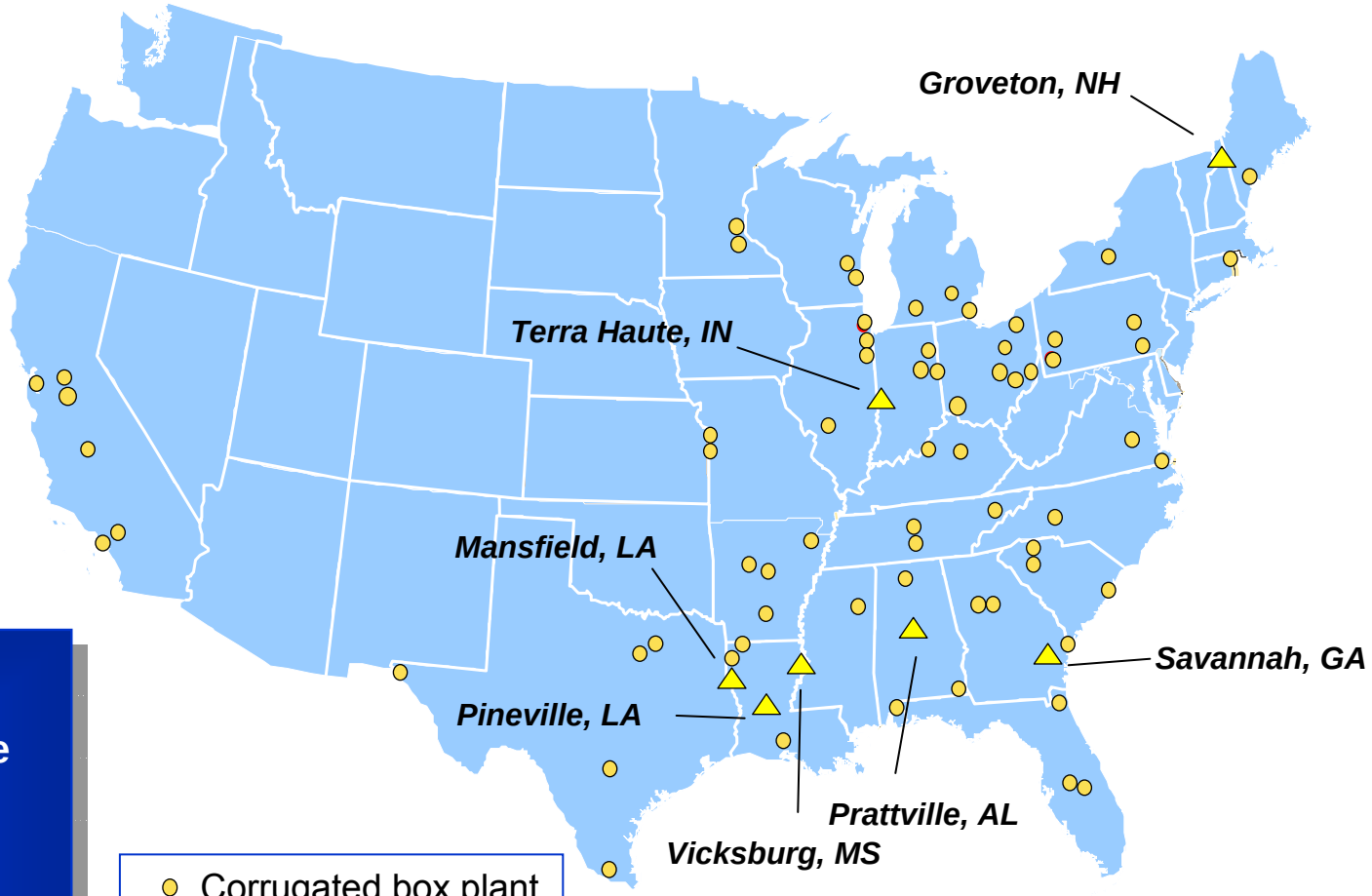
IP has a low-cost containerboard mill system and a growing integrated corrugated box business in the U.S.



2004 Results*

- $3.3 B revenue
- 70 box plants
- 7 board mills
  - 4.5 MM tpy

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

U.S. Industrial Packaging

Market opportunities

- With no new containerboard capacity announced for North America and box shipments forecasted to grow at about 2% per annum through 2007, opportunities exist for excelling in this business
  - Reduce manufacturing and supply chain costs
  - Increase integration level to maximize the profitability of our containerboard system
  - Convert Pensacola, Fla. mill to lightweight linerboard, broadening our product offering
  - Improve positioning in profitable corrugated box segments

Source: FBA

U.S. Industrial Packaging

Non-durable box shipments

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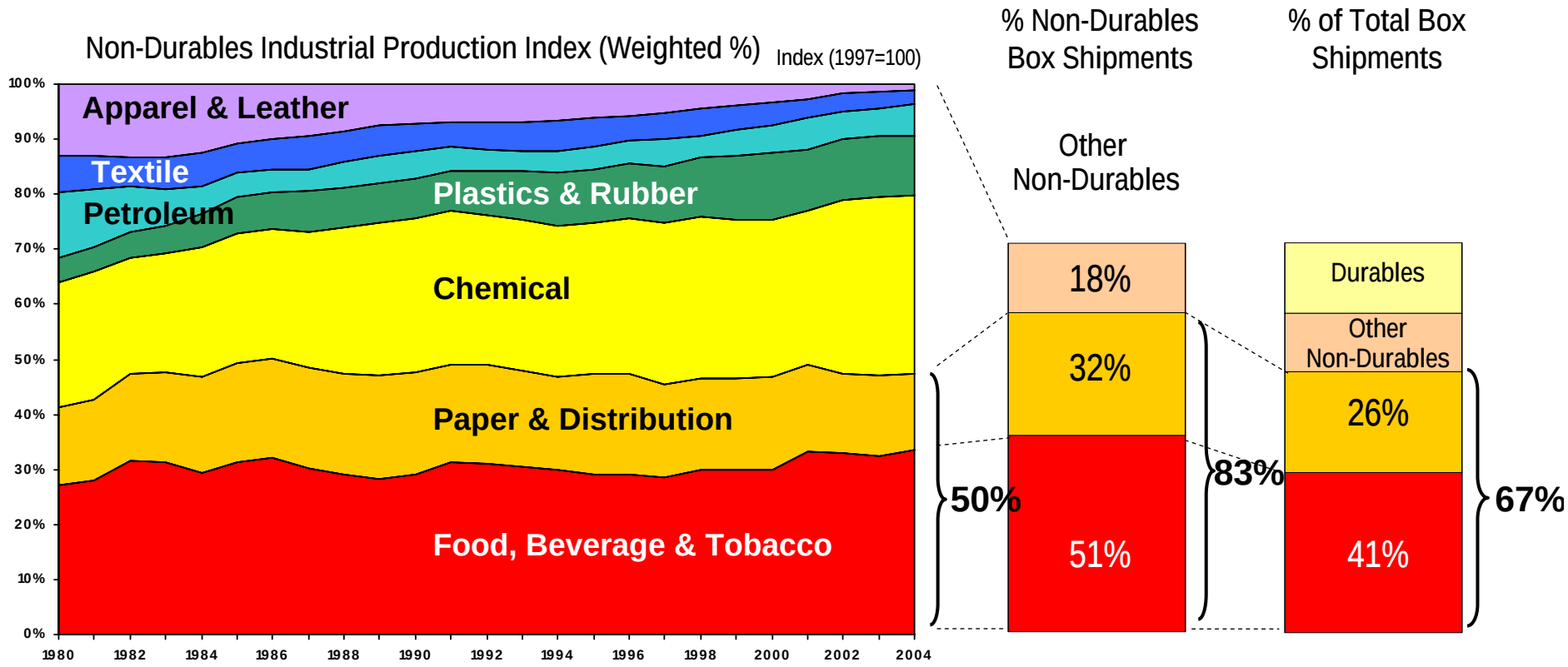
Non-Durable box shipments heavily driven by Food & Beverage and Paper & Distribution



Source: FBA, Federal Reserve, IP Analysis

International Container

Strong business with non-integrated model

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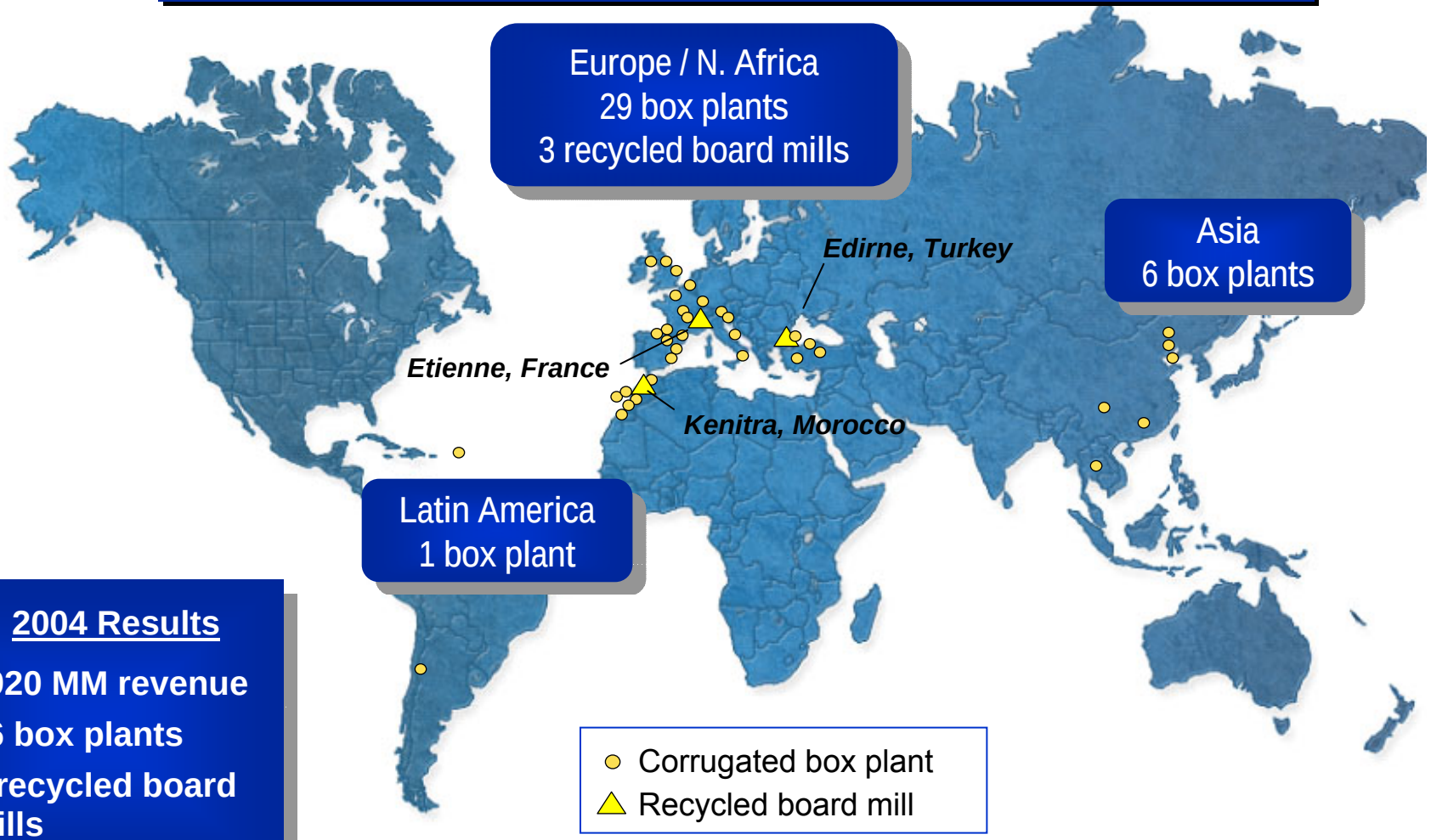
IP's international box business has 36 plants outside N. America, mostly in W. Europe



2004 Results

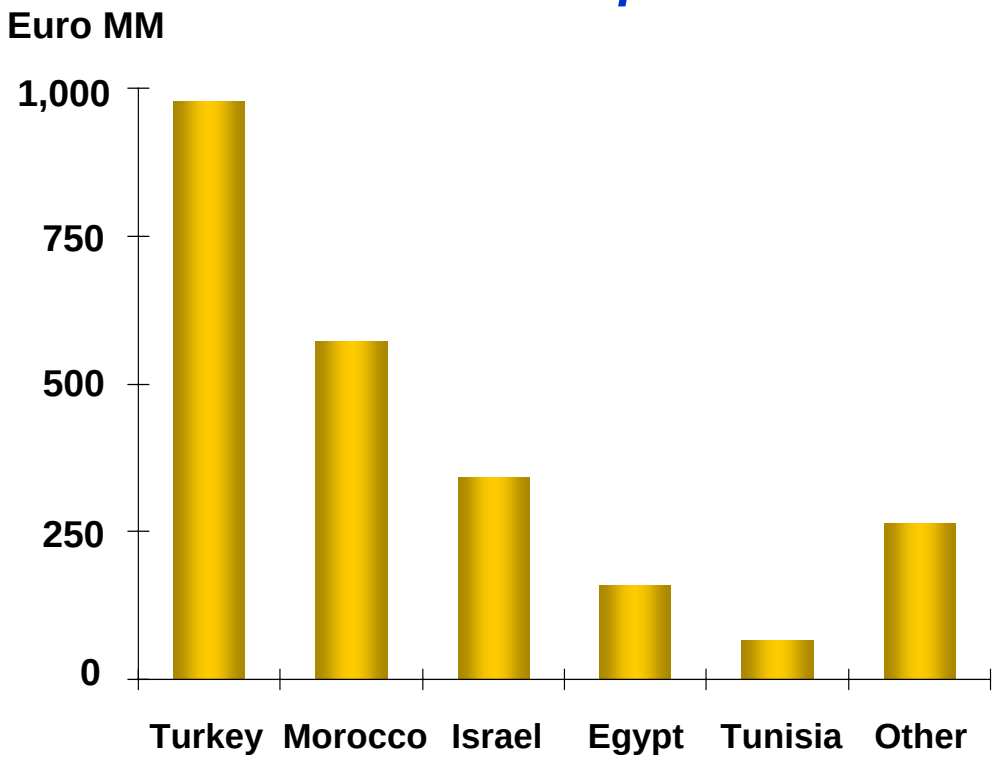
- **$920 MM revenue**
- **36 box plants**
- **3 recycled board mills**

International Container

Acquired CMCP in Morocco

- Purchased for $120 MM
  - ($80 MM plus assumed $40 MM debt)
- IP equity position of 65%
- 4 box plants and 1 recycled board mill
- Strengthens IP's position in the fruit and vegetable segment
- Projected ROI of 15-20%

Fruit & Vegetable Value into Europe



Source: Eurostat, FAOSTAT, CMPE, Societe Generale

Consumer Packaging

Global customers & differentiated products

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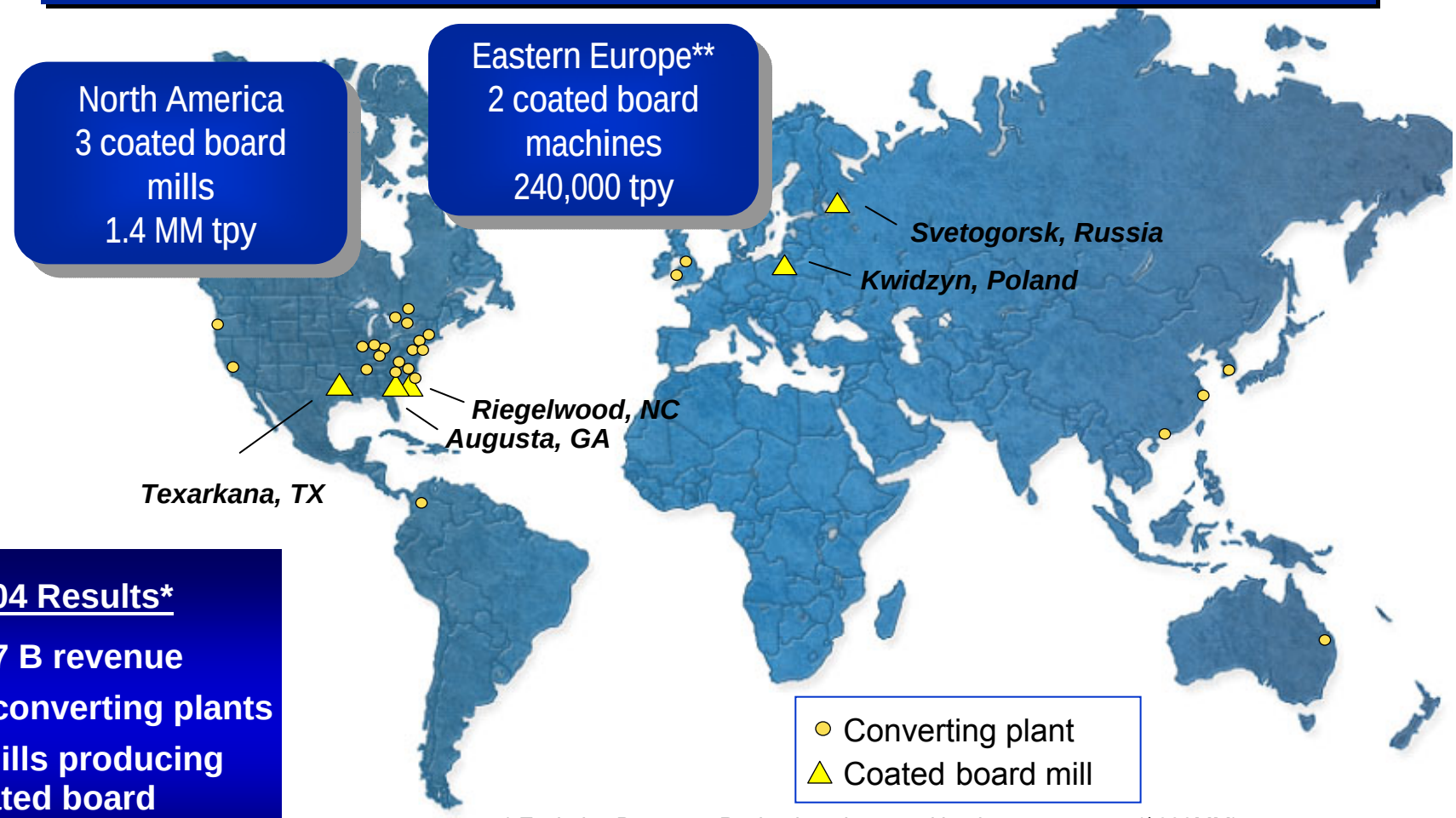
IP is the top global producer of coated board and positioned to serve packaging customers worldwide

North America
3 coated board mills
1.4 MM tpy

Eastern Europe**
2 coated board machines
240,000 tpy



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.

Consumer Packaging

Market opportunities

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- World demand for coated board is forecasted to grow at 3% p.a. through 2010
  - Folding carton
  - Coated bristols
  - Aseptic packaging board
- Targeting growth in home entertainment packaging in North America and Europe
- Expanding tobacco packaging business globally



Source: Jaakko Poyry

Packaging

Summary

- Industrial packaging has an integrated low-cost mill and corrugated box plant system in the U.S.
  - Growing corrugated box business outside North America
- Consumer packaging serves growing global customers with coated board and valued-added packaging
- Both businesses can earn cost of capital returns over the cycle

xpedx
North American merchant distribution

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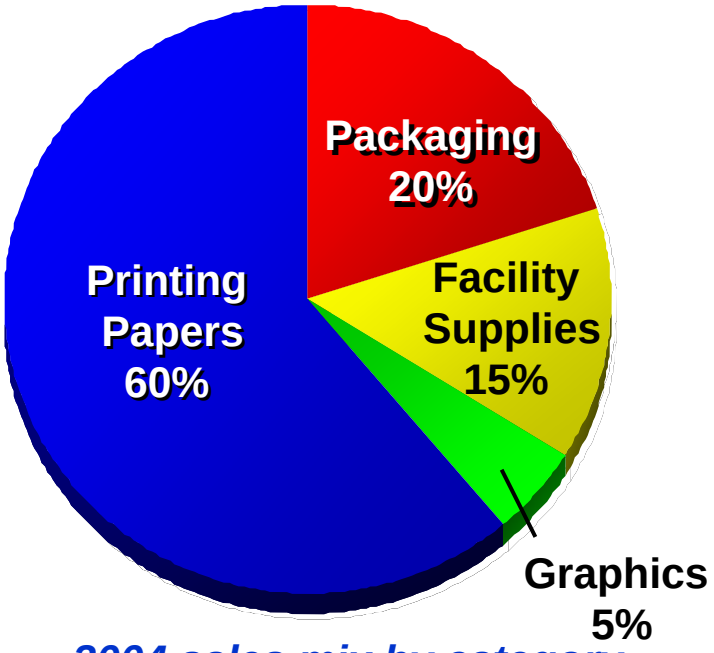
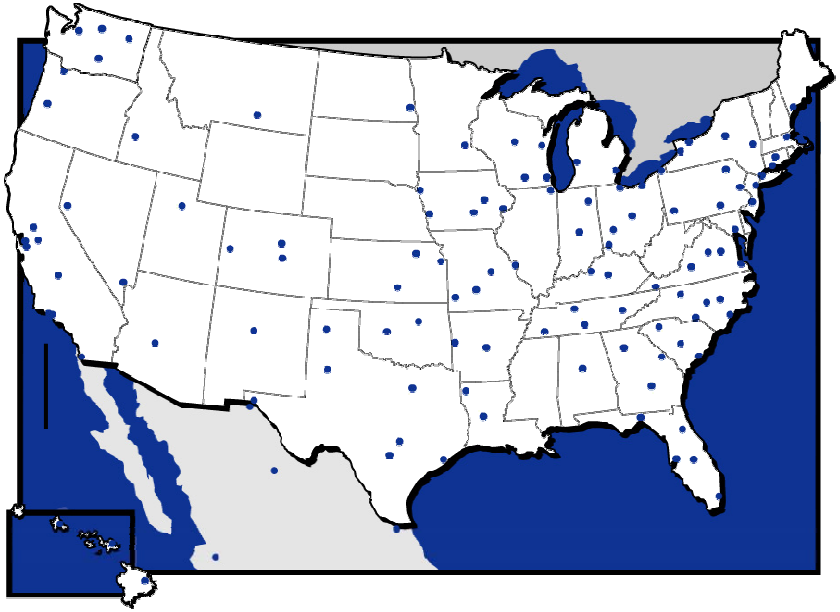
- xpedx is the largest N. American merchant and integrated with IP's paper and packaging businesses
  - 16% of IP's uncoated paper sales are through xpedx
  - 25% of xpedx's sales are IP products



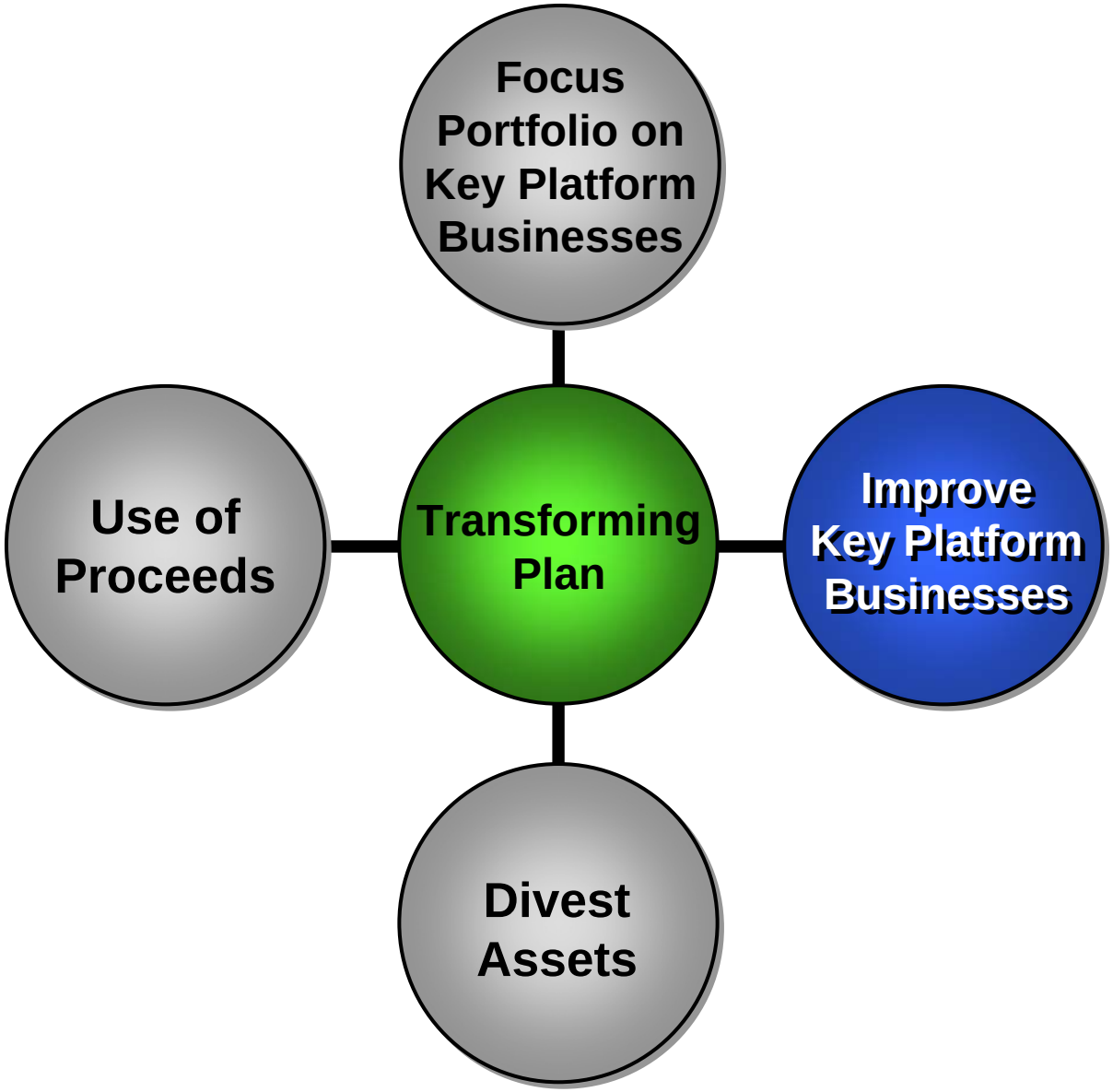
2004 sales mix by category



xpedx locations

Key Components of Plan

Improve key platform businesses



9M'05 vs. 9M'04 Results

EPS from cont. ops before special items

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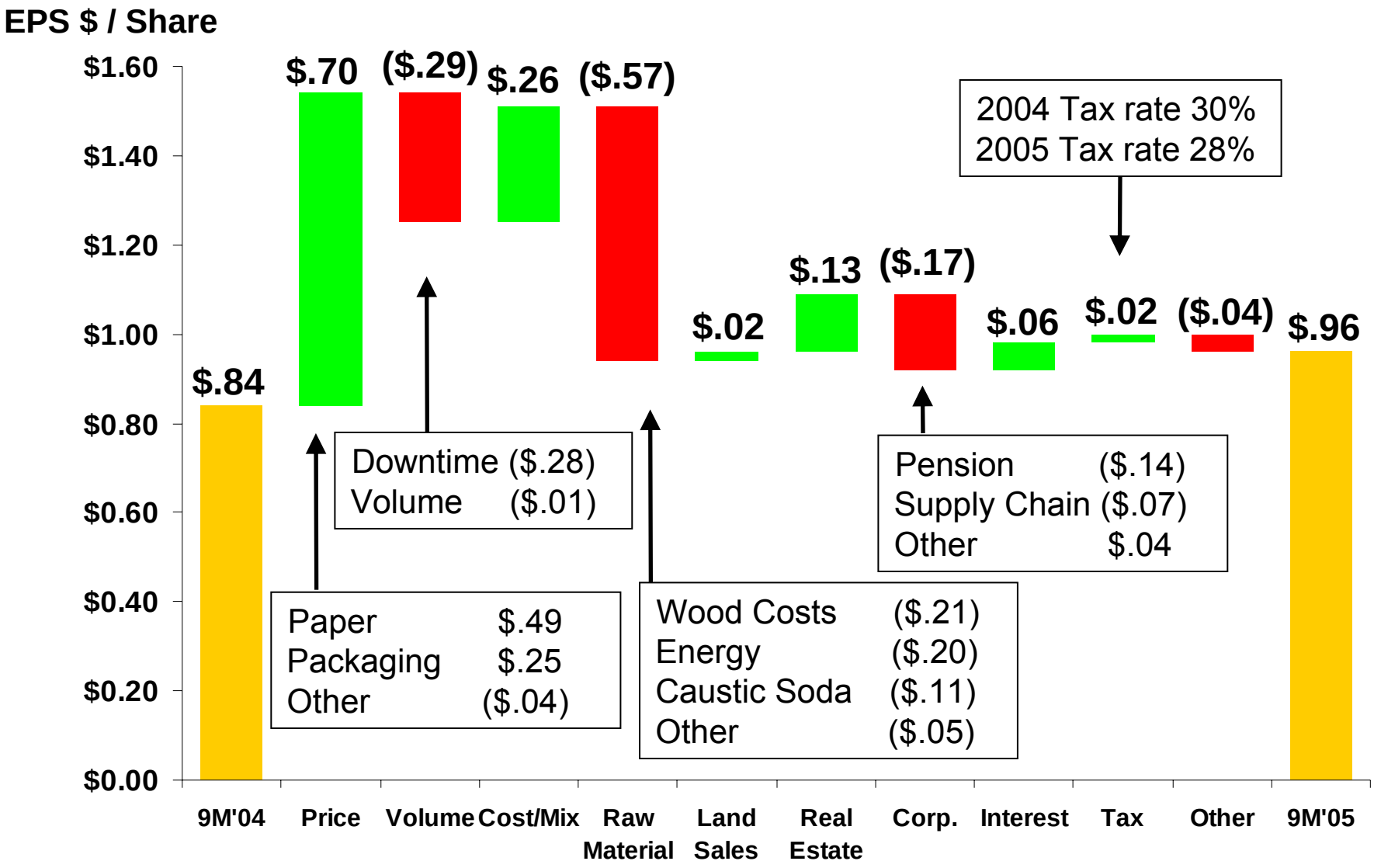

Profit Improvement Initiatives

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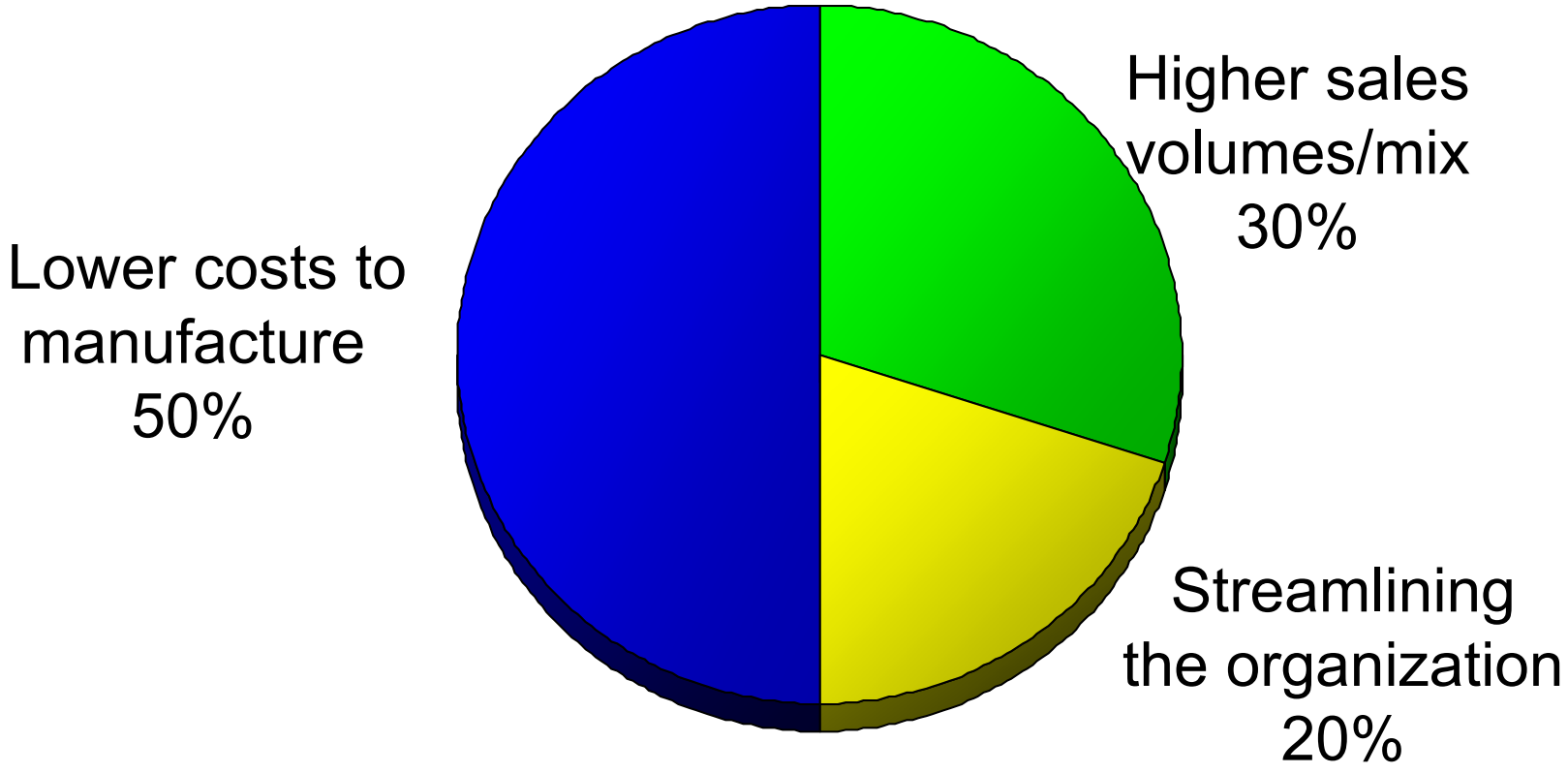
Targeting $400 million per year or $1.2 billion of cumulative profit improvement over three years



Profit Improvement Initiatives

Lower costs to manufacture

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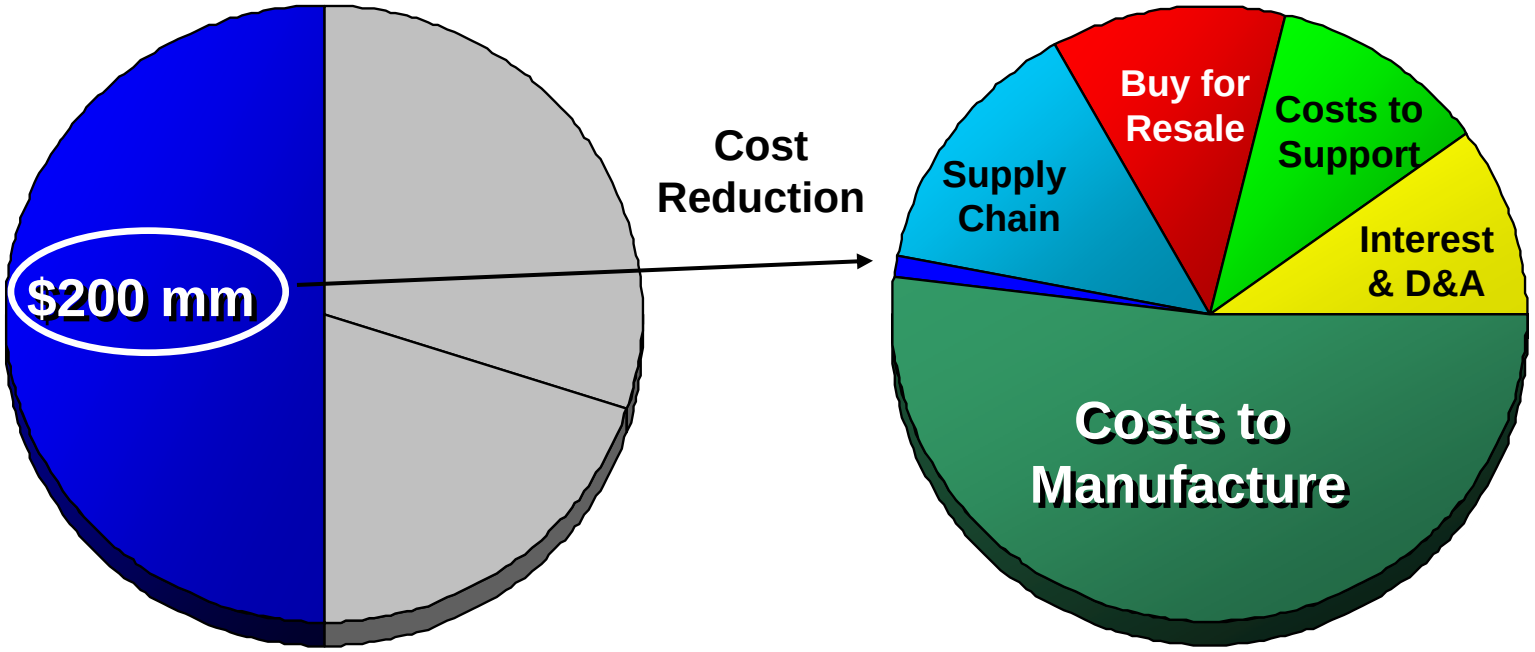
Taking $200 million per year of costs out of a $20 billion cost base is achievable



Annual Profit Improvement Target

Total Cost Base $20 billion

Costs to Manufacture

Reducing purchased energy costs

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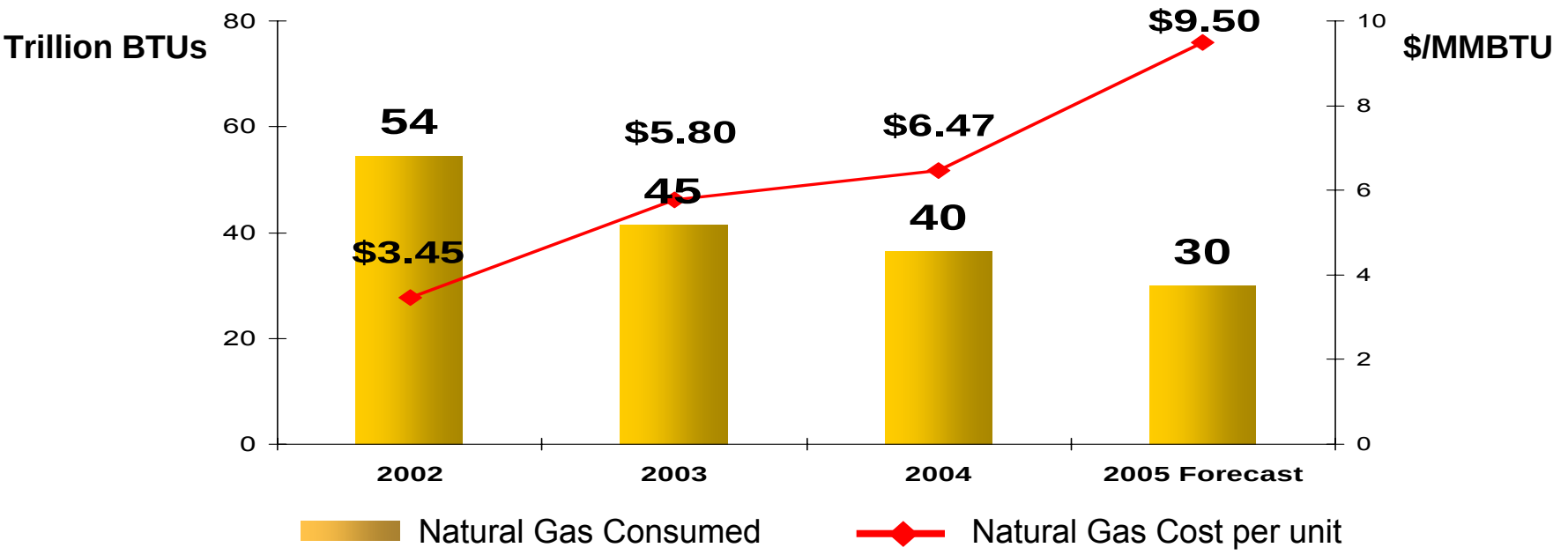
- Energy conservation and substitution remain key imperatives for the enterprise
  - Fuel cost reduction projects have >50% ROI
  - Targeting $50-75 million in spending on energy and chemical reduction projects for 2006
  - Natural gas consumption down 45% at U.S. mills since 2002



Costs to Manufacture

Improving overall equipment efficiency

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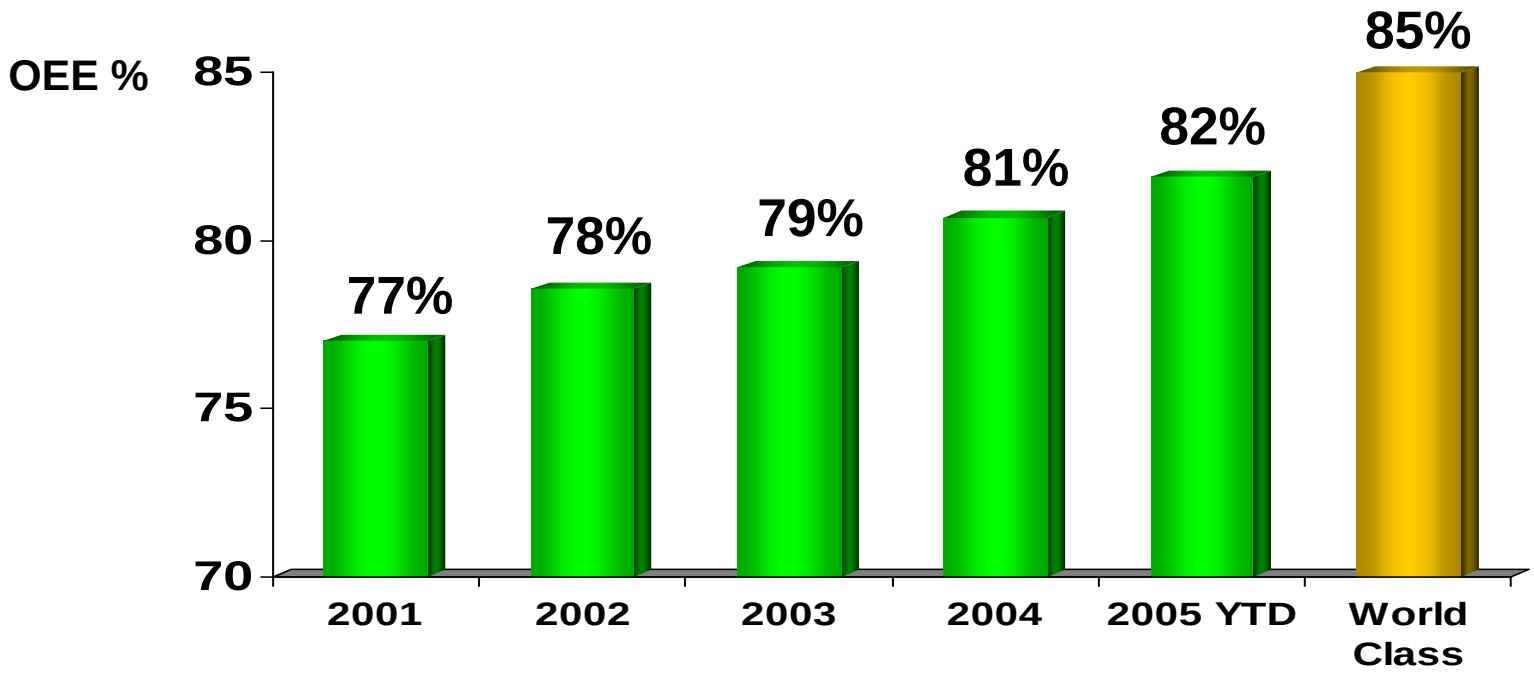
- Improving overall equipment efficiency of U.S. primary mills each year since 2001
  - Each percentage point improvement in overall equipment efficiency equates to $50 million per year in cost reduction
  - Targeting world class benchmark for all IP mills



* OEE = Acceptance x Availability x Speed Efficiency in U.S. primary mills

Supply Chain
Logistics improvement initiative

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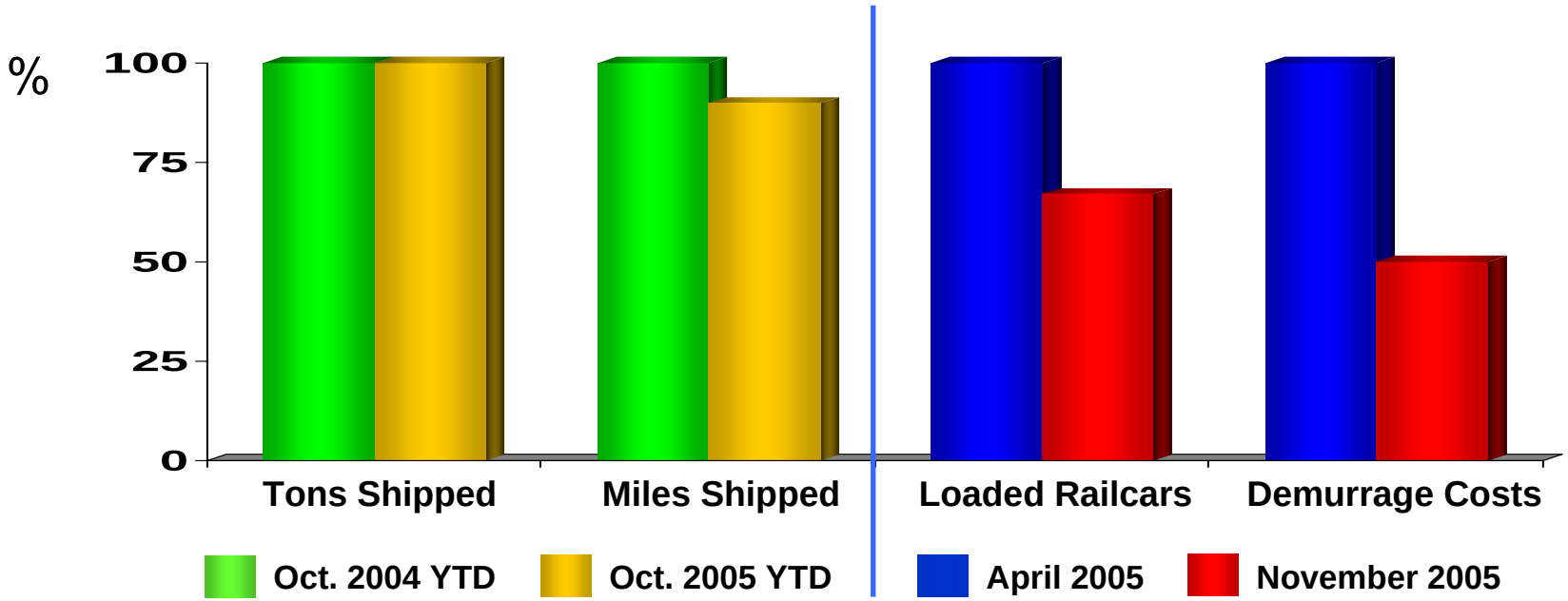
- IP's containerboard mill system is using a centralized transportation effort to lower logistics costs
  - Tons shipped October 2005 YTD = October 2004 YTD
  - 10% or 4 million fewer miles shipped October 2005 YTD
  - Proactive railcar management reduced loaded railcars by 1,000 cars per week and demurrage costs by 50% since April 2005



Supply Chain

Regional distribution center initiative

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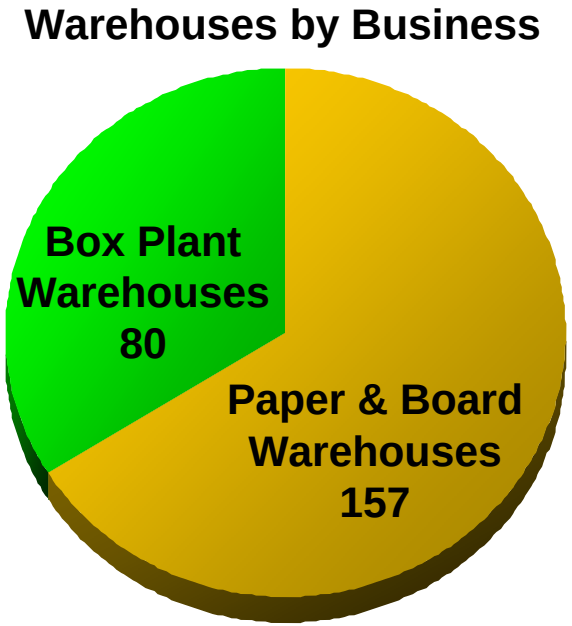
- Regional distribution centers will reduce warehousing and transportation costs and improve customer service
  - Significantly reduce number of IP warehouses in the U.S.
  - Consolidate IP products in central locations





Profit Improvement Initiatives

Higher sales volumes / mix

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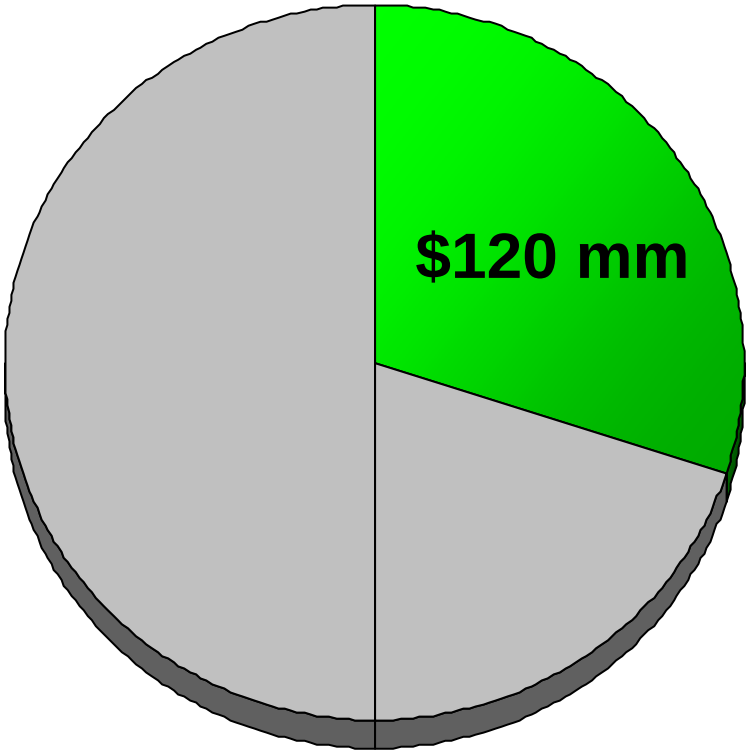
Adding $120 million per year from higher sales volumes and improved mix is achievable



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

Profit Improvement Initiatives

Streamlining the organization

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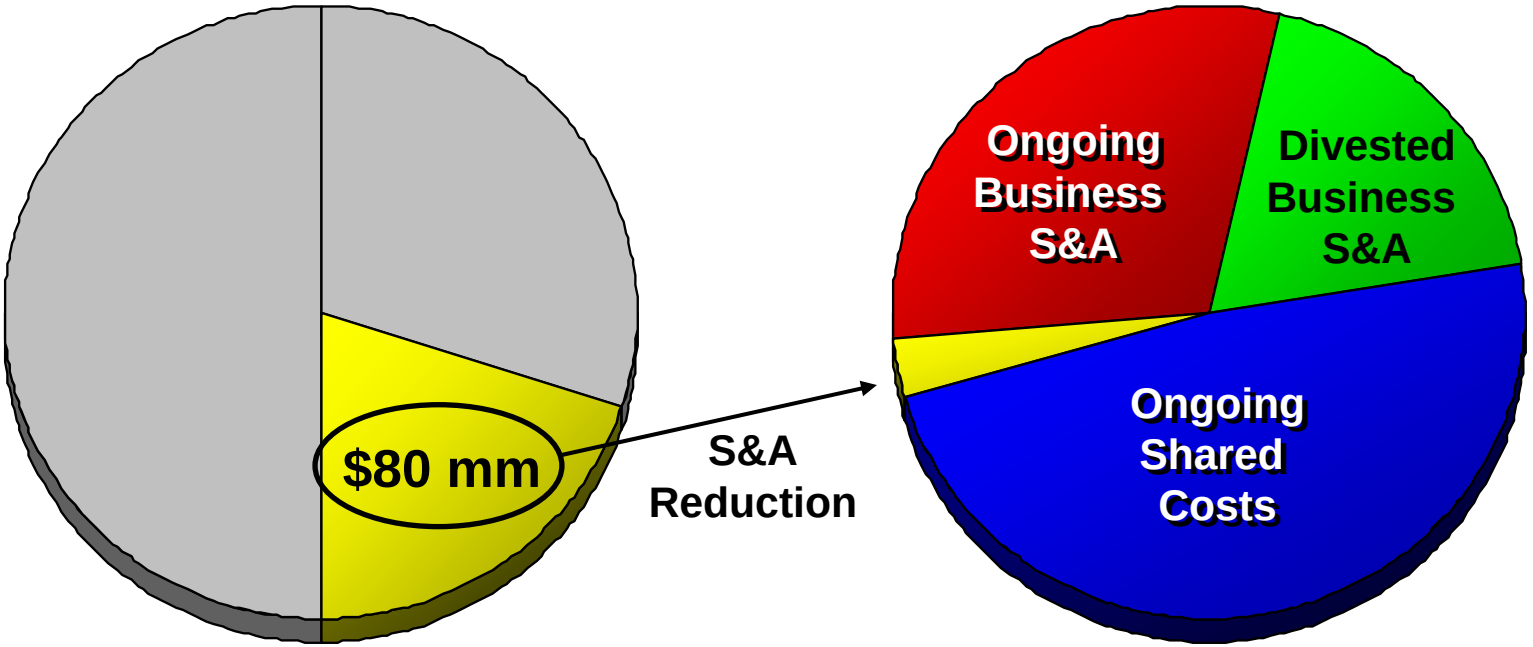
Taking $80 million per year of overhead costs out of a $3.1 billion cost base will happen



Annual Profit Improvement Target

Total Overhead Costs $3.1 Billion

Streamlining the Organization

Reducing overhead costs

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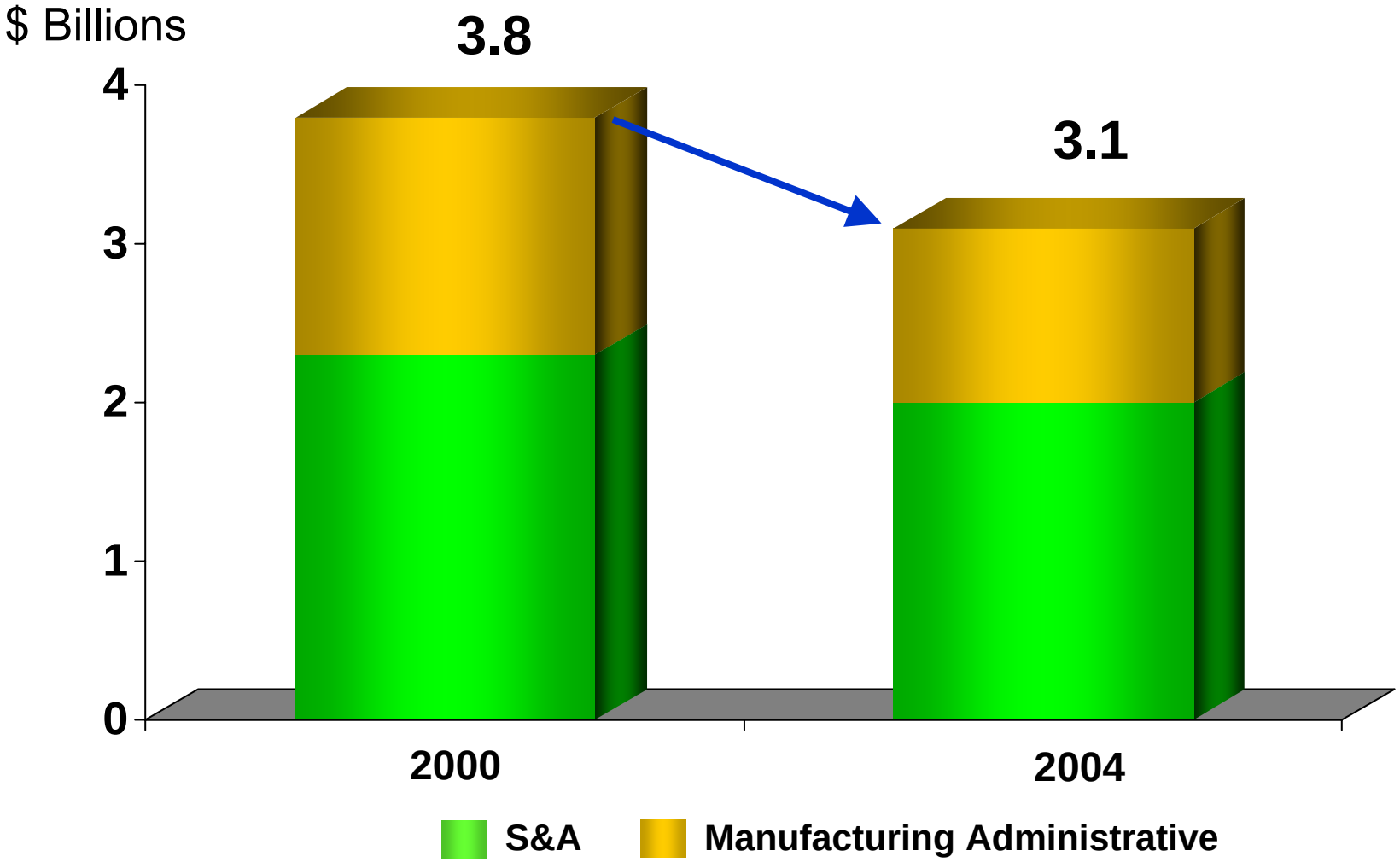
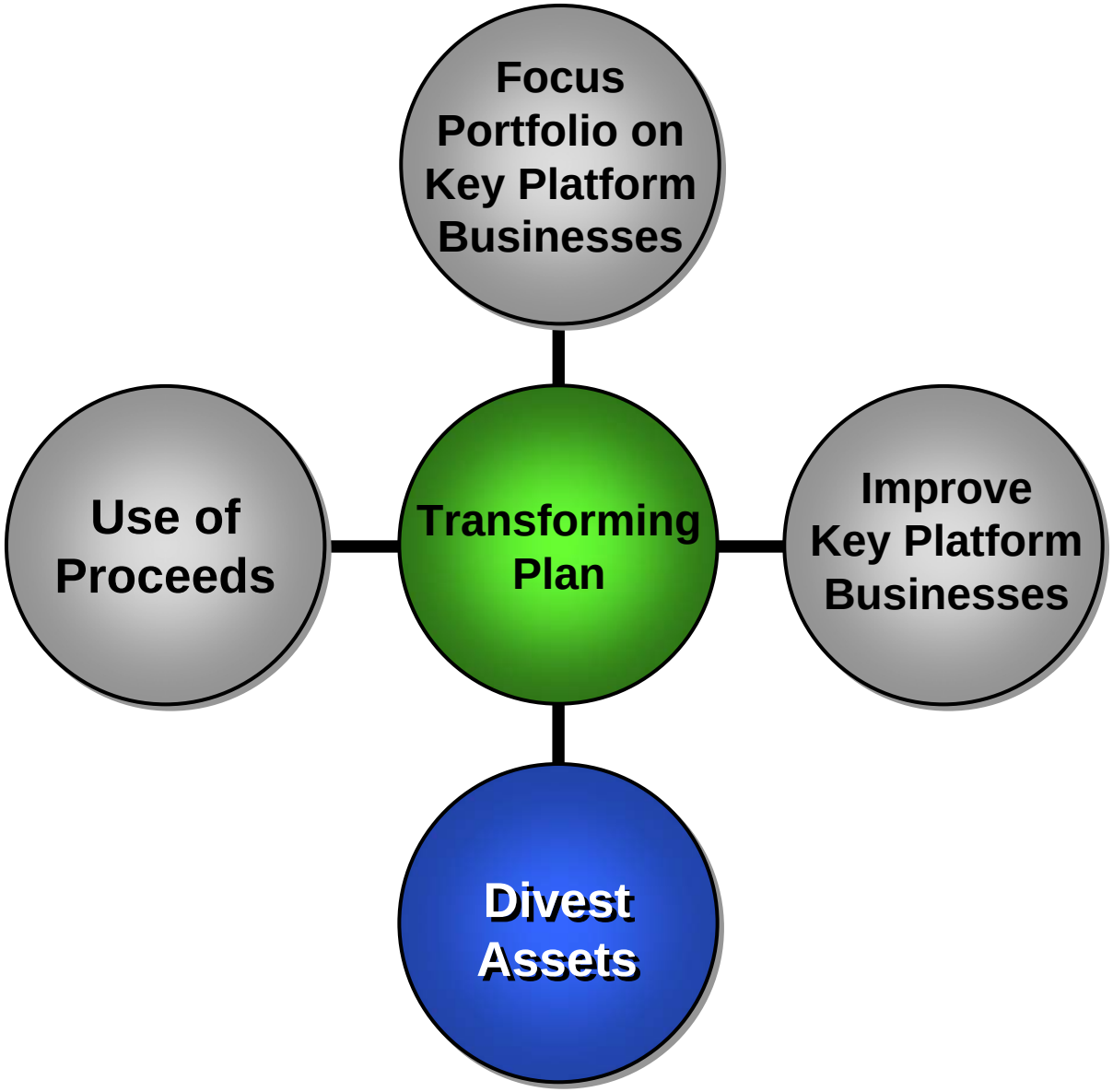
Reduced overhead costs by $700 million 2000 - 2004



Key Components of Plan

Divest assets



Divestiture Timeline

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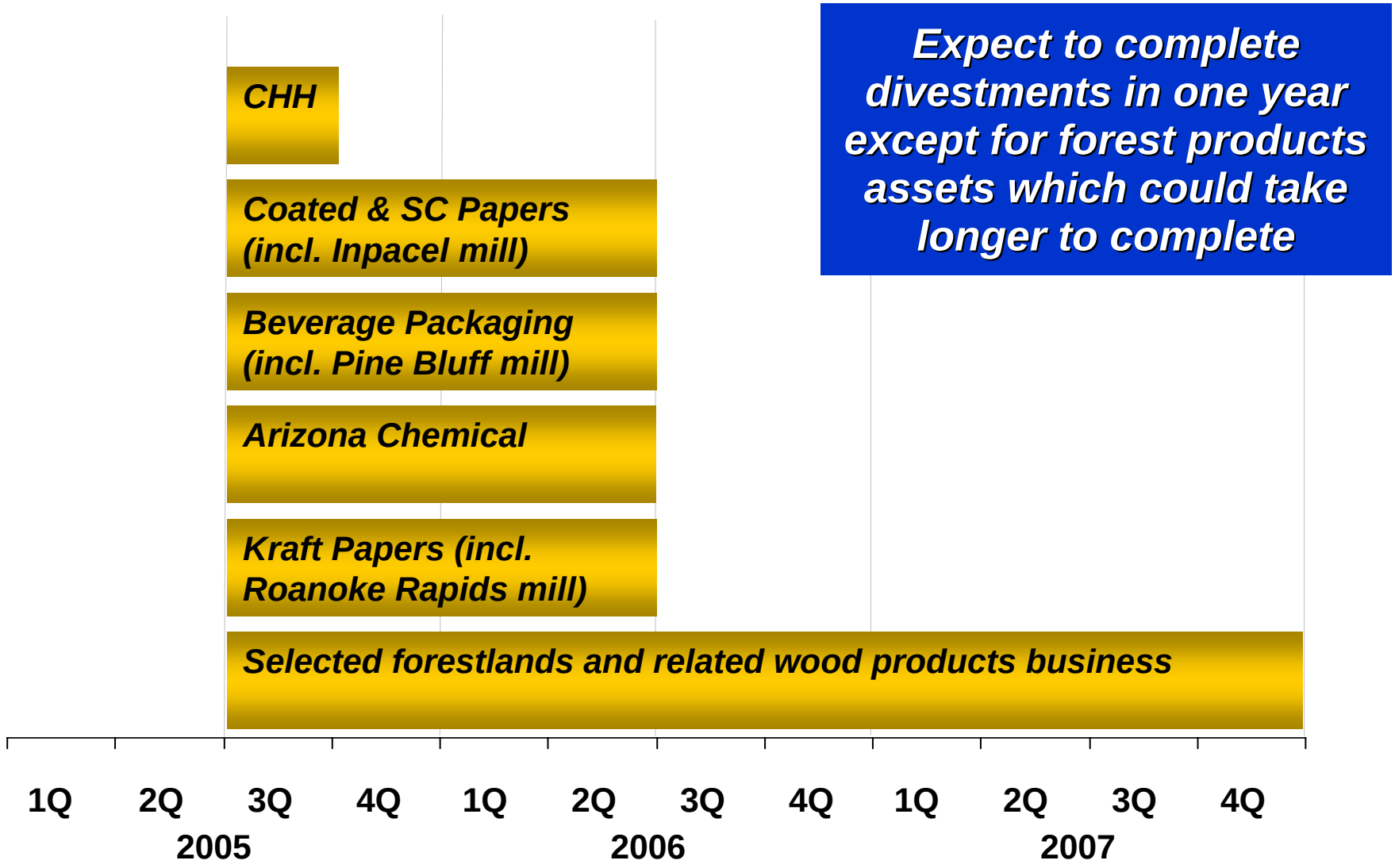

Expect to complete divestments in one year except for forest products assets which could take longer to complete

Divestiture Program

Status as of Dec. 1, 2005

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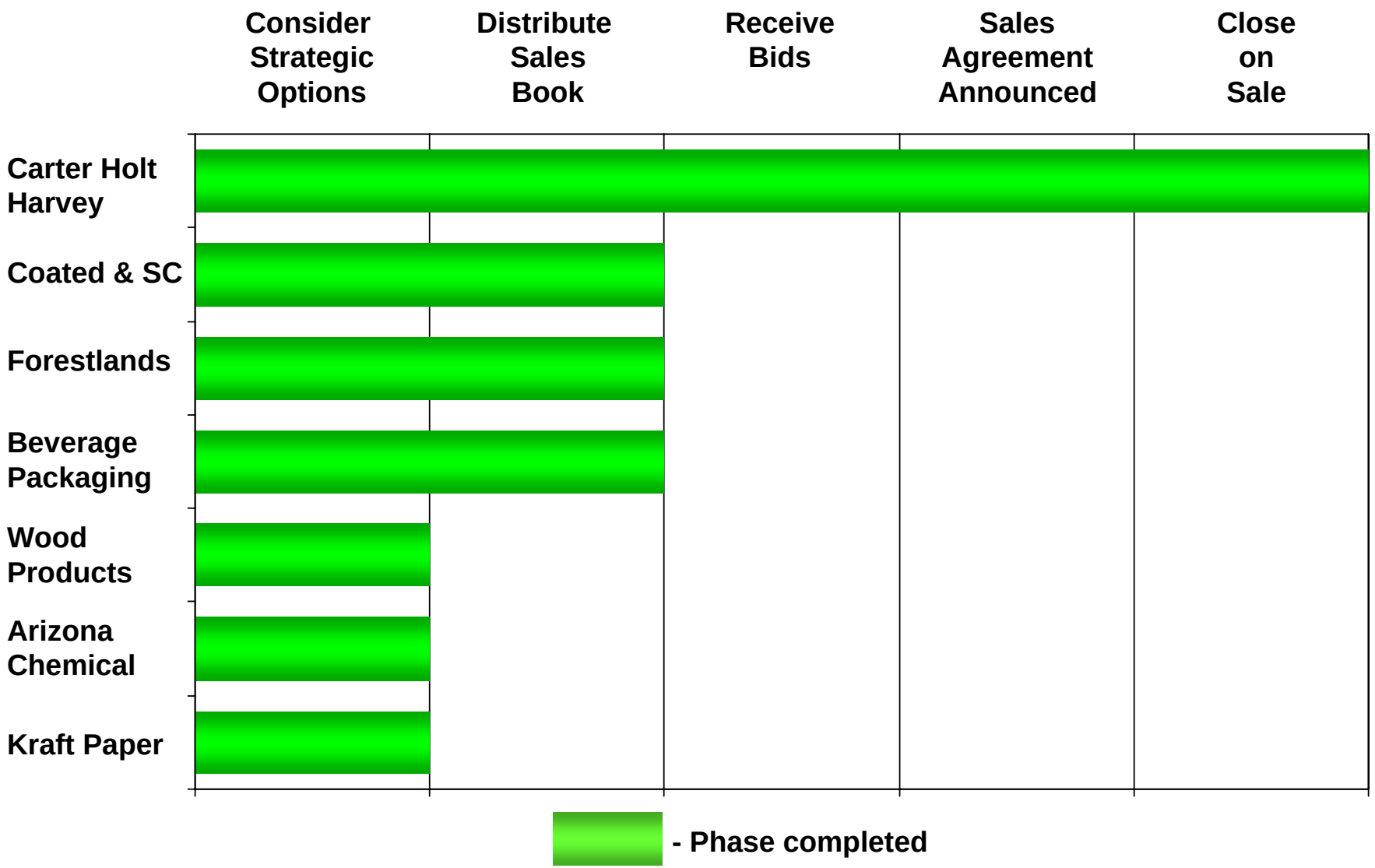
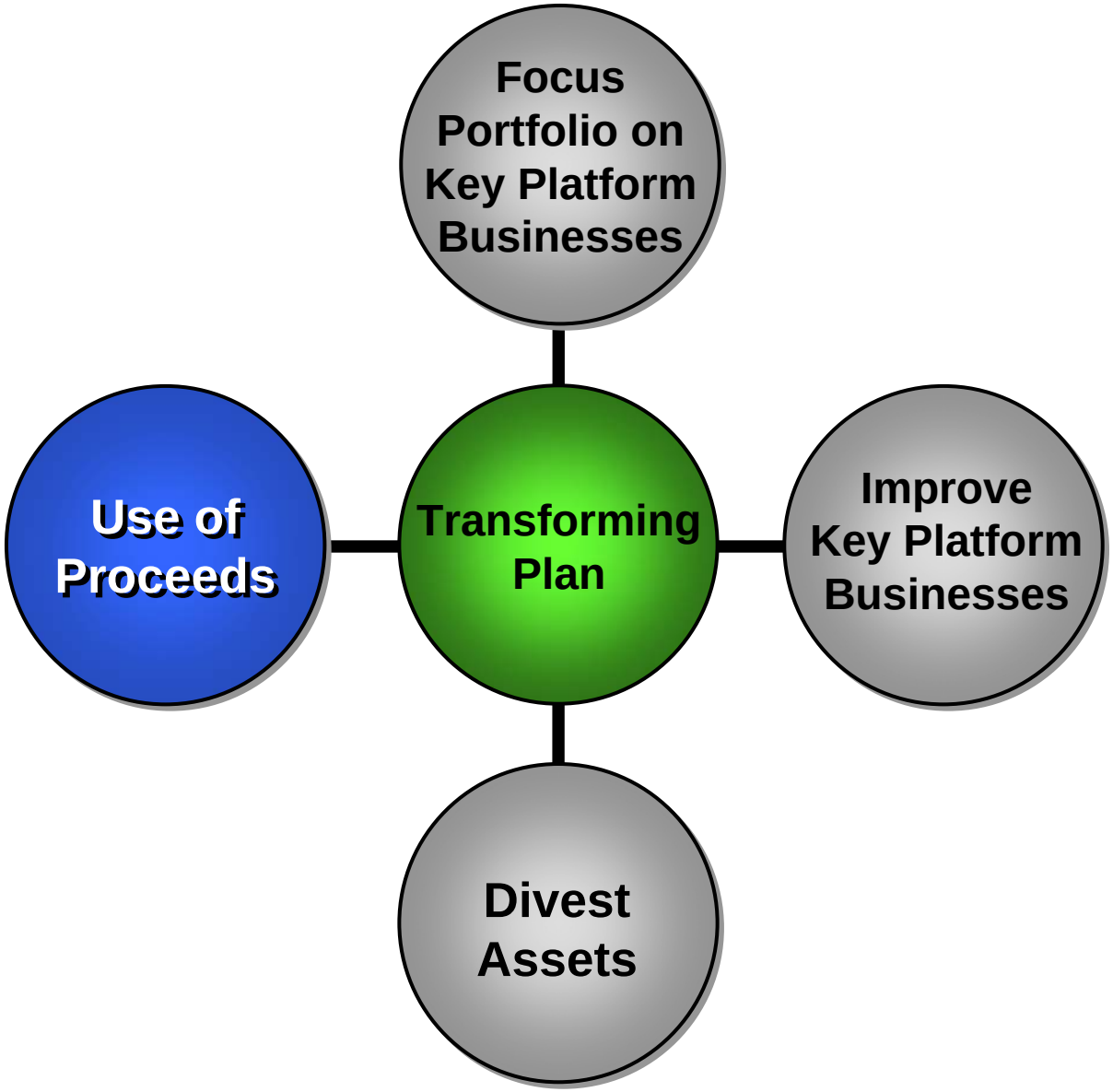


Key Components of Plan

Use of proceeds



Use of Proceeds

- Use of after-tax proceeds ($8-10 billion)
  - Debt repayment
  - Return value to shareholders
  - Selective reinvestment

Debt Repayment

Solidify investment grade credit rating

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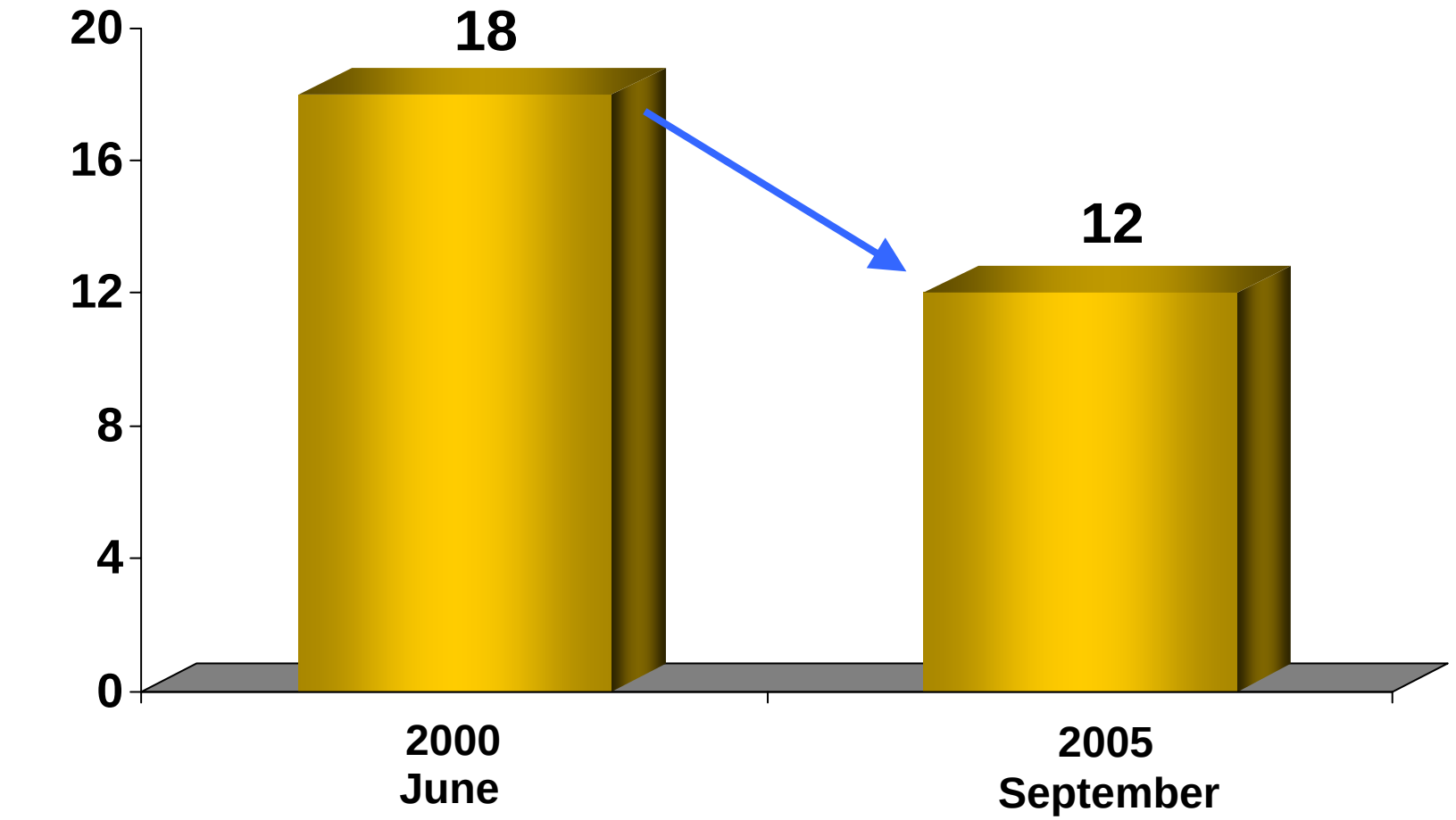
Reduced gross debt by over $6 billion since June 2000



June 2000 includes Carter Holt Harvey debt on IP's balance sheet

Return Value to Shareholders

- Portion of after-tax proceeds will be used to return value to shareholders
- Potential options include:
  - Share repurchases
  - Increase regular dividend (if sustainable)
  - Special dividend

Selective Reinvestment

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

Earnings Improvement Summary*

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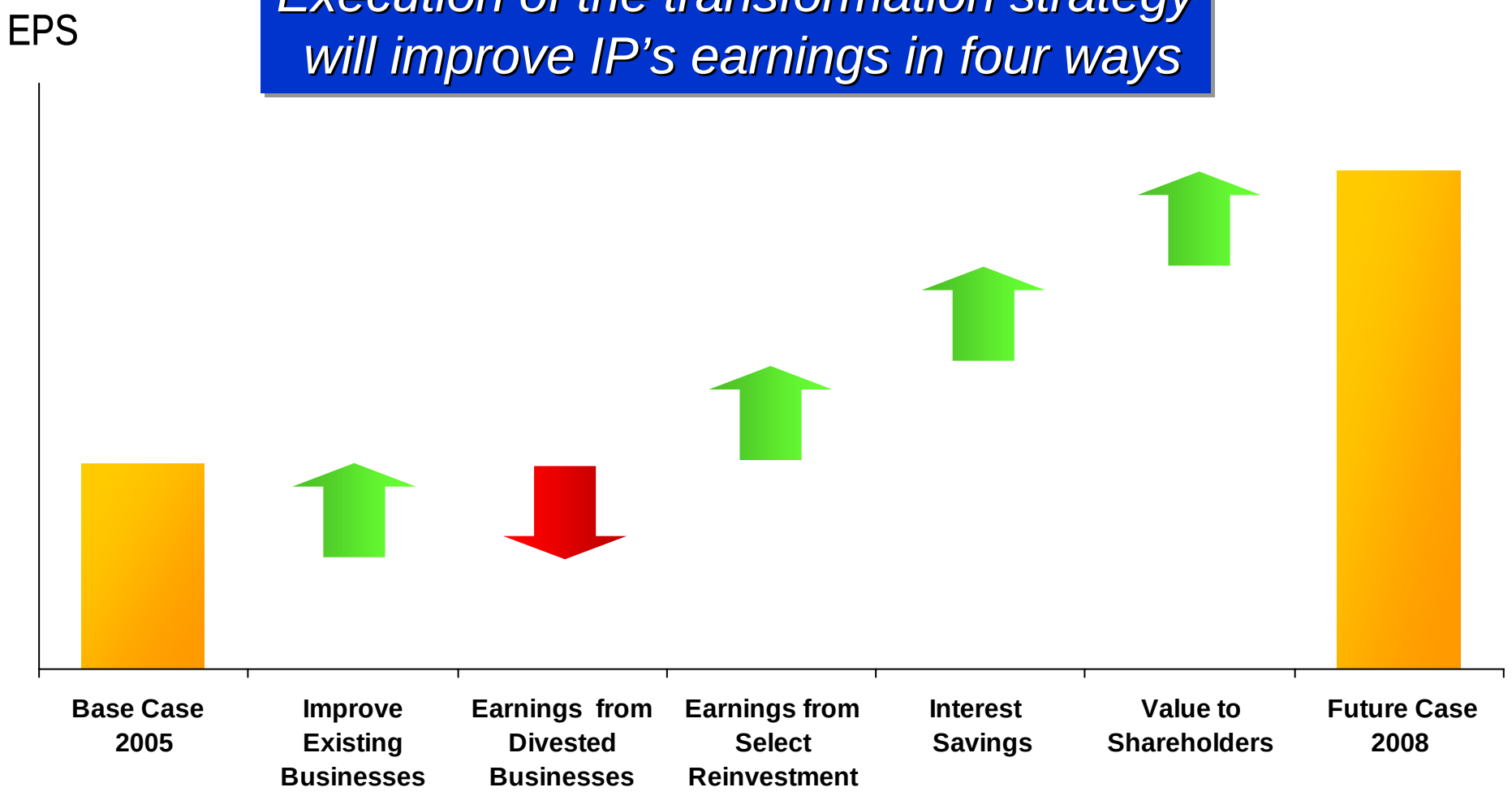
Execution of the transformation strategy will improve IP's earnings in four ways



* Component symbols used for illustrative purposes only, proportions not indicative of actual EPS impact.

Summary

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

Balancing the length of time required to divest assets with maximizing shareholder value

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 increased earnings power and better returns for the entire company



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Appendix

Transformation Overview

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Focus on Key Platform Businesses

- Uncoated Papers, Global
- Packaging, Global

Improve Profitability

- Ongoing improvement initiatives
- Reduce cost base
- Realign U.S. mills

Evaluate/Divest Selected Assets

- 50.5% stake in Carter Holt Harvey (Sold Sept. 2005)
- Coated Papers
- Beverage Pkg.
- Kraft Papers
- Arizona Chemical
- U.S. Forestlands –(selected)
- Wood Products

Use Divestment Proceeds and Free Cash Flow to Improve Business

- Improve balance sheet – repay debt
- Return value to shareowners
- Consider selective investments in best assets / new opportunities

9M'05 vs. 9M'04 Results

Selected financials

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	9 Months Ended September 30	
	2005	2004
Sales ($ billion)	18.0	17.3
Earnings From Continuing Operations and Before Special Items ($ million)	466	413
Diluted EPS From Continuing Operations and Before Special Items ($)	0.96	0.84
Net Earnings (Loss) as Reported ($ million)	1,177	(204)
Diluted EPS ($)	2.36	(0.42)
Average Capital Employed ($ billion)	25.0	25.1
Gross Debt ($ billion)	11.6	15.1
Average Shares Outstanding (million)	507.5	488.2

9M'05 vs. 9M'04 Results

EBIT impact from input costs & LOO downtime

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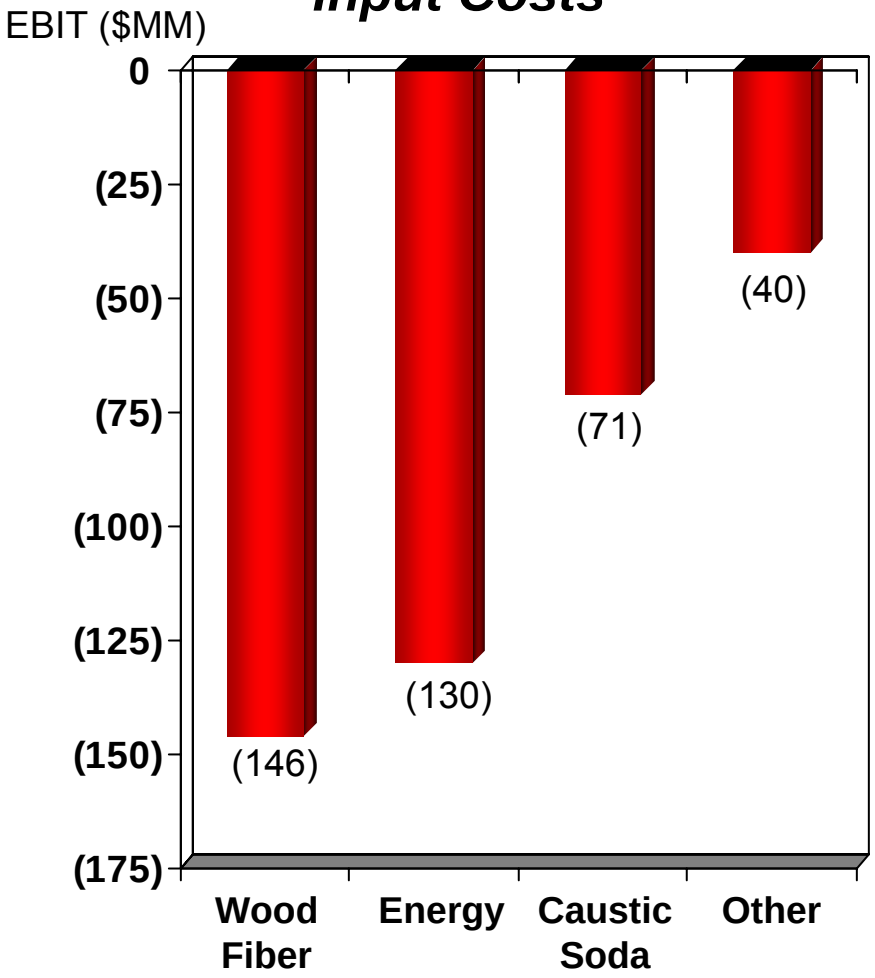
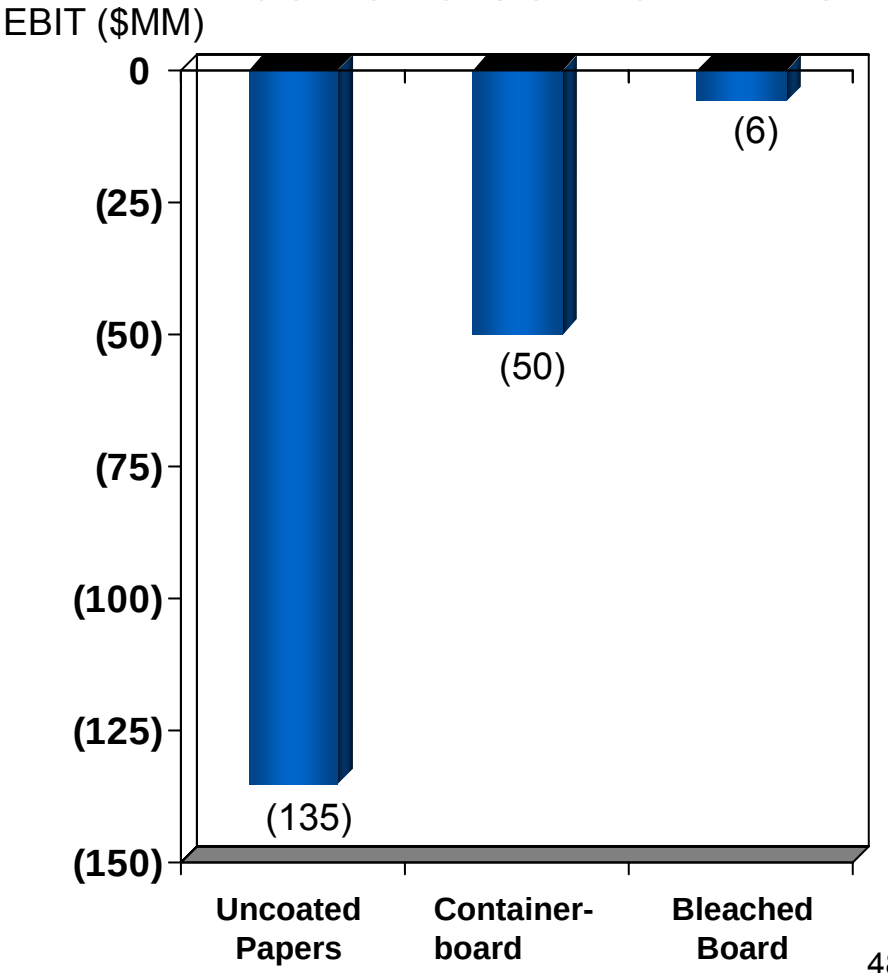
$387 million or $0.57/share impact in 9M'05 versus 9M'04

Input Costs



$191 million or $0.28/share impact in 9M'05 versus 9M'04

Lack-of-Order Downtime



U.S. Industrial Packaging

Source of corrugated box demand

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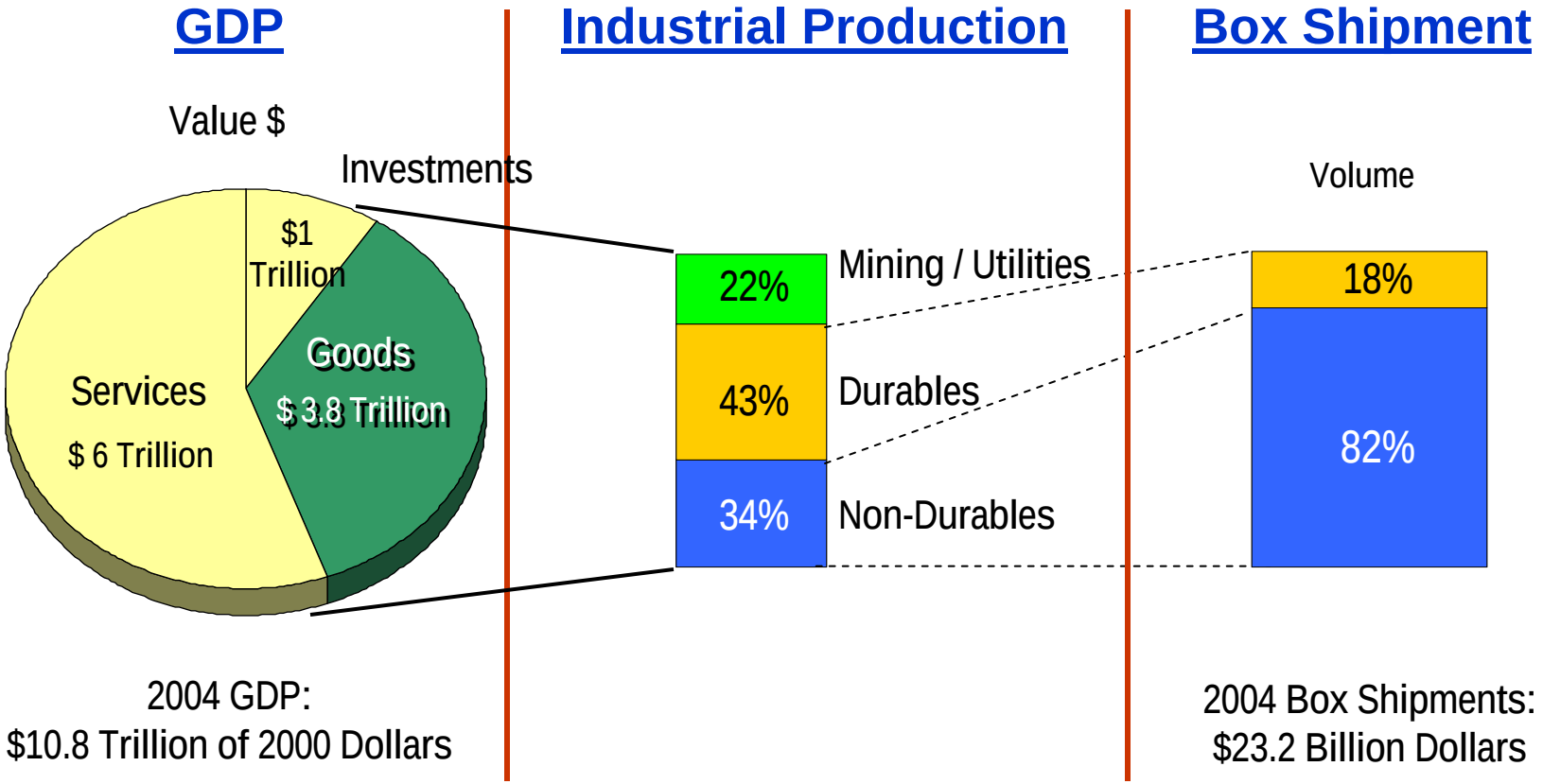
Over 80% of box demand comes from non-durables



Source: FBA, U.S. Department of Commerce, IP Analysis

U.S. Industrial Packaging

Industrial production & box shipments

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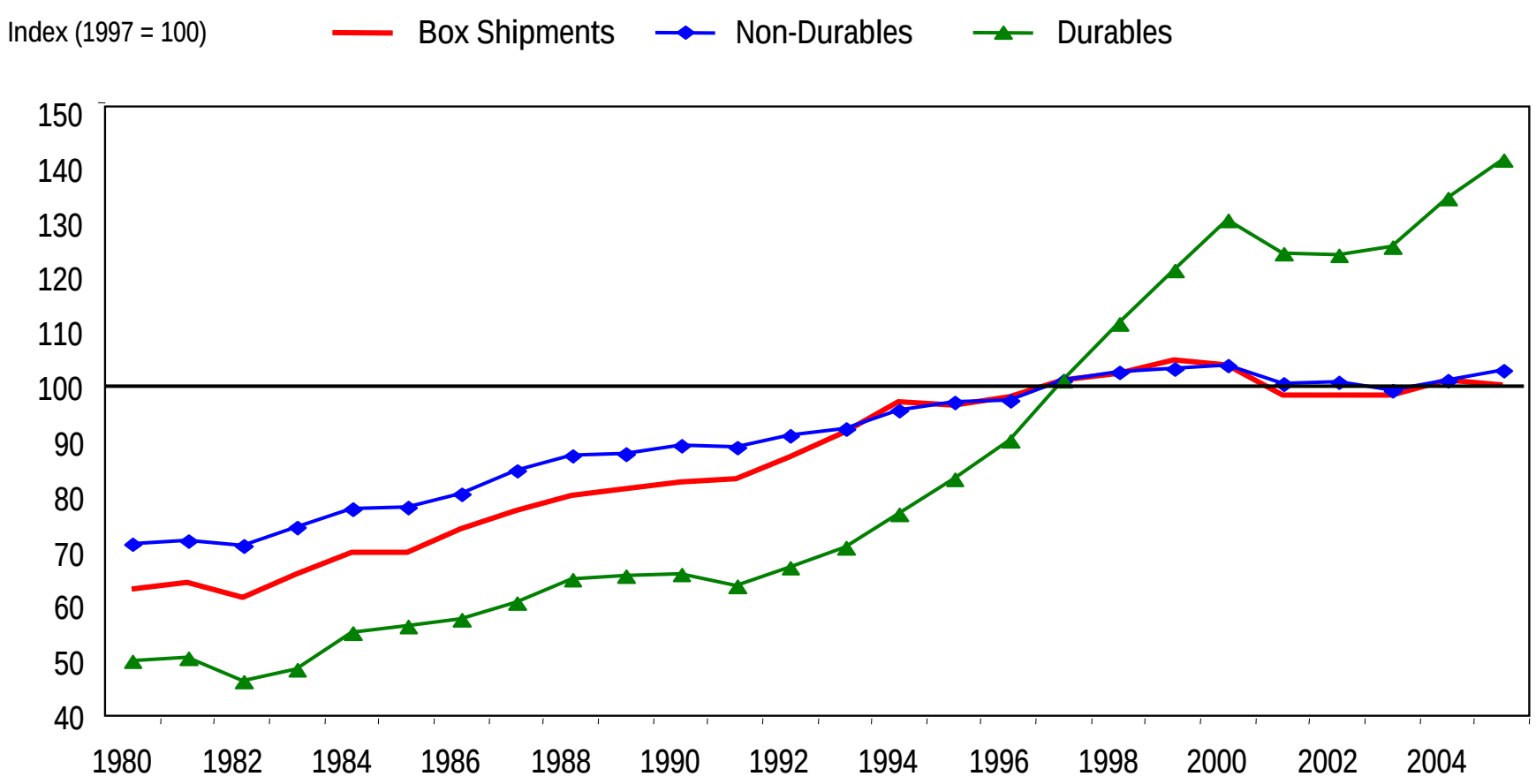
Box shipments relate closely with non-durables manufacturing



Source: FBA, Federal Reserve, IP Analysis

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

