

INTERNATIONAL PAPER

Fourth Quarter 2005 Review

February 2, 2006

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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

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

- Fourth Quarter 2005 Review
- First Quarter 2006 Outlook
- Transformation Plan Update

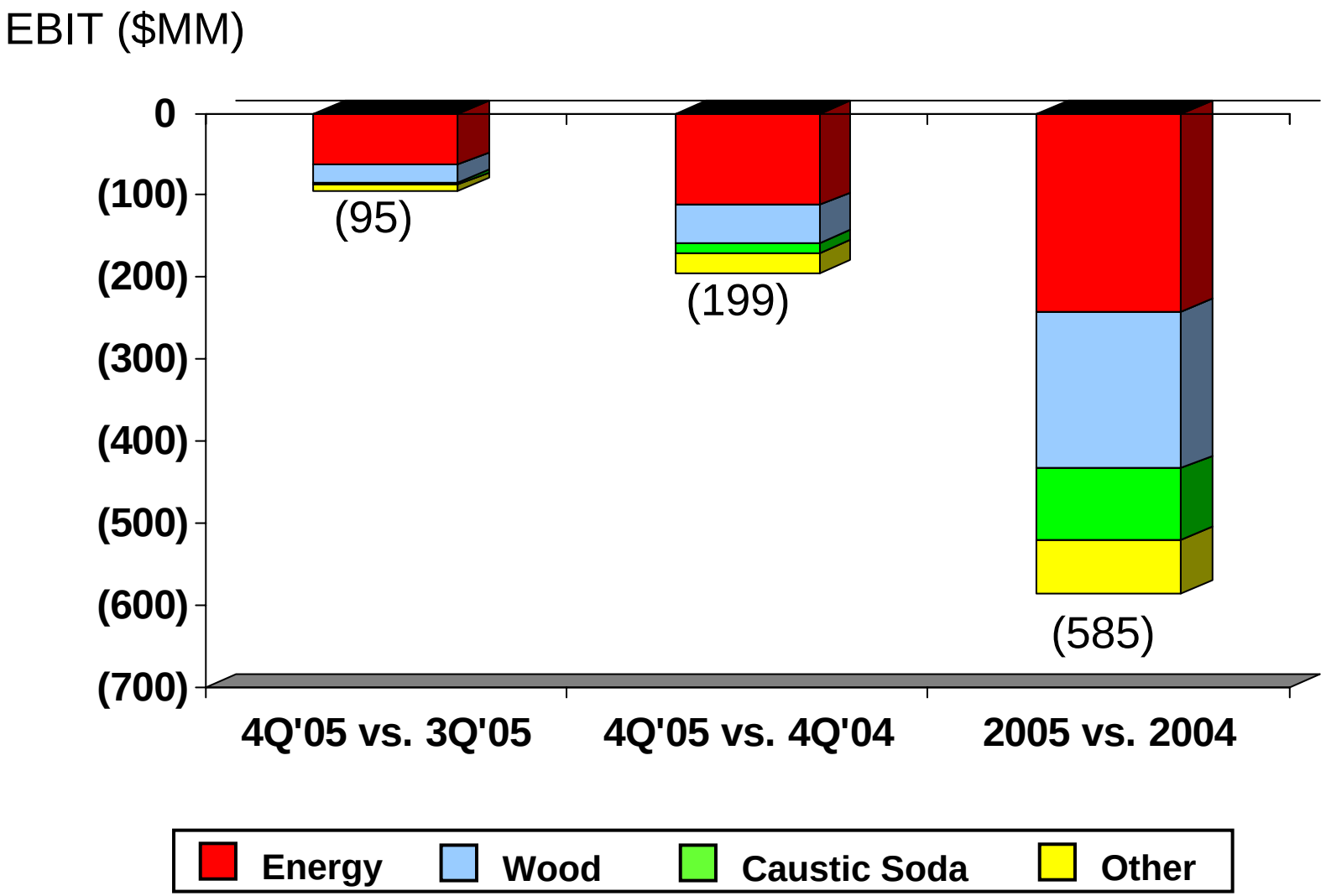
Fourth Quarter 2005 Summary

- Volume increased in uncoated paper and packaging
- Pricing lower overall, with improvement at quarter end
- Manufacturing operations performed well
- Raw material costs skyrocketed to peak 2005 levels

Higher Raw Material Costs

EBIT impact by period

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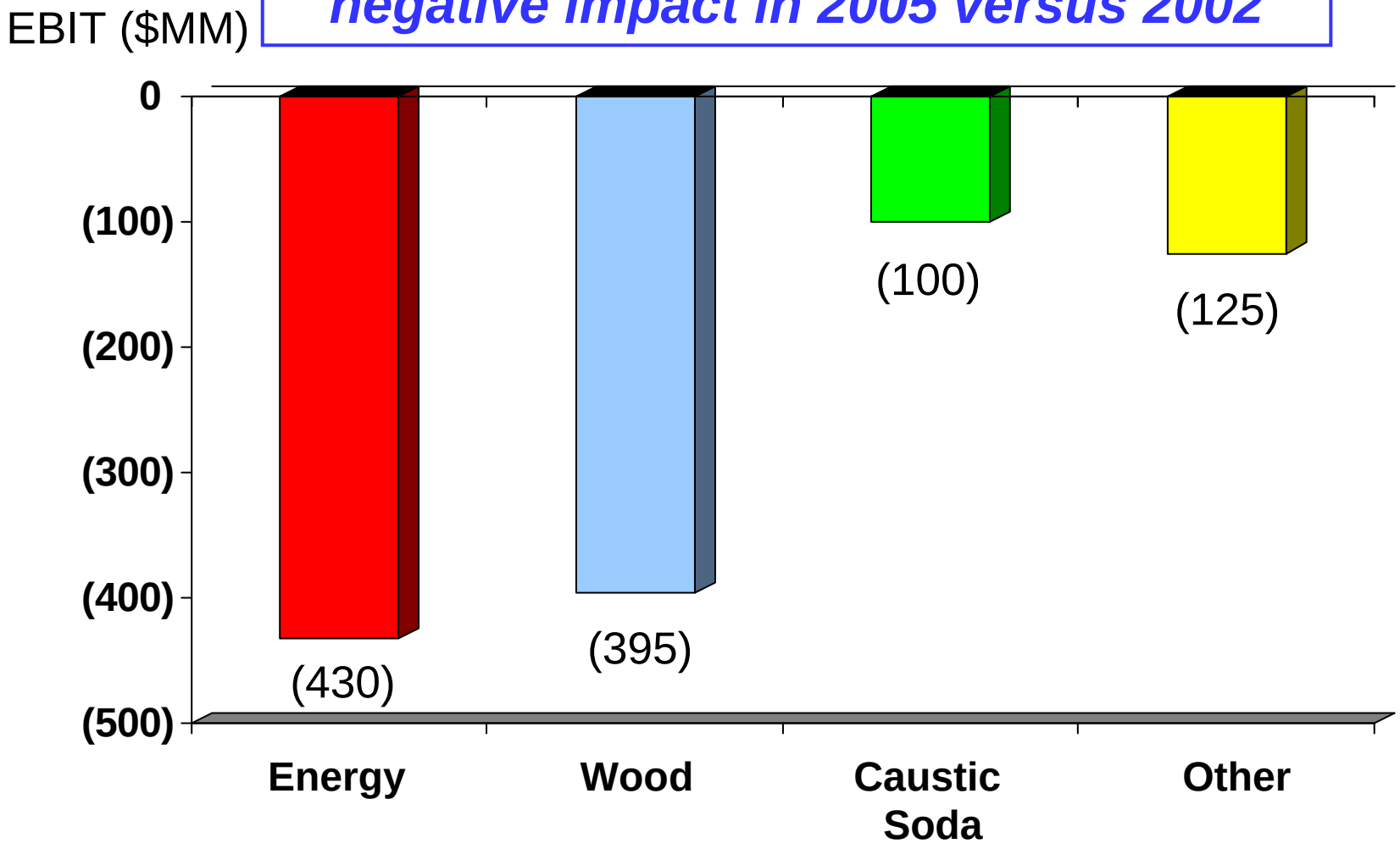


Higher Raw Material Costs

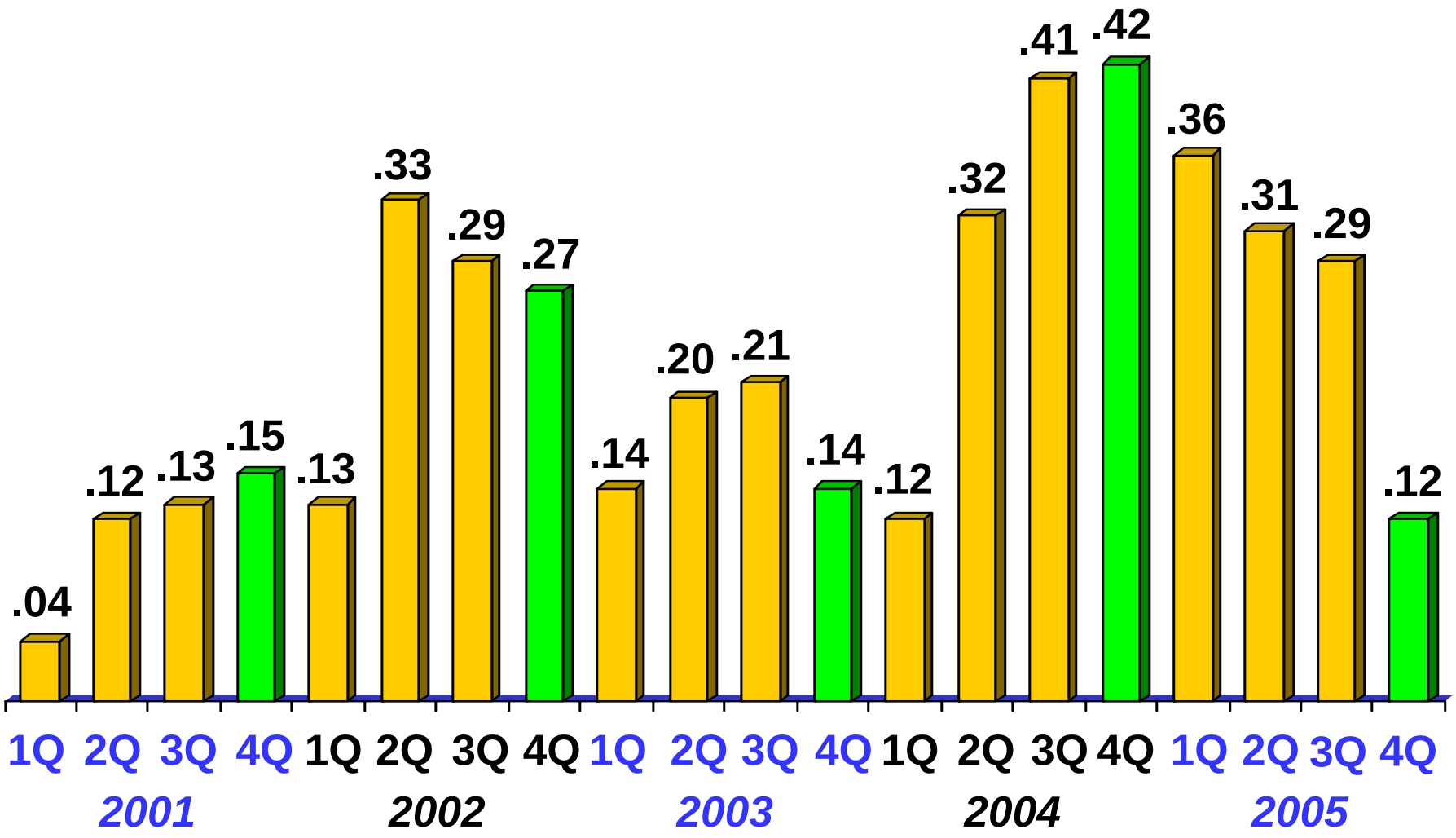
EBIT impact 2005 vs. 2002

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Total of $1.1 billion or $1.60 per share negative impact in 2005 versus 2002



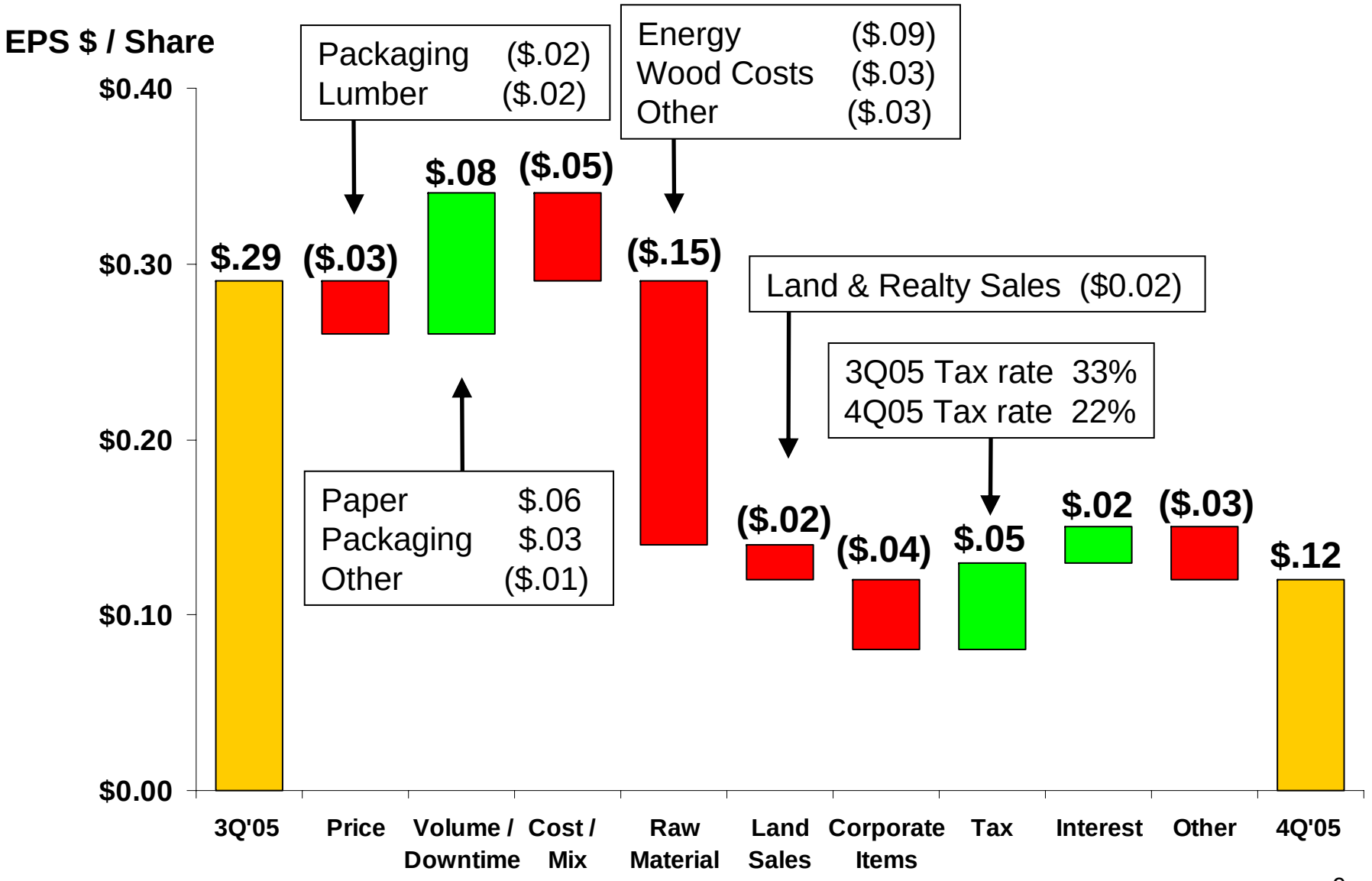
Diluted EPS from Continuing Operations and Before Special Items



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

4Q'05 vs. 3Q'05

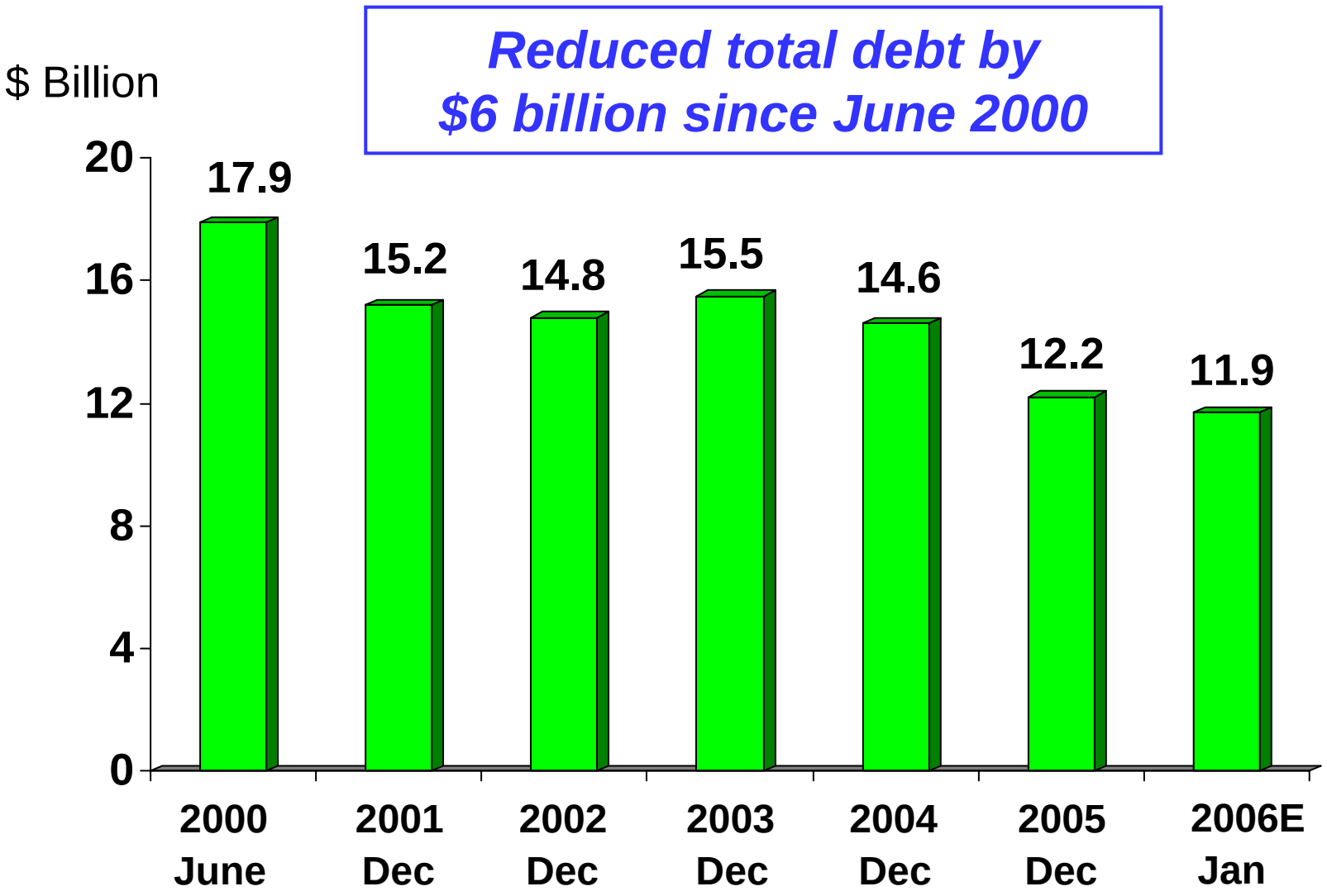
EPS from cont. ops before special items



Committed to Reducing Debt

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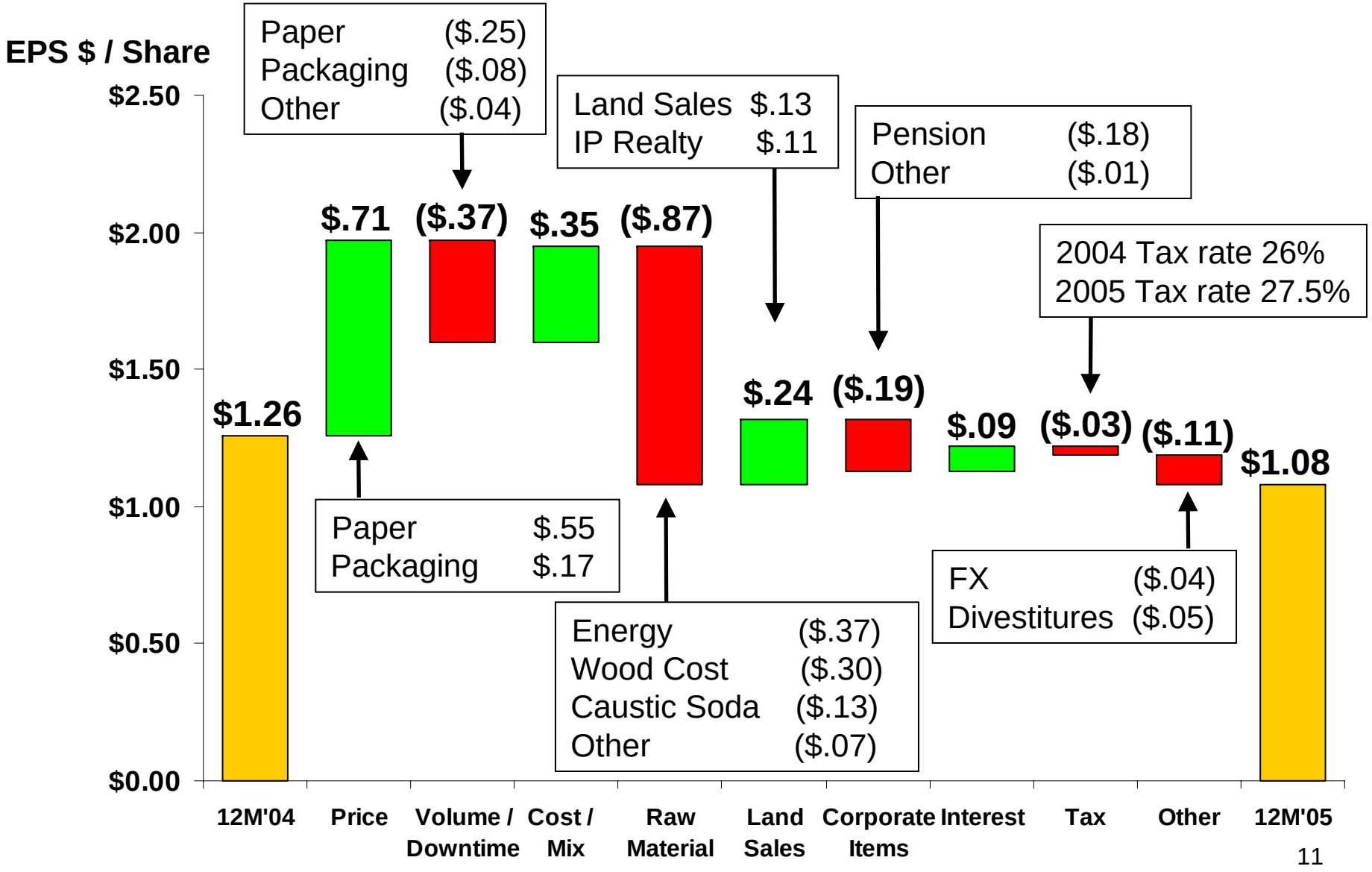
Reduced total debt by $6 billion since June 2000



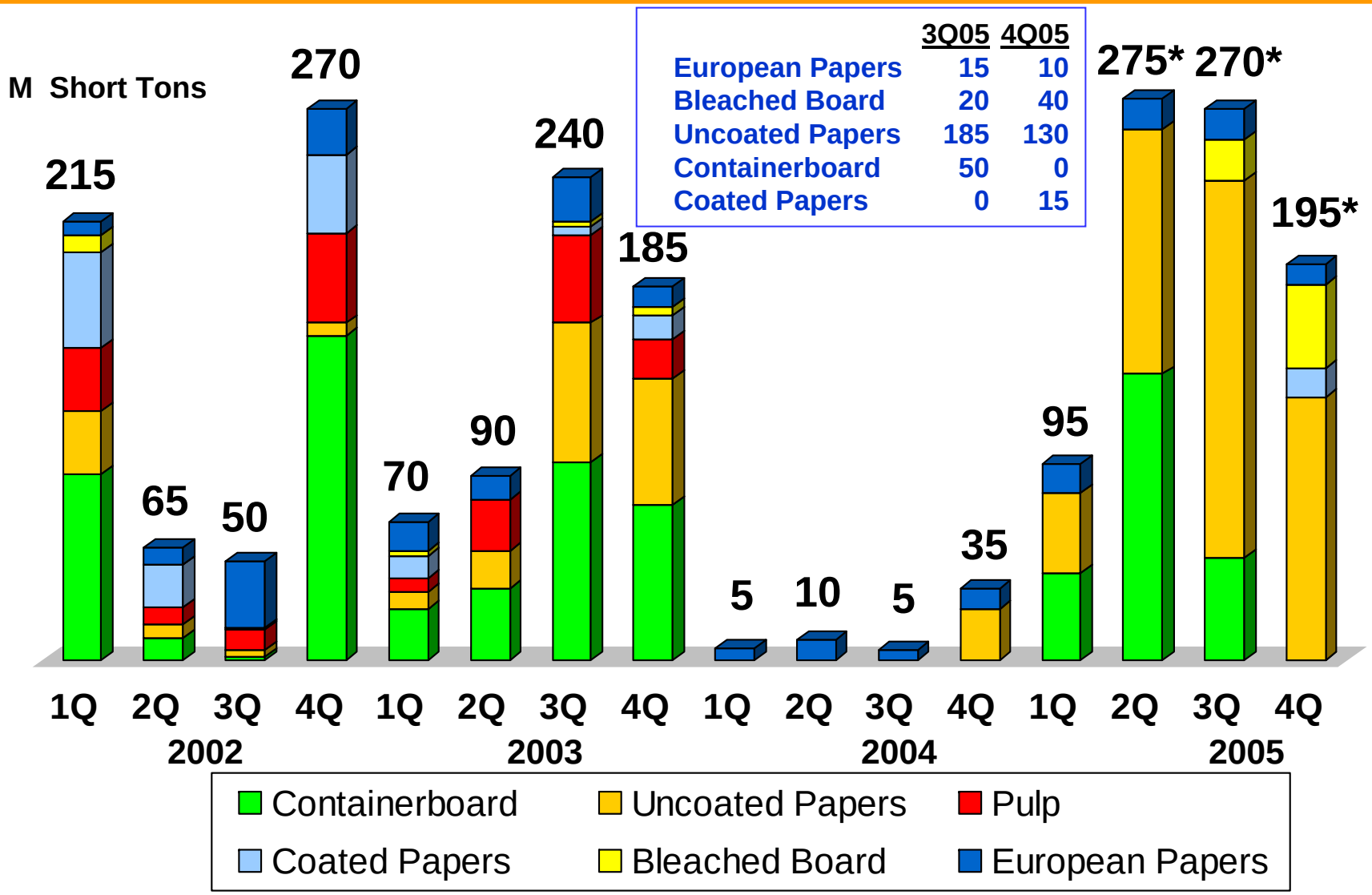
Except for December 2005 and January 2006, all periods include Carter Holt Harvey debt on IP's balance sheet

12M'05 vs. 12M'04

EPS from cont. ops before special items



Lack of Order Downtime



	3Q05	4Q05
European Papers	15	10
Bleached Board	20	40
Uncoated Papers	185	130
Containerboard	50	0
Coated Papers	0	15

*Includes indefinitely closed uncoated papers capacity at Pensacola, FL, Bastrop, LA and Jay, ME in 2Q05 (72,000 tons), 3Q05 (108,000 tons) and 4Q'05 (108,000 tons). Permanently closed at end of 4Q'05.

Printing Papers

$ Millions	*4Q'05*	*3Q'05*
Sales	$ 2,010	$ 1,970
Earnings	88	132[1]

4Q'05 Change vs 3Q'05:

	Volume	*Realizations/ton*
Uncoated[2]	2%	Flat
Coated[2]	(9%)	Flat
Pulp[2]	12%	($5)
Europe[3] (uncoated)	5%	€5

[1] Includes special charge of $6 million for severance and other charges related to the indefinite shutdowns of 3 U.S. paper machines, and $3 million for Riegelwood environmental reserves

[2] U.S. operations only. Uncoated excludes Fine Paper

[3] Europe is average commodity cut-size price, excluding Russia

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

Industrial Packaging

$ Millions	*4Q'05*	*3Q'05*
Sales	$ 1,180	$ 1,115
Earnings	11	33[1]

4Q'05 Change vs 3Q'05:

	Volume	*Realizations/ton*
Containerboard	20%	Flat
U.S. Container	2%	($20)

[1] Includes special charge of $4 million to adjust reserves previously provided

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

Consumer Packaging

$ Millions	*4Q'05*	*3Q'05*
Sales	$ 730	$ 685
Earnings	21	37[1]

4Q'05 Change vs 3Q'05:

	Volume	*Realizations/ton*
Bleached Board[2]	1%	$10
	Sales Revenue	
Converting Businesses[3]	4%	

[1] Includes special charge of $1 million for environmental reserve

[2] U.S. operations only

[3] Excludes IPPM

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

Forest Products

$ Millions	*4Q'05*	*3Q'05*
Sales	$ 660	$ 700
Earnings	257	272[1]

4Q'05 Change vs 3Q'05:

	Volume	*Realizations/unit*
Lumber (mbf)	(5%)	($30)
Plywood (msf)	(11%)	$5

[1] Includes special charge of $2 million in the third quarter for costs associated with relocations of Forest Products headquarters to Memphis

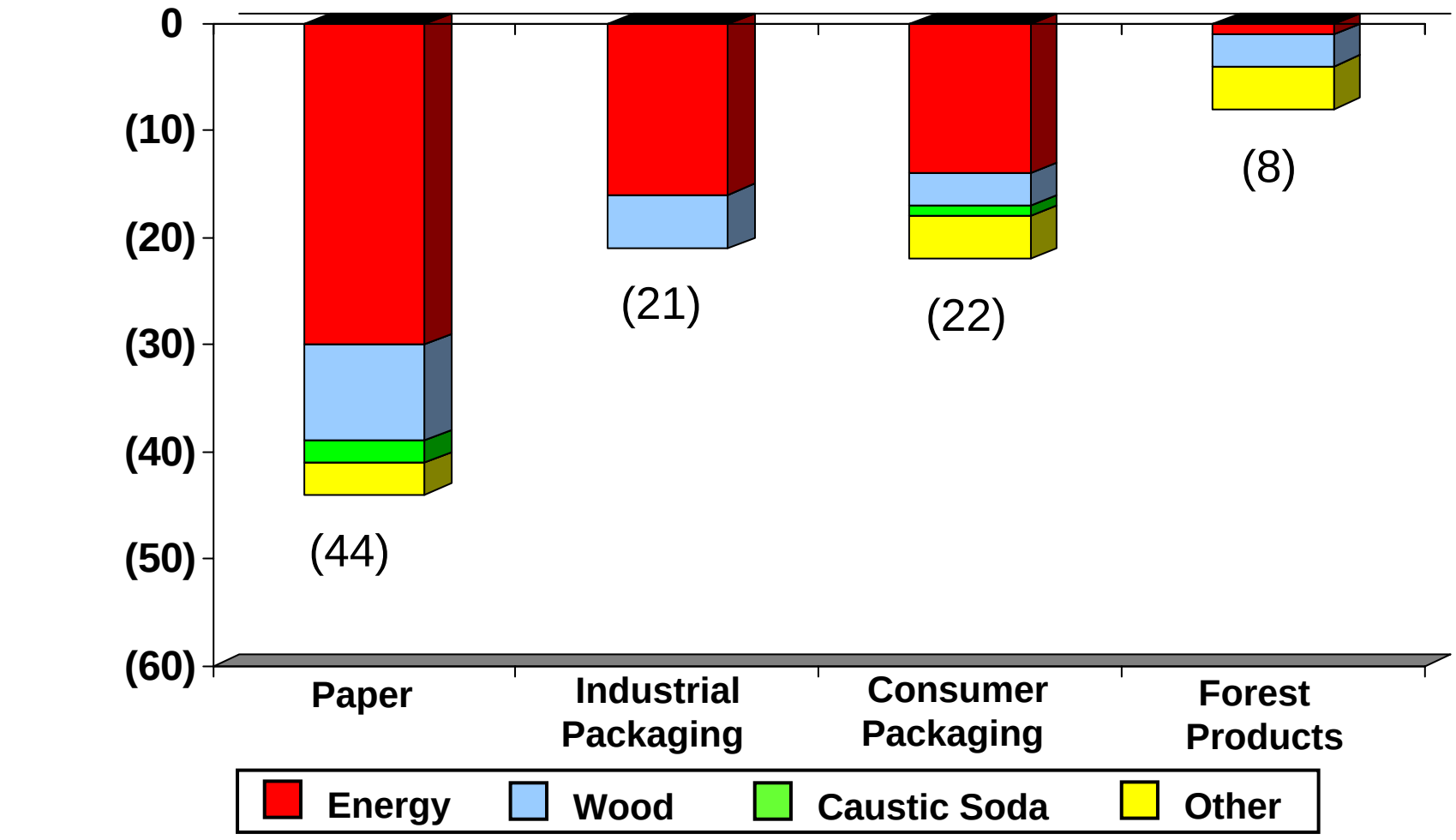
Average IP realization (includes the impact of mix across all grades)

Higher Raw Material Costs

4Q'05 vs. 3Q'05 EBIT impact by business

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Total of $95 million or $0.15 per share negative impact in 4Q'05 versus 3Q'05



Special Items 4Q'05

	$MM	Diluted EPS
Special Items – After Tax		
• Restructuring, Reserve Adjustments & Other	(142)	
• Divestitures	(30)	
• Insurance Recoveries	21	
• Tax Adjustments	11	
Special Items Total	(140)	($0.29)

Reconciliation to 4Q'05 Diluted Earnings Per Share

	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$0.12
Special Items	(0.29)
Loss from Continuing Operations	(0.17)
Discontinued Operations	0.01
Net Loss	($0.16)

Special Items 2005

	$MM	Diluted EPS
Special Items – After Tax		
• Restructuring, Reserve Adjustments & Other	(222)	
• Divestitures	(73)	
• Insurance Recoveries	151	
• Tax Adjustments	446	
• Interest Income	33	
Special Items Total	335	$0.66

Reconciliation to 2005 Diluted Earnings Per Share

	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$1.08
Special Items	0.66
Earnings from Continuing Operations	1.74
Discontinued Operations	0.47
Net Earnings	$2.21

Key Financial Statistics

	2004[1]	2005[1]	2006 Est.[2]
Capital Spending	$ 1.2 B	$ 1.2 B	$ 1.2 B
Depreciation & Amort.	$ 1.4 B	$ 1.4 B	$ 1.4 B
Net Interest Expense[3]	$ 710 MM	$ 650 MM	$ 600 MM
Corporate Items	$ 470 MM	$ 595 MM	$ 750-800 MM
Effective Tax Rate[3]	26%	27.5%	30%

[1] Excludes Carter Holt Harvey results

[2] Includes impact of all businesses for entire year

[3] Before special items

First Quarter 2006 Outlook

- Volume – seasonally slow start, but some positive signs
- Average prices improving
  - Implementing IP's announced price increases in paper and packaging
- Continued progress in improving operations
- Input costs mixed, but flat overall
- Lower land sales
- Businesses under evaluation included in first quarter results

Transformation Plan Update

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- Process on track - sales books distributed for five of the businesses under evaluation
- Debt reduction of $2.4 billion in 2005
- Maintaining focus on improving key platform operations – fewer, bigger, better strategy
- Reinvestment plan - taking a disciplined approach

Q & A

Appendix

Earnings by Industry Segment

Before special items

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$ Millions	4Q'05	3Q'05	4Q'04	2005	2004
Earnings by Industry Segment					
Printing Papers	$88	$141	$196	578	$581
Industrial Packaging	11	37	131	238	380
Consumer Packaging	21	38	39	123	165
Distribution	25	23	22	84	87
Forest Products	257	274	176	943	793
Other Businesses	(5)	5	7	17	38
Operating Profit	**397**	**518**	**571**	**1,983**	**2,044**
Interest Expense	(151)	(163)	(169)	(647)	(710)
Minority Interest	(1)	0	3	0	5
Corporate Items, net	(167)	(142)	(156)	(597)	(469)
Earnings from continuing operations before income taxes, minority interest & special items	$78	$213	$249	$739	$870

2005 Earnings from Continuing Operations

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	Pre-Tax	Tax	MI	Net	ETR	Average Shares[2]	Diluted EPS[1]
	$ MM	*$ MM*	*$ MM*	*$ MM*		*MM Shares*	*$/Share*
Before Special Items							
Q1	223	(46)	(2)	175	21%	488.9	0.36
Q2	225	(70)	(3)	152	31%	487.4	0.31
Q3	213	(71)	(3)	139[3]	33%	507.1	0.29
Q4	78	(16)	(4)	58	22%	486.0	0.12
Full Year Total	739	(203)	(12)	524	27.5%	509.7	1.08
Special Items							
Q1	(103)	36	-	(67)	35%	488.9	(0.14)
Q2	34	(95)	-	(61)	NM	487.4	(0.12)
Q3	159	444	-	603	NM	507.1	1.19
Q4	(243)	103	-	(140)	42%	486.0	(0.29)
Full Year Total	(153)	488	-	335	NM	509.7	0.66
Earnings from Continuing Operations							
Q1	120	(10)	(2)	108	8%	488.9	0.22
Q2	259	(165)	(3)	91	64%	487.4	0.19
Q3	372	373	(3)	742[3]	NM	507.1	1.48
Q4	(165)	87	(4)	(82)	53%	486.0	(0.17)
Full Year Total	586	285	(12)	859[3]	NM	509.7	1.74

MI – Minority Interest; Net – Net Income; ETR – Effective Tax Rate; EPS – Earnings per Share; NM – Not Meaningful

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

[2] *Assuming dilution*

[3] *Does not include impact of additional $7 million in 3Q and $27 million for full year of income related to dilutive securities*

2004 Earnings from Continuing Operations

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	Pre-Tax	Tax	MI	Net	ETR	Average Shares[2]	Diluted EPS[1]
	$ MM	*$ MM*	*$ MM*	*$ MM*		*MM Shares*	*$/Share*
Before Special Items							
Q1	99	(34)	(8)	57	34%	487.4	0.12
Q2	234	(71)	(8)	155	30%	488.2	0.32
Q3	288	(82)	(5)	201	28%	509.0	0.41
Q4	249	(39)	(5)	205	16%	488.9	0.42
Full Year Total	870	(226)	(26)	618	26%	488.4	1.26
Special Items							
Q1	(14)	5	-	(9)	36%	487.4	(0.02)
Q2	(122)	4	-	(118)	3%	488.2	(0.24)
Q3	45	(31)	-	14	69%	509.0	0.03
Q4	(55)	6	-	(49)	11%	488.9	(0.10)
Full Year Total	(146)	(16)	-	(162)	-11%	488.4	(0.33)
Earnings from Operations							
Q1	85	(29)	(8)	48	34%	487.4	0.10
Q2	112	(67)	(8)	37	60%	488.2	0.08
Q3	333	(113)	(5)	215	34%	509.0	0.44
Q4	194	(33)	(5)	156	17%	488.9	0.32
Full Year Total	724	(242)	(26)	456	33%	488.4	0.93

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

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

[2] *Assuming dilution*

Average Sales Realizations

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		Average Sales Realizations							
Segments	**Grades**	**Dec 05**	**Dec 04**	**4Q'05**	**3Q'05**	**4Q'04**	**2005**	**2004**	**2003**
Printing Papers	Uncoated	816	804	813	811	811	817	811	761
	Coated	862	781	860	860	773	841	740	732
$/ton	Pulp	470	454	476	482	453	485	458	425
Packaging	Containerboard	425	448	402	405	456	426	419	384
$/ton	Corrugated boxes*	651	702	644	663	702	674	661	661
Forest Products	Lumber, $/MBF	346	336	362	391	342	382	355	322
	Plywood, $/MSF	284	292	301	297	282	299	321	263

*** U.S. only.**

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

Forest Resources

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$ Millions

	2003	2004	2005
▸ Earnings Sources – Gross Margin			
• Sales of Forestlands	$462	$315	$400
• Harvest & Recreational Income	268	281	269
▸ Forestland Expenses	(157)	(178)	(146)
▸ Land Utilization (real estate), Net of Expenses	71	124	198
Total EBIT	$644	$542	$721

Forest Resources

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$ Millions

	4Q'05	3Q'05	4Q'04
▸ Earnings Sources – Gross Margin			
• Sales of Forestlands	$139	$125	$65
• Harvest & Recreational Income	75	63	81
▸ Forestland Expenses	(30)	(43)	(55)
▸ Land Utilization (real estate), Net of Expenses	40	65	55
Total EBIT	$224	$210	$146

Forest Resources

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Forestland prices per acre are increasing in both absolute terms and versus appraised values

	2003	2004	2005
Average sales price/acre	$967	$1,008	$1,423
Number of acres sold (M)	627	372	285
% of appraised value	130%	145%	165%

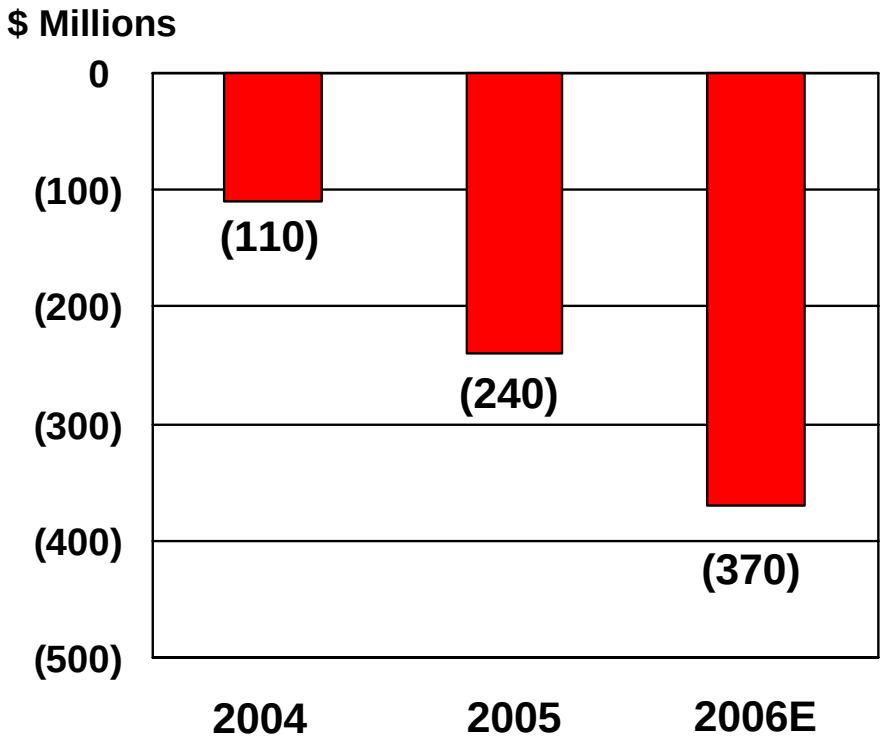
* Excludes sales of Champion forestlands over last 3 years which generated $550+ million of cash and the 12/31/04 sale of 1.1 million acres of forestland in Maine and New Hampshire

Pension Returns

- **Average annualized returns**
  - 2005 11.7%
  - Past 5 years 7.9%
  - Past 10 years 9.8%
- **Portfolio asset allocation** (at 12/31/05)
  - 61% Equity
  - 28% Debt
  - 11% Real estate & other

Pension Expense

*Annual Pension Expense**



Key Variables

	2004	2005	2006E
Rate of Return (%)	8.75	8.50	8.50
Discount Rate (%)	6.00	5.75	5.50

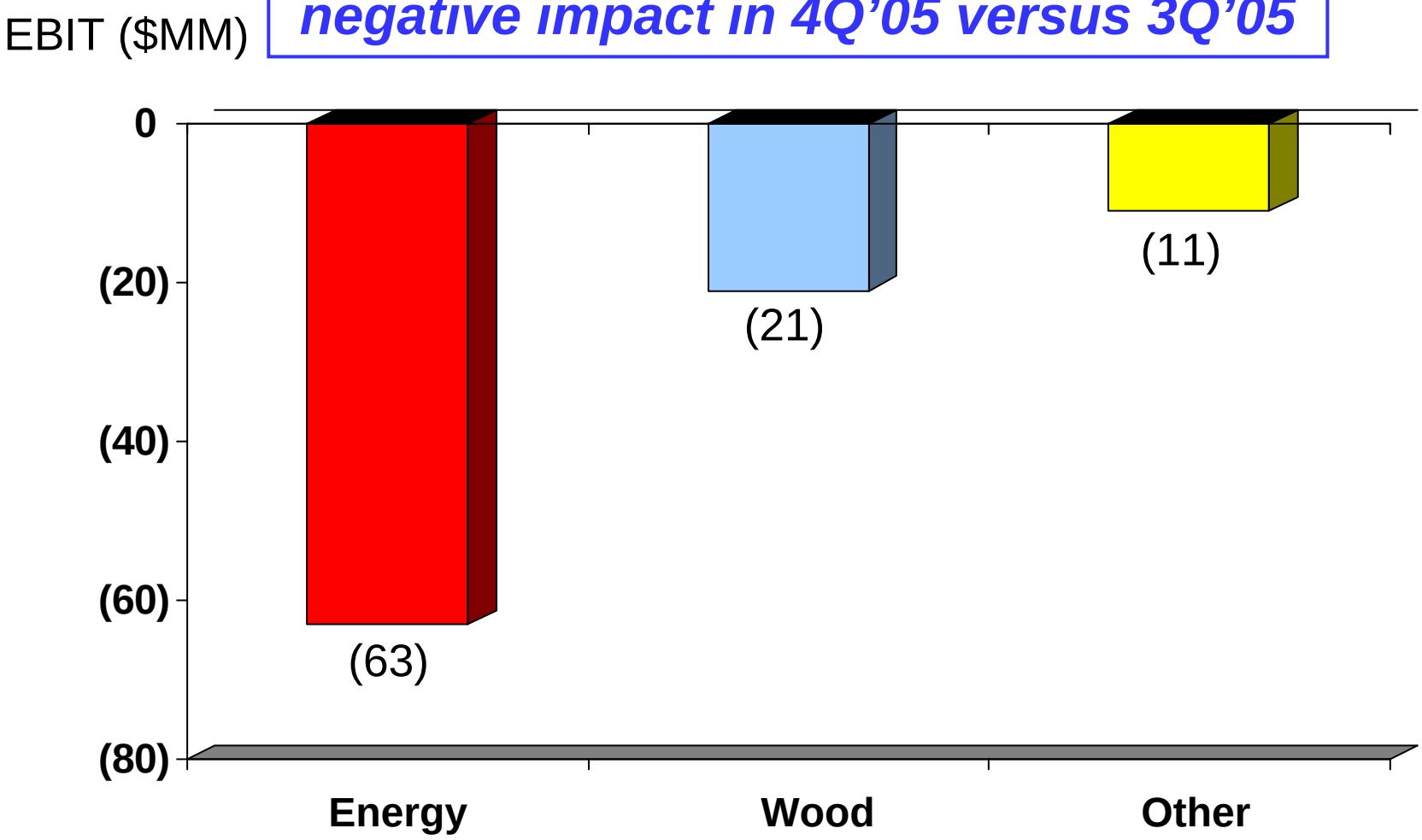
***U.S. plans only. Pension expense reflects service cost, interest cost, amortization of actuarial losses and expected return on plan assets**

Higher Raw Material Costs

EBIT impact 4Q'05 vs. 3Q'05

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Total of $95 million or $0.15 per share negative impact in 4Q'05 versus 3Q'05

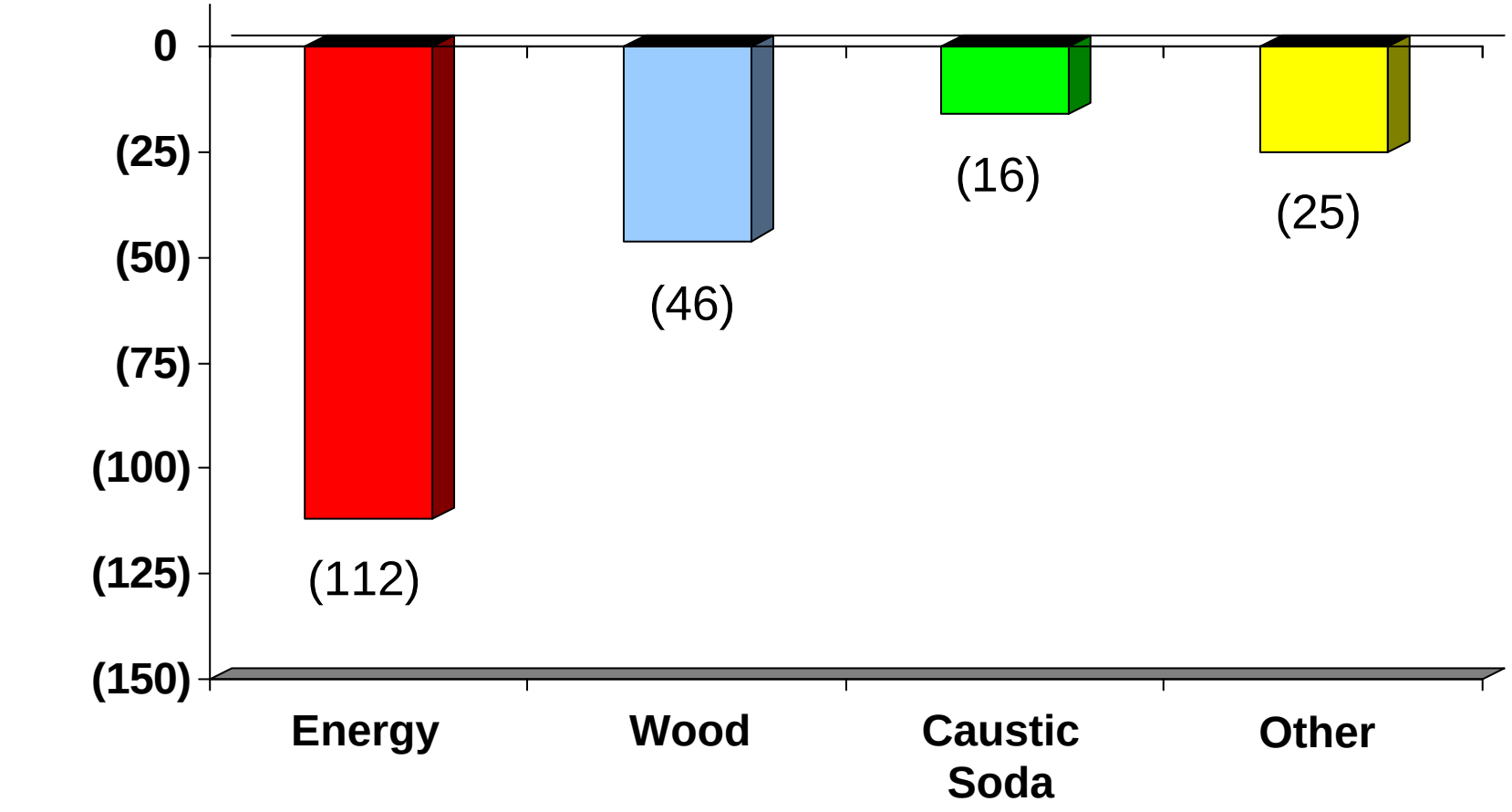


Higher Raw Material Costs

EBIT impact 4Q'05 vs. 4Q'04

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Total of $199 million or $0.32 per share negative impact in 4Q'05 versus 4Q'04

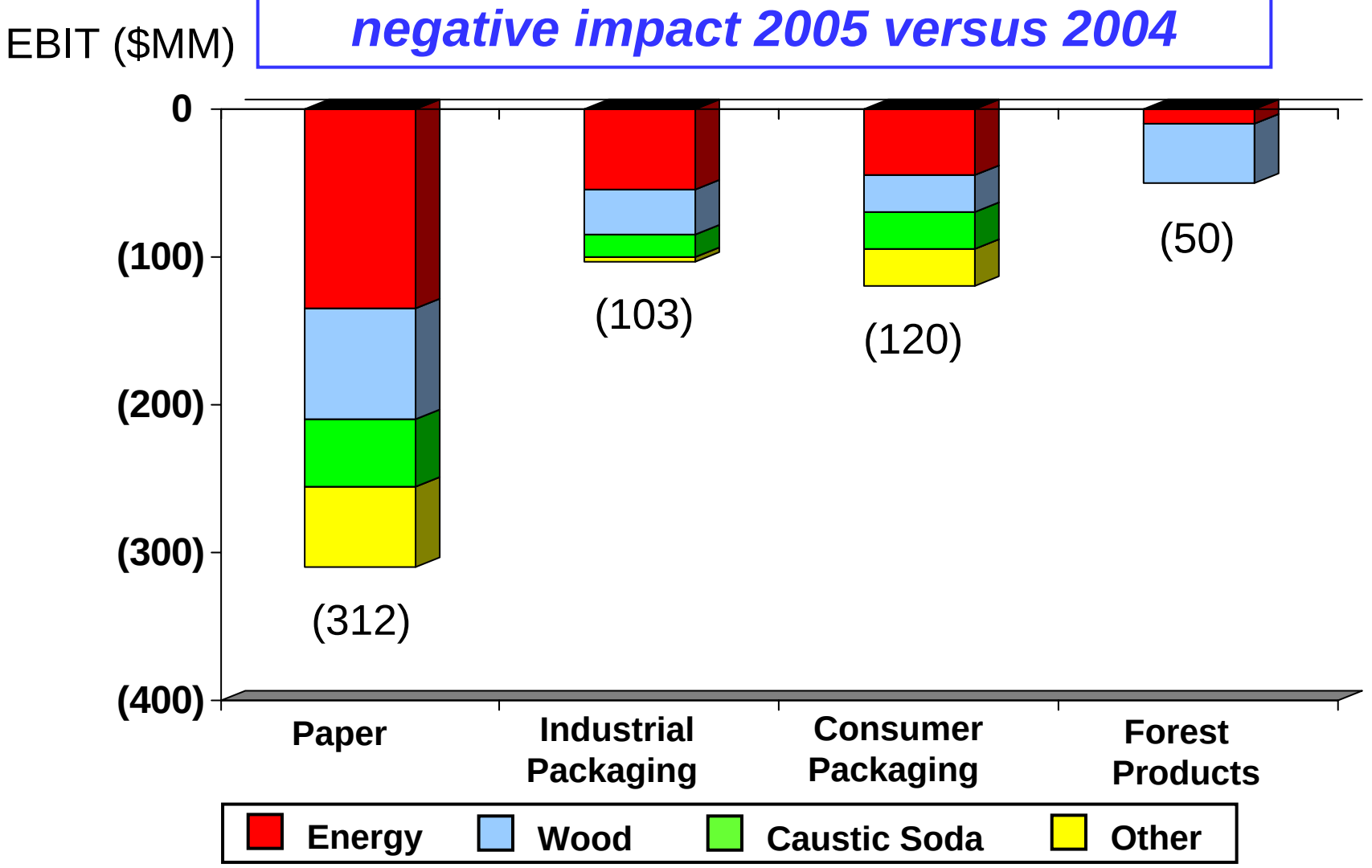


Higher Raw Material Costs

4Q'05 vs. 3Q'05 EBIT impact by business

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Total of $585 million or $0.87 per share negative impact 2005 versus 2004

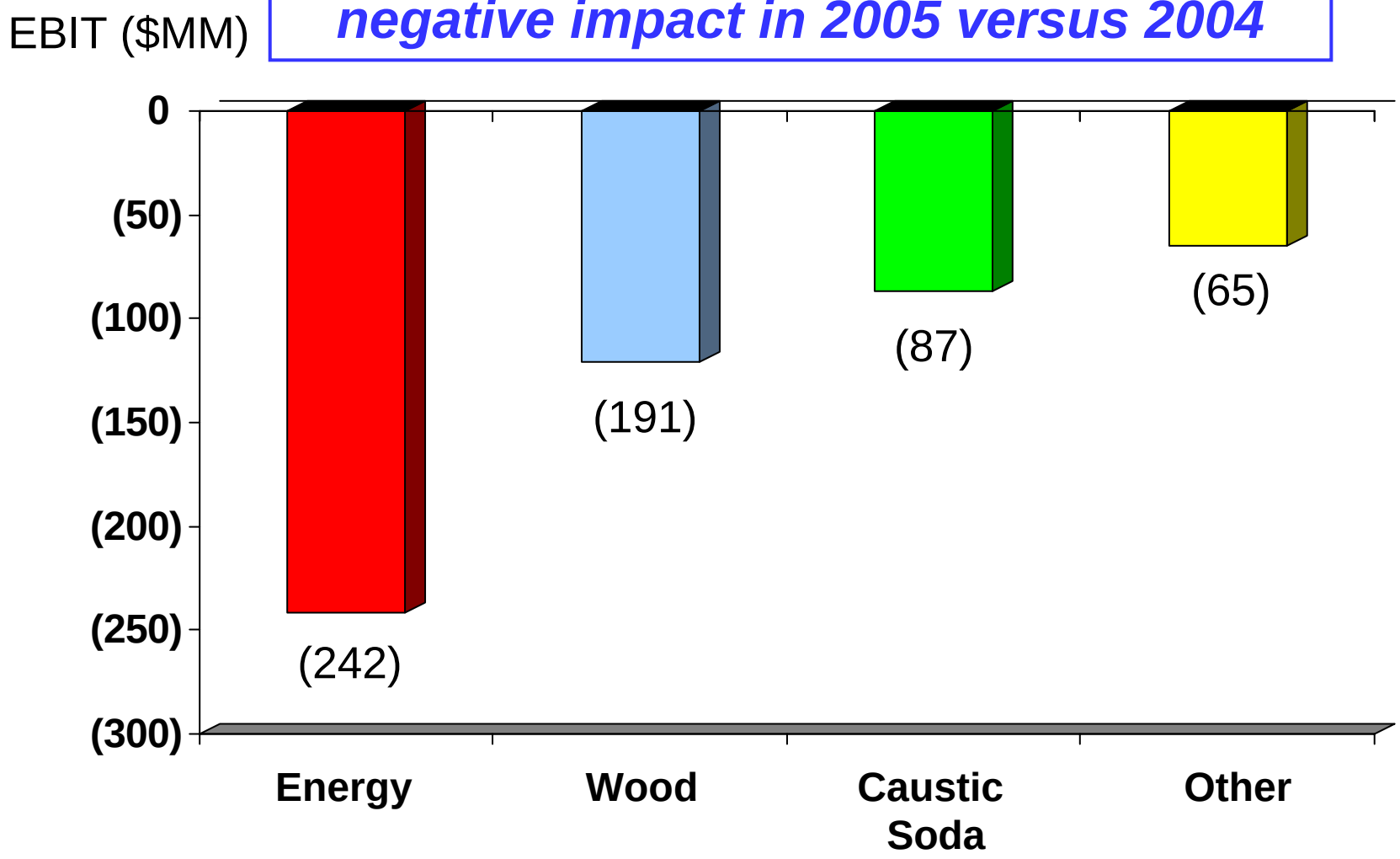


Higher Raw Material Costs

EBIT impact 2005 vs. 2004

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Total of $585 million or $0.87 per share negative impact in 2005 versus 2004

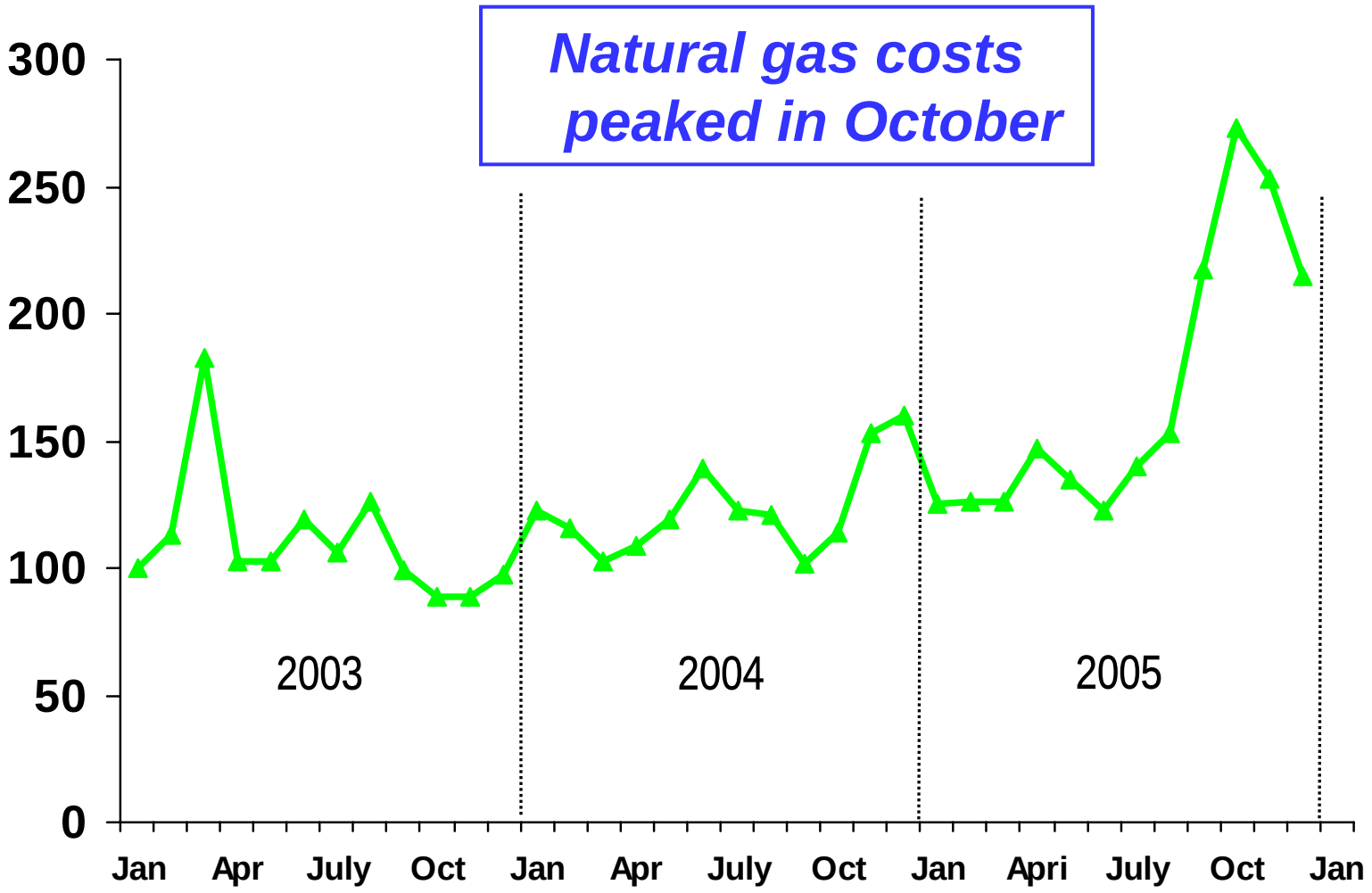


Natural Gas Costs

Trended higher in 4Q'05

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Index: Jan 2003 Natural Gas Costs = 100



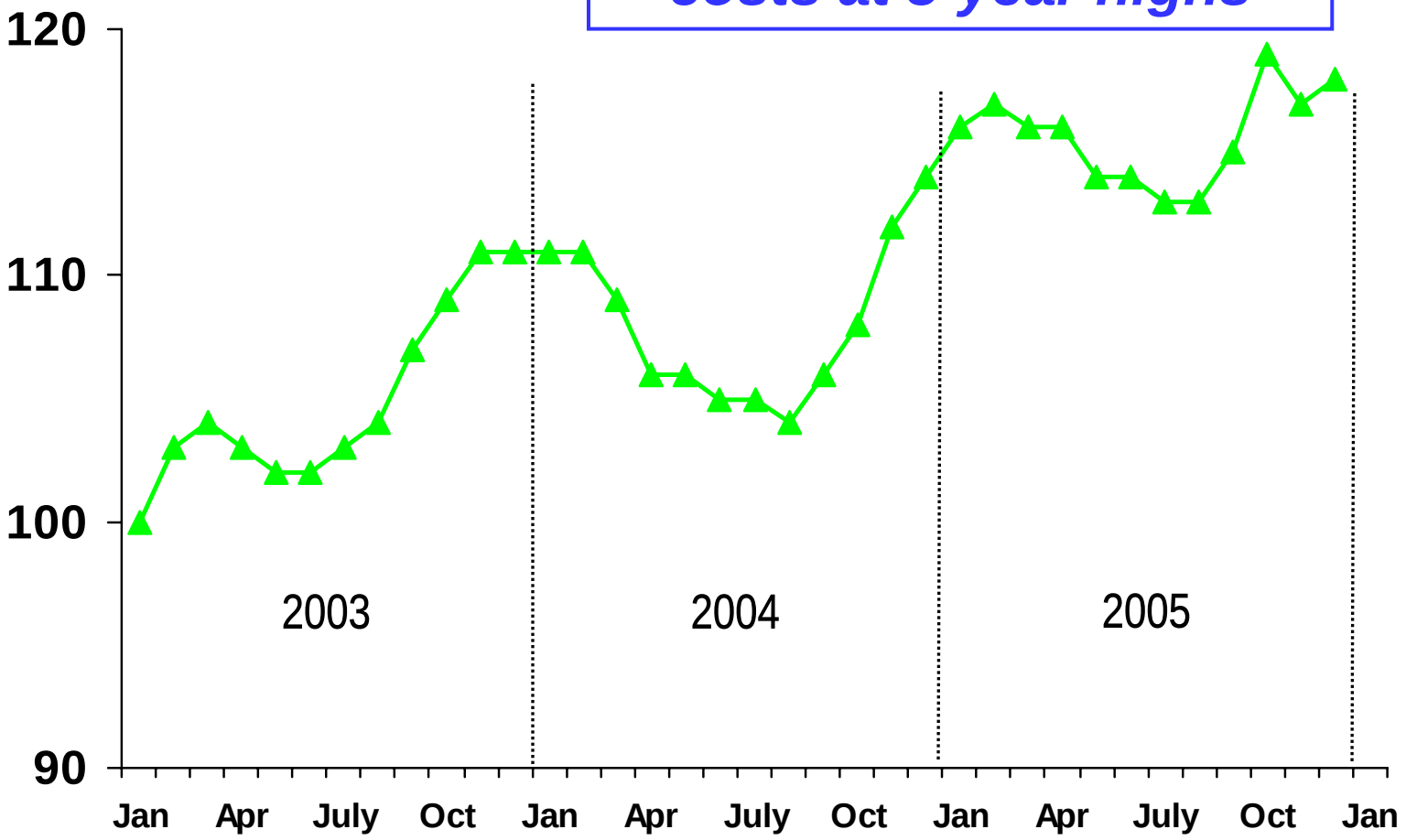
U.S. Mill Wood Costs

Trended higher in 4Q'05

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Index: Jan 2003 Wood Costs = 100

4Q'05 U.S. mill wood costs at 3-year highs



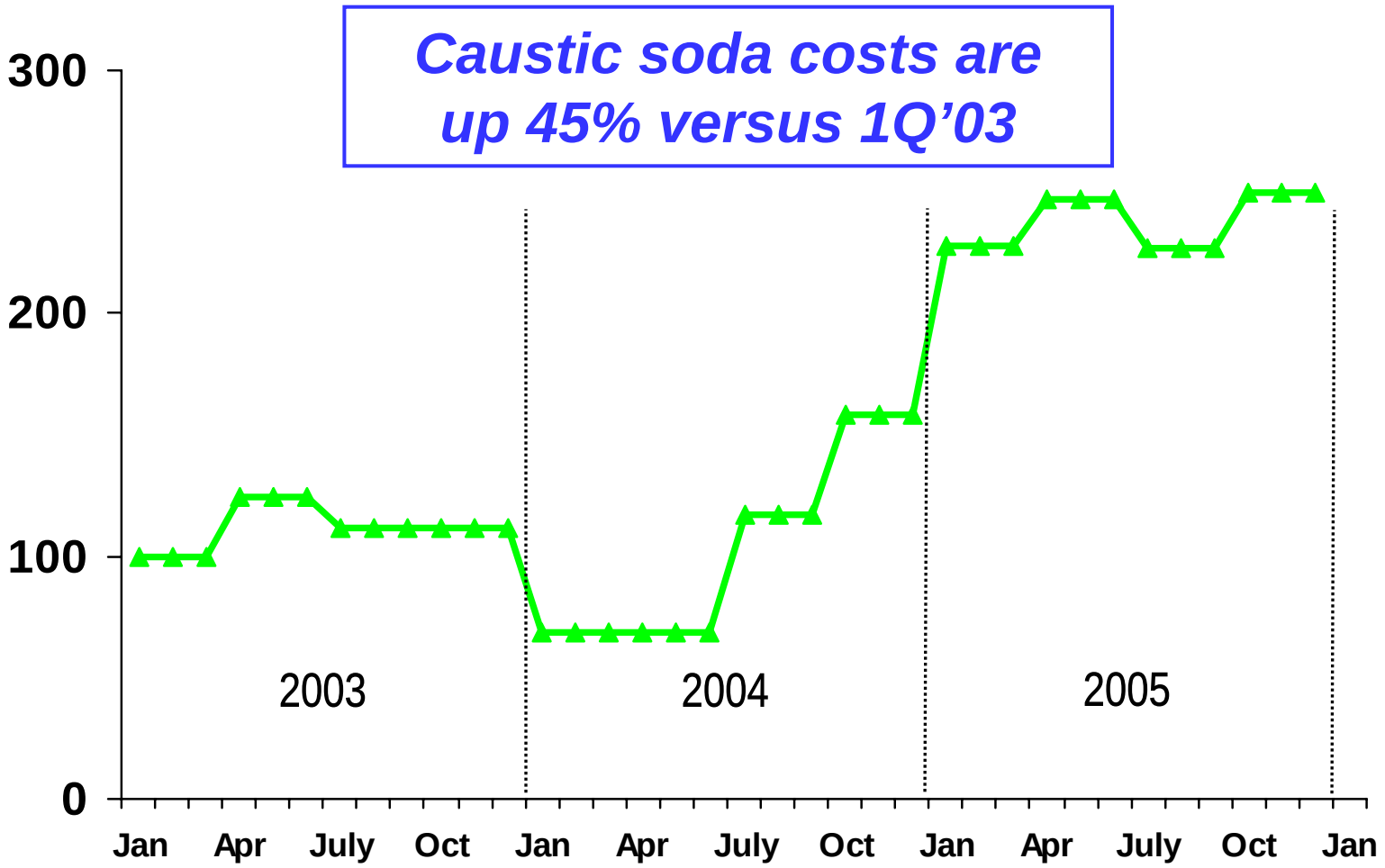
*** Delivered cost to U.S. pulp & paper mills**

Caustic Soda Costs

Trended higher in 4Q'05

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Index: Jan 2003 Caustic Soda Costs = 100

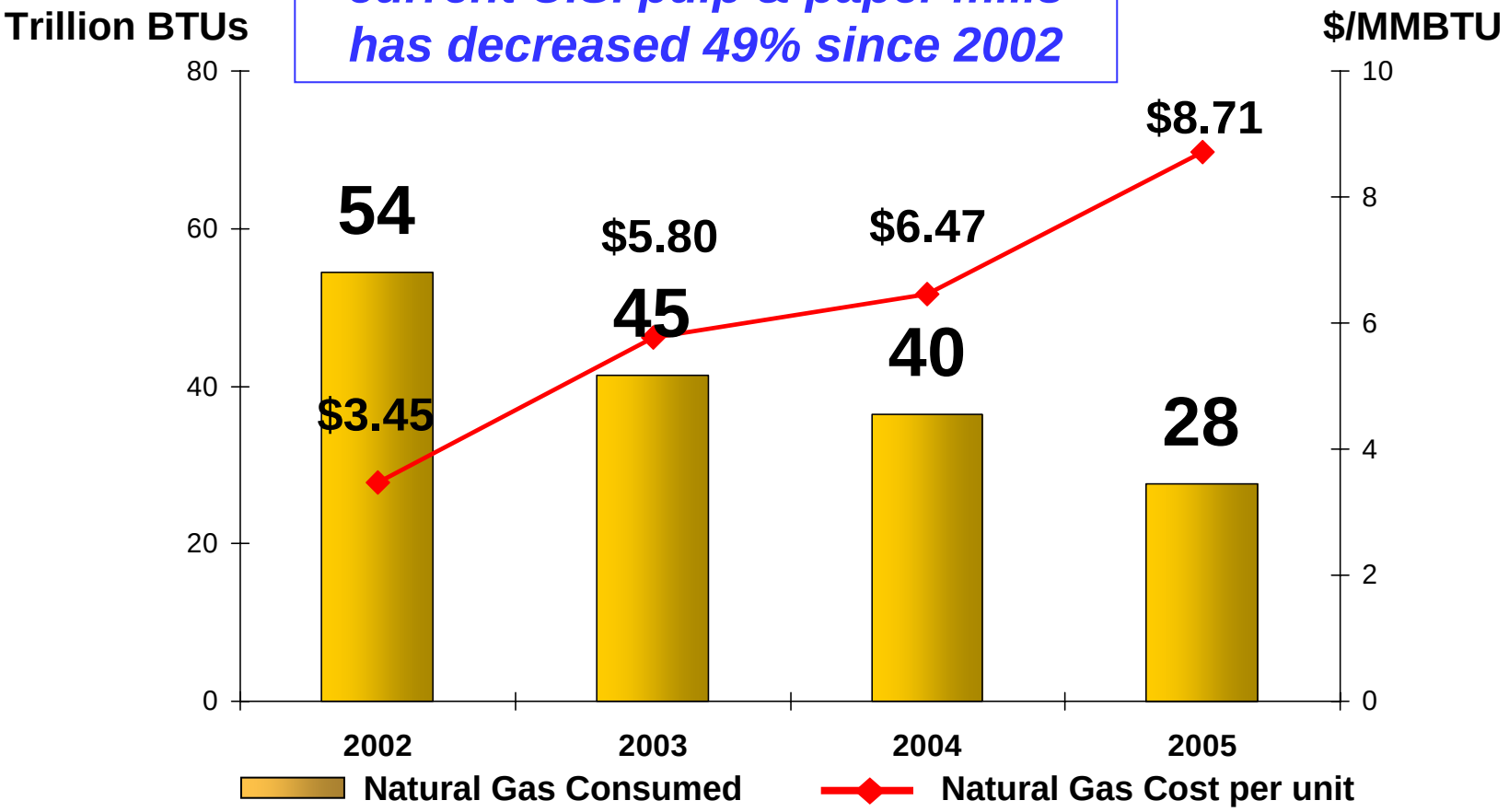


Energy

U.S. mills natural gas consumption

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Natural gas consumption at current U.S. pulp & paper mills has decreased 49% since 2002

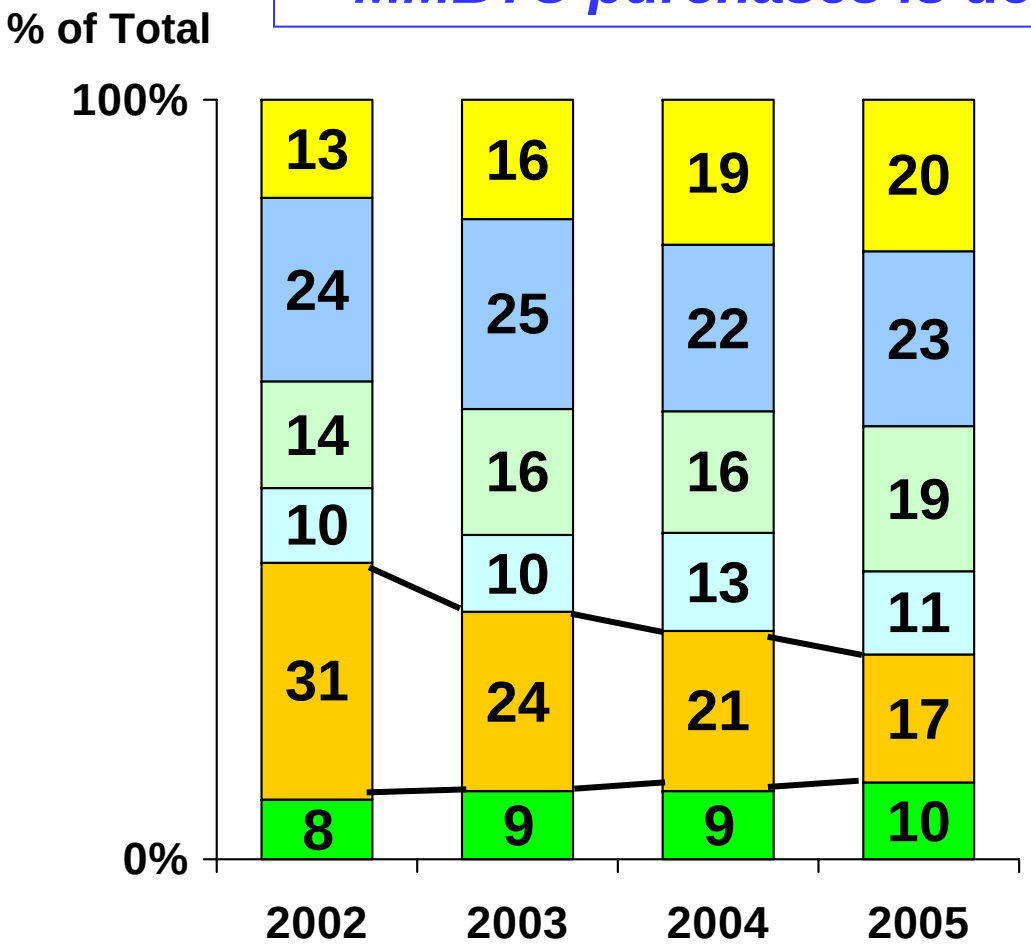


Total US Mill Energy Purchases before Natural Gas Hedges - $MM			
$580	$740	$780	$910

Energy
Substitute lower cost energy

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Natural gas as a % of total U.S. mills MMBTU purchases is decreasing



	2005 Avg Cost per mmbtu
Wood Waste	$1.84
Coal	$2.88
Fuel Oil	$6.70
Other*	$5.51
Natural Gas	$8.71
Electricity	$14.30

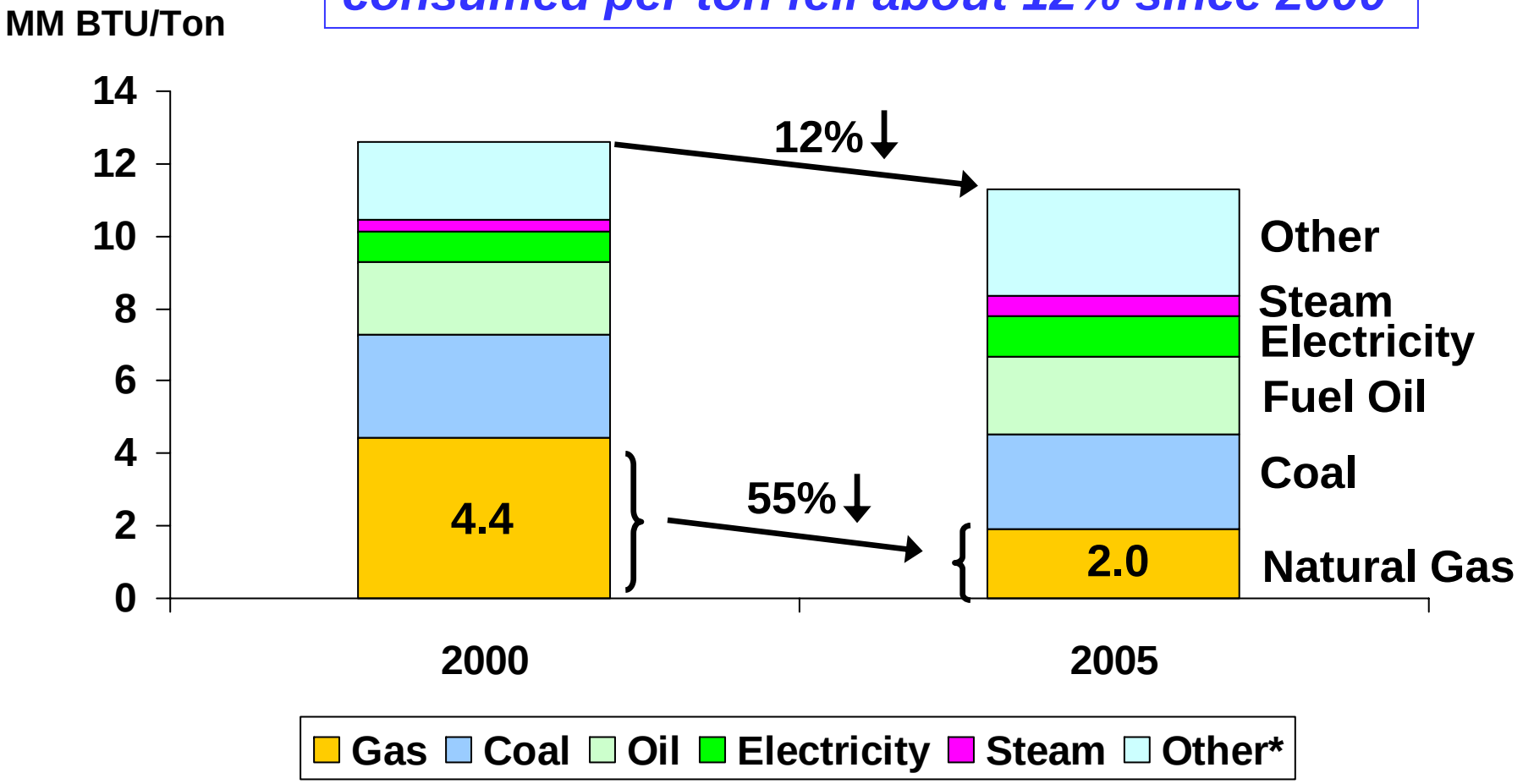
*Other includes shredded tires, recycled oil, purchased steam and any other fossil fuels

Energy

Reducing U.S. mill consumption per ton

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Natural gas consumed per ton of paper produced in 2005 fell 55% and total energy consumed per ton fell about 12% since 2000



* Other fuel category includes purchased bark, shredded tires & recycled motor oil

Domestic Facilities

Key input indicative purchase levels

Energy	***Units***	***Annual Purchases***
Natural Gas	MMbtus	38,000,000[2]
# 6 Fuel Oil	BBLs	5,200,000[2]
Coal	Tons	1,500,000[2]
Fiber		
Wood	Tons	65,000,000
OCC[1]	Tons	600,000
Chemicals		
Caustic Soda	Tons	400,000
Sodium Chlorate	Tons	300,000
LD Polyethylene	Tons	100,000
Latex	Tons	45,000

[1] Old corrugated containers

[2] 2005 Run Rate


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