

INTERNATIONAL PAPER

First Quarter 2006 Review

May 4, 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) industry conditions, including changes in the cost or availability of raw materials and energy, changes in transportation costs, competition, changes in the Company's product mix and demand and pricing for the Company's products; (ii) market and economic factors, including changes in international conditions, specifically in Brazil, Russia, Poland, China and South Korea, 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; (iii) 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, the ability to realize anticipated profit improvement from the plan and the ability to successfully negotiate satisfactory sale terms for assets that are contemplated for sale but are not currently under contract; (iv) the execution of sale transactions currently under contract and the realization of anticipated sales proceeds thereunder, including, the ability to successfully consummate the transactions without a purchase price adjustment, the successful fulfillment (or waiver) of all conditions set forth in the sale agreements, the successful closing of the transactions within the estimated timeframes and the ability to monetize the non-cash portion of the sale proceeds; and (v) 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.

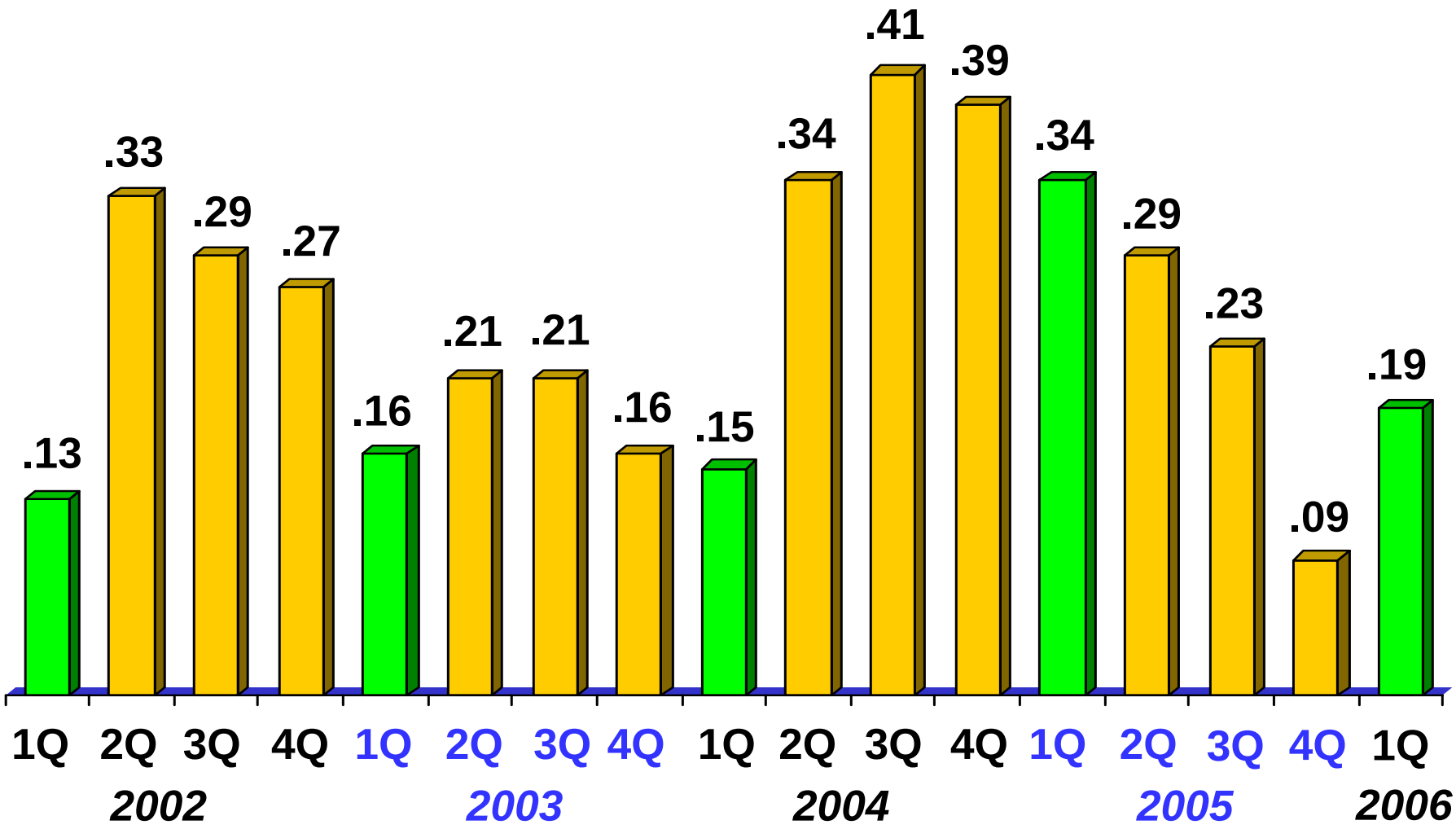
Agenda

- First Quarter 2006 Review
- Second Quarter 2006 Outlook
- Transformation Plan Update

First Quarter 2006 Summary

- Solid first quarter – broad-based improvement from fourth quarter 2005
- Volume stronger across many key grades
- IP pricing improving
- Raw material costs lower
- Manufacturing operations performed well
- Record first quarter for IP's distribution business
- Lower land sales and higher tax rate

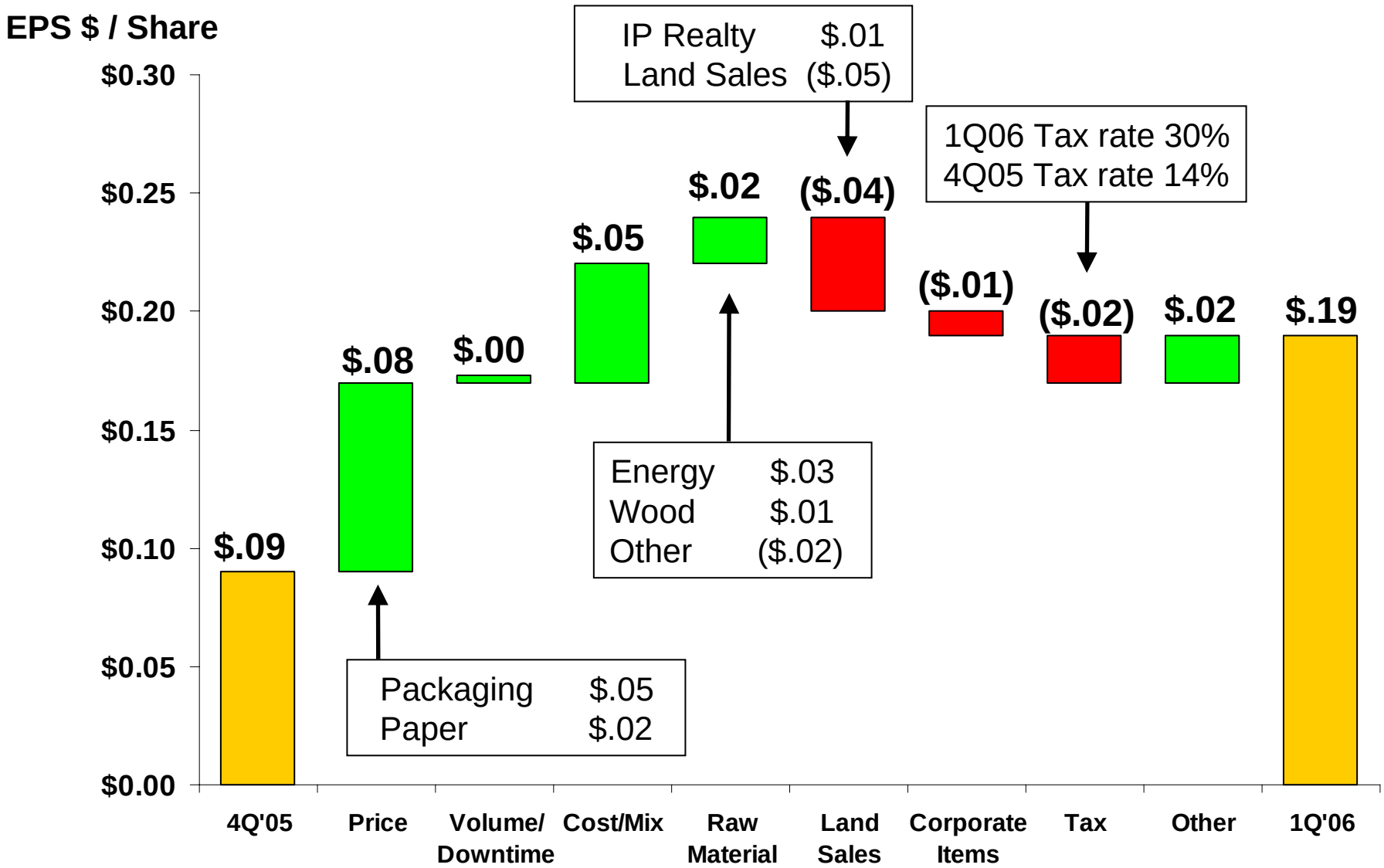
Diluted EPS from Continuing Operations and Before Special Items



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

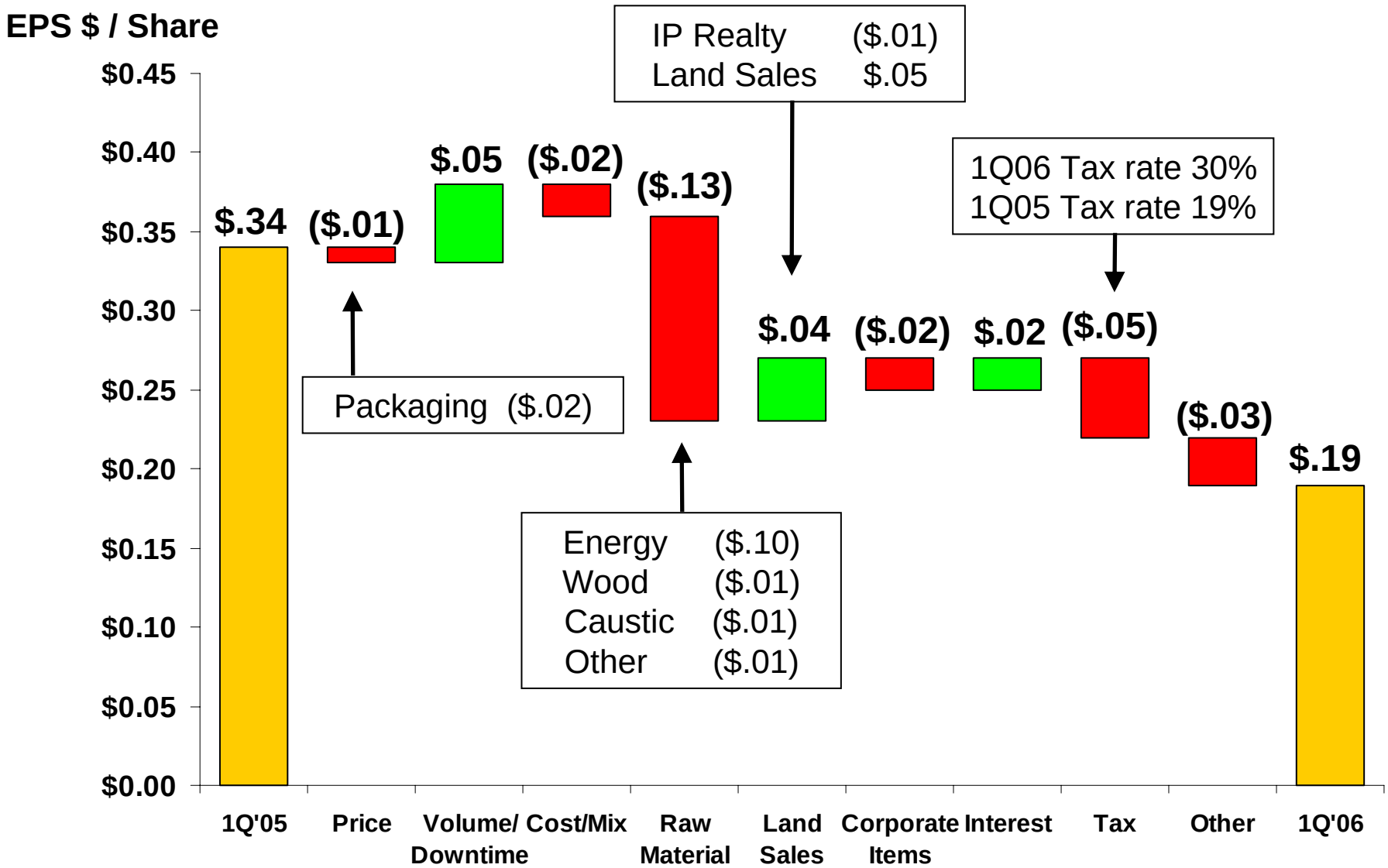
1Q'06 vs. 4Q'05

EPS from cont. ops before special items



1Q'06 vs. 1Q'05

EPS from cont. ops before special items

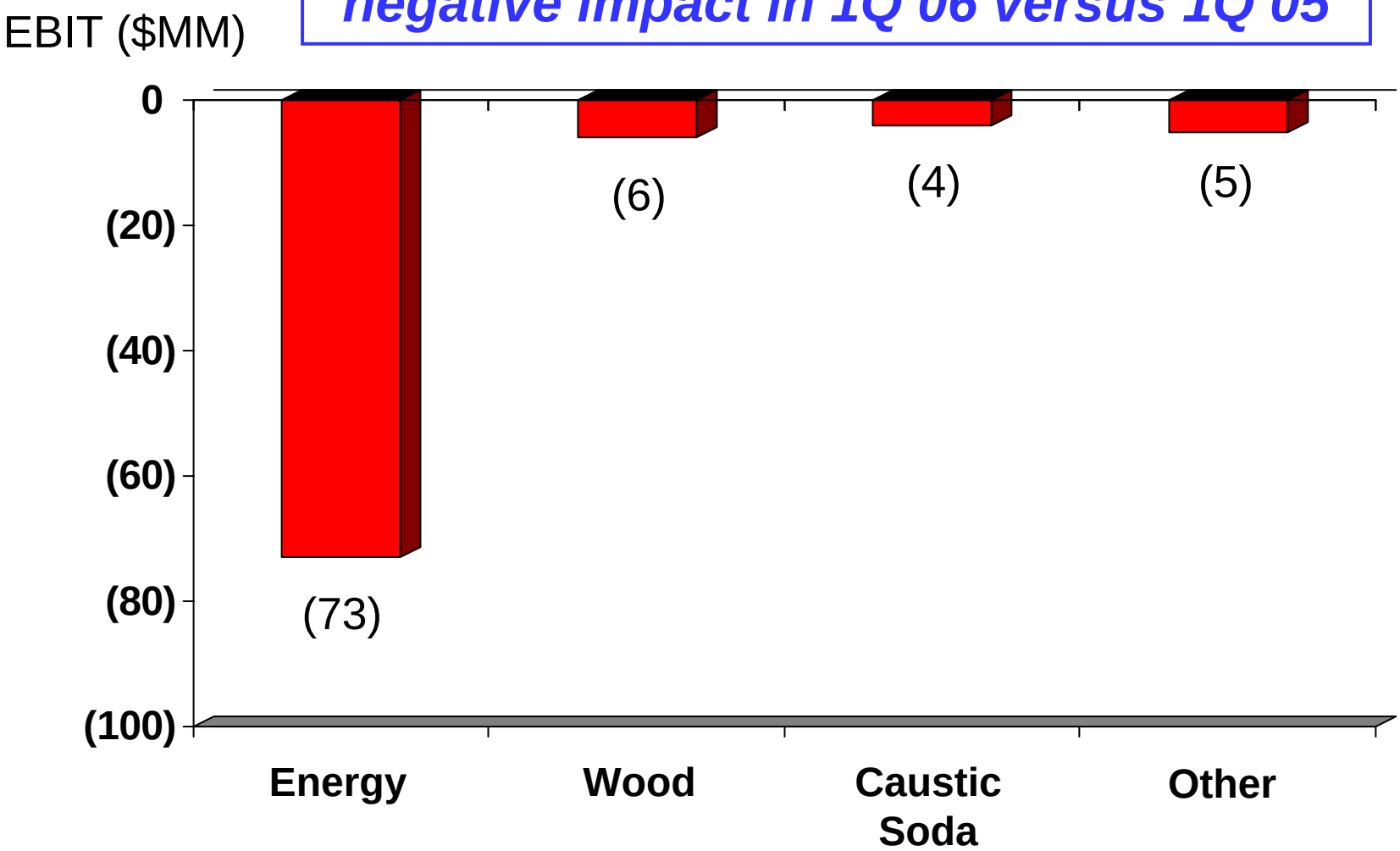


Higher Raw Material Costs

EBIT impact 1Q'06 vs. 1Q'05

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Total of $88 million or $0.13 per share negative impact in 1Q'06 versus 1Q'05



Printing Papers

$ Millions	*1Q'06*	*4Q'05*
Sales	$ 1,500	$ 1,485
Earnings	120	60

1Q'06 Change vs 4Q'05:

	Volume	*Realizations/ton*
Uncoated[1]	7%	$10
Pulp[1]	(18%)	$25
Europe[2] (uncoated)	5%	€5

[1] U.S. operations only

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

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

Industrial Packaging

$ Millions	*1Q'06*	*4Q'05*
Sales	$ 1,170	$ 1,170
Earnings	38	5

1Q'06 Change vs 4Q'05:

	Volume	*Realizations/ton*
Containerboard[1]	(12%)	$35
U.S. Container	1%	$35

[1] U.S. operations only

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

Consumer Packaging

$ Millions	*1Q'06*	*4Q'05*
Sales	$ 775	$ 800
Earnings	35	29

1Q'06 Change vs 4Q'05:

	Volume	*Realizations/ton*
Coated Paperboard[1]	6%	$5
	Sales Revenue	
Converting Businesses	(3%)	

[1] U.S. operations only

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

Distribution

$ Millions	*1Q'06*	*4Q'05*
Sales	$ 1,650	$ 1,635
Earnings	27	25

- xpedx had record first quarter earnings
- Revenues improved 8% vs. first quarter 2005
- First quarter ROI of 7%
- Expenses down, margins up

Forest Products

$ Millions	*1Q'06*	*4Q'05*
Sales	$ 630	$ 665
Earnings	226	257

1Q'06 Change vs 4Q'05:

	Volume	*Realizations/unit*
Lumber[1] (mbf)	(3%)	$15
Plywood (msf)	2%	($24)

[1] U.S. operations only

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

Special Items & Discontinued Operations – 1Q'06

Special Items – After Tax	$MM	EPS
• Insurance Recoveries	12	
• Legal Reserves	(11)	
• Restructuring & Other	(17)	
• Divestitures	(2)	
• Tax Adjustments	(6)	
Special Items Total	(24)	($0.05)
Discontinued Operations (Coated and Kraft Paper)		
• Writedown to Estimated Sales Value and Other	(1,311)	
• 1Q'06 Earnings	7	
	(1,304)	($2.66)

Reconciliation to 1Q'06 Diluted Earnings Per Share

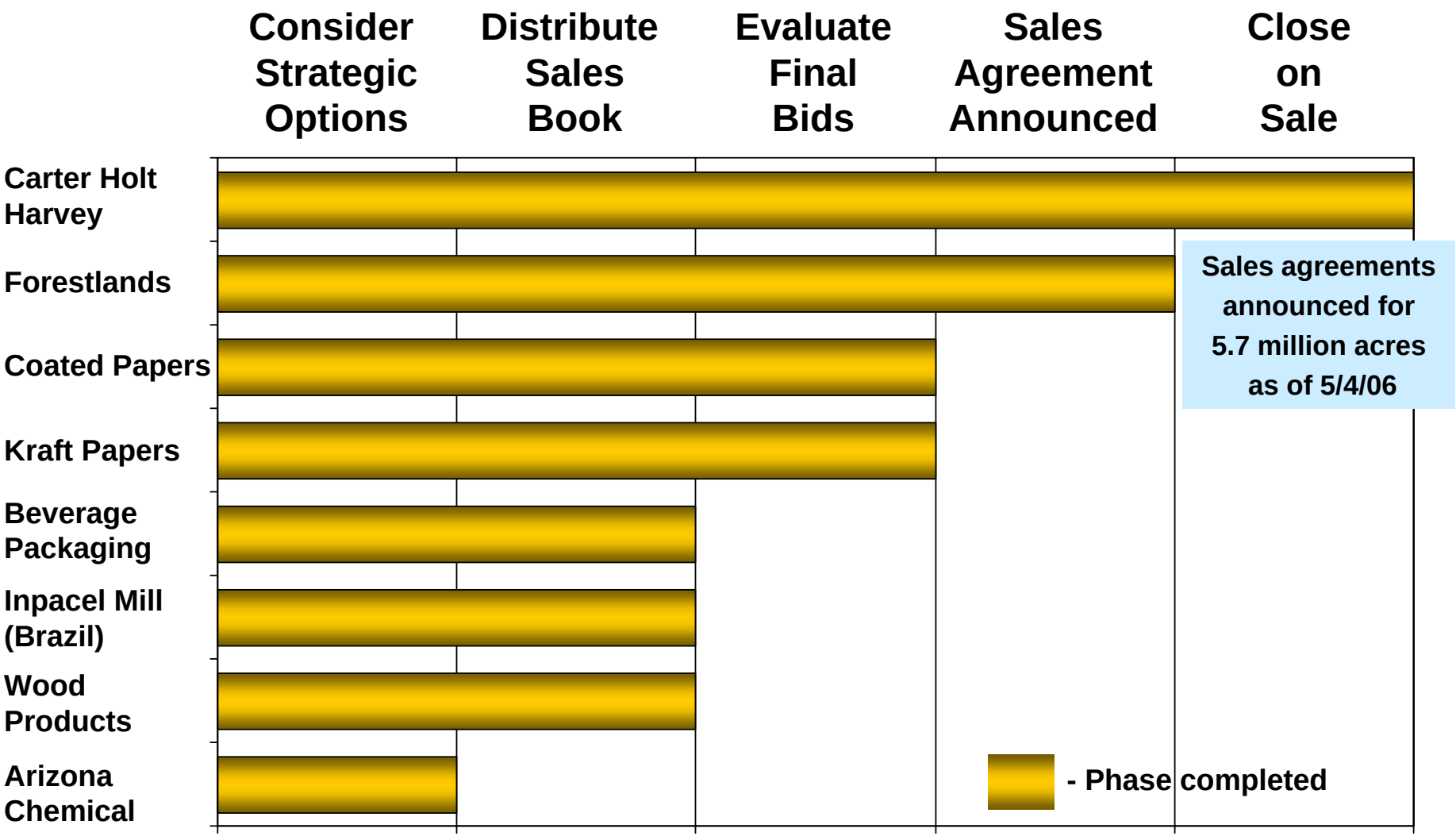
	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$0.19
Special Items	(0.05)
Earnings from Continuing Operations	0.14
Discontinued Operations	(2.66)
Net Loss	($2.52)

Second Quarter 2006 Outlook

- Volume remains solid
- Implementing IP's announced price increases in paper and packaging
- Continued progress in improving operations
- Input costs mixed
  - Natural gas and wood costs down
  - Fuel oil and transportation costs up
- Tax rate – 33%

Transformation Plan Update

Divestments status as of May 4, 2006



Transformation Plan Update

First Quarter 2006

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- Announced sales of 5.7 million acres for $6.6 billion
  - Cash to IP in 4Q'06
  - Retained 830,000 acres in U.S. South (700,000 acres for future sale)
- Total after-tax proceeds could exceed $11 billion
- Industrial asset sales process on track
- Details on returning value to shareholders will be communicated by end of July 2006
- Maintaining focus on improving key platform operations – fewer, bigger, better strategy
- Select reinvestment - taking a disciplined approach

Q & A

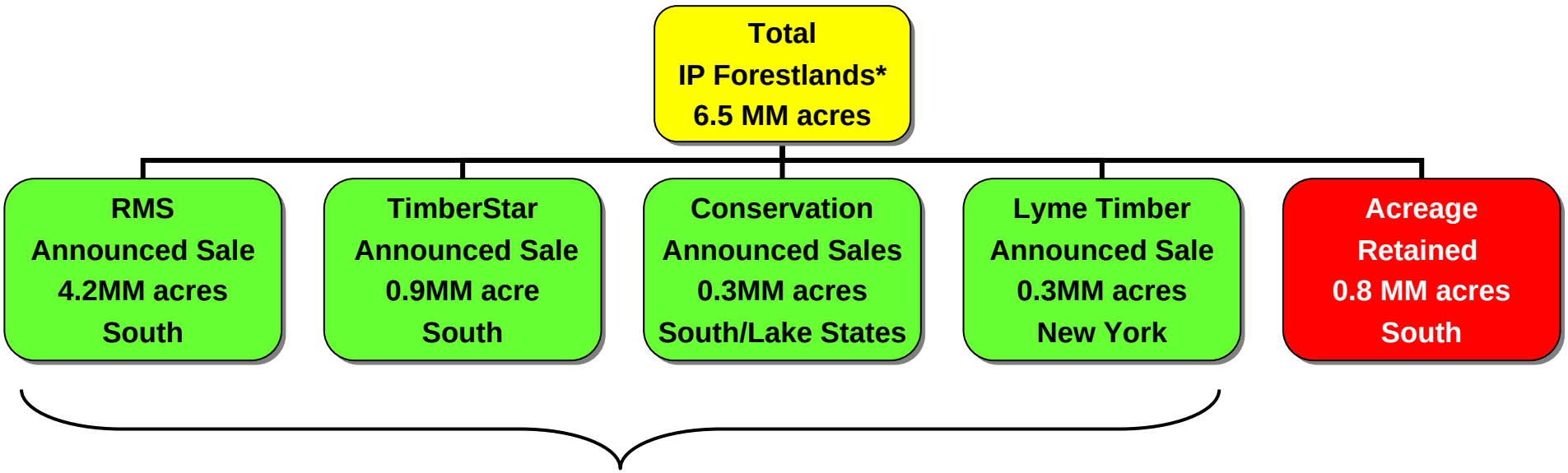
Appendix

Transformation Plan Update

U.S. Forestlands

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IP has announced agreements to sell 5.7 million acres for approximately $6.6 billion as of May 4, 2006



Targeted sale of 5.7 million acres
as part of transformation plan

* U.S. forestlands owned or managed as of December 31, 2005

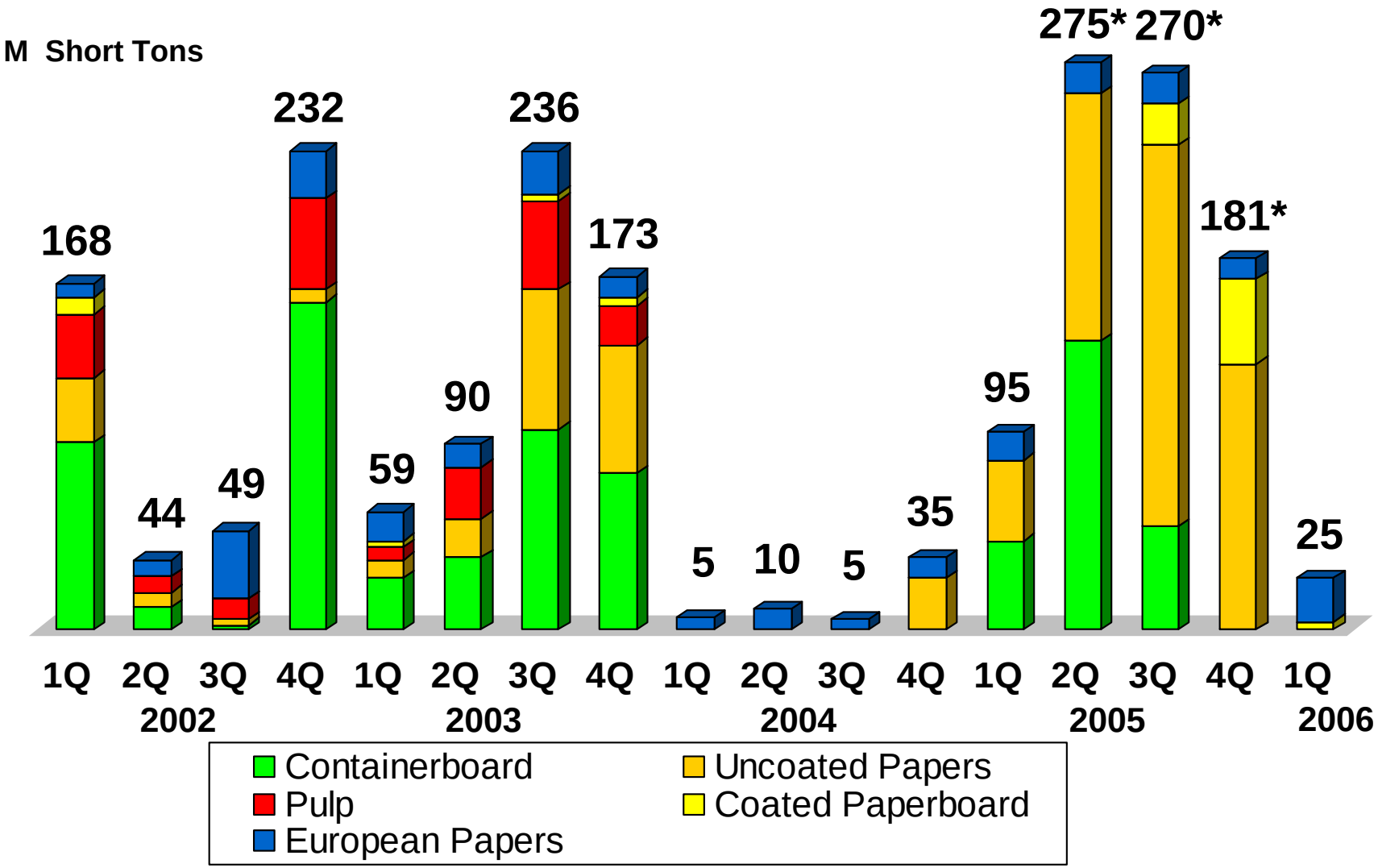
Transformation Plan Update

Forestland sales summary

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	Acres (000s)	*Estimated Value ($MM)*	*Cash*	*Timber Notes*
Conservation Sales	**287**	**383**		
The Nature Conservancy & The Conservation Fund Southern U.S.	218	300	✓	
The Nature Conservancy (WI)	69	83	✓	
RMS Sale	**4,210**	**5,000**		
Southern U.S.	3,770		✓	✓
Michigan	440		✓	✓
TimberStar Sale (LA, TX, AR)	**900**	**1,100**	✓	✓
Lyme Timber Sale (NY)	**275**	**137**	✓	
Total Sales	**5,672**	**6,620**		

Lack of Order Downtime



*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.

Earnings by Industry Segment

Before special items

$ Millions	1Q'06	4Q'05*	1Q'05*
Earnings by Industry Segment			
Printing Papers	$120	$60	$157
Industrial Packaging	38	5	102
Consumer Packaging	35	29	32
Distribution	27	25	18
Forest Resources	226	257	207
Other Businesses	10	(5)	10
Operating Profit	**456**	**371**	**526**
Interest Expense	(148)	(151)	(168)
Minority Interest	3	(1)	(1)
Corporate Items, net	(174)	(165)	(152)
Earnings from continuing operations before income taxes, minority interest & special items	**$137**	**$54**	**$205**

**industry segment information has been reclassified to conform with minor changes in 2006 organizational structure as well as to reflect Coated Papers and Kraft Papers businesses as discontinued operations*

2006 Earnings from Continuing Operations

	Pre-Tax	Tax	MI	Net	ETR	Average Shares[2]	Diluted EPS[1]
	$ MM	*$ MM*	*$ MM*	*$ MM*		*MM Shares*	*$/Share*
Before Special Items							
Q1	137	(41)	(5)	91	30%	491.7	0.19
Special Items							
Q1	(30)	6	-	(24)	19%	491.7	(0.05)
Earnings from Continuing Operations							
Q1	107	(35)	(5)	67	33%	491.7	0.14

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*

2005 Earnings from Continuing Operations

	Pre-Tax	Tax	MI	Net	ETR	Average Shares[2]	Diluted EPS[1]
	$ MM	*$ MM*	*$ MM*	*$ MM*		*MM Shares*	*$/Share*
Before Special Items							
Q1	205	(39)	(2)	164	19%	488.9	0.34
Q2	205	(62)	(3)	141	30%	487.4	0.29
Q3	170	(54)	(4)	112[3]	32%	487.1	0.23
Q4	55	(8)	(4)	43	14%	486.0	0.09
Full Year Total	636	(163)	(12)	461	26%	509.7	0.96
Special Items							
Q1	(103)	36	-	(67)	35%	488.9	(0.14)
Q2	35	(95)	-	(61)	NM	487.4	(0.13)
Q3	167	441	-	608	NM	487.1	1.25
Q4	(241)	102	-	(138)	43%	486.0	(0.28)
Full Year Total	(142)	484	-	343	NM	509.7	0.67
Earnings from Continuing Operations							
Q1	102	(2)	(2)	98	2%	488.9	0.20
Q2	240	(157)	(3)	80	65%	487.4	0.16
Q3	337	387	(4)	721[3]	NM	487.1	1.48
Q4	(186)	94	(4)	(95)	51%	486.0	(0.19)
Full Year Total	494	322	(12)	803[3]	NM	509.7	1.63

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

Numbers may not add due to rounding

Average Sales Realizations

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Segments*	Grades	Average Sales Realizations Mar 06	Mar 05	1Q'06	4Q'05	1Q'05
Printing Papers	Uncoated	826	802	803	793	797
	Pulp	510	496	499	476	488
$/ton						
Packaging	Containerboard	454	437	437	402	453
$/ton	Corrugated boxes	735	733	721	688	733
Forest Products	Lumber, $/MBF	376	375	367	352	358
	Plywood, $/MSF	277	299	277	301	291

* U.S. only

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

Forest Resources

$ Millions

	1Q'06	4Q'05	1Q'05
Earnings Sources – Gross Margin			
• Forestland Sales[1]	$106	$142	$71
• Harvest & Recreational Income	72	75	69
Forestland Expenses	(30)	(30)	(34)
Land Utilization (real estate), Net of Expenses	45	40	54
Total EBIT	$193	$227	$160

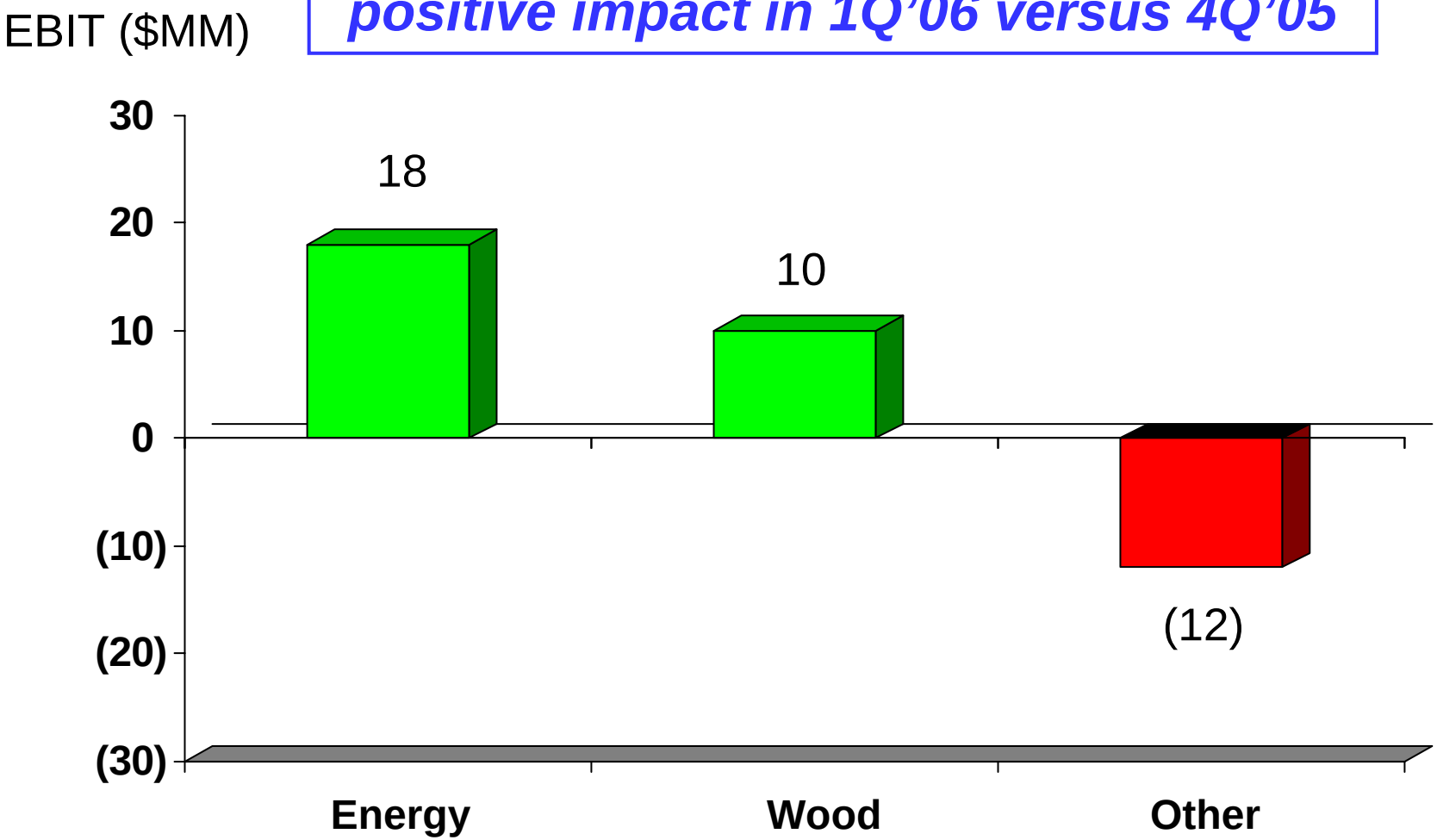
[1] Excludes U.S. forestlands identified for sale as part of transformation plan

Lower Raw Material Costs

EBIT impact 1Q'06 vs. 4Q'05

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Total of $16 million or $0.02 per share positive impact in 1Q'06 versus 4Q'05

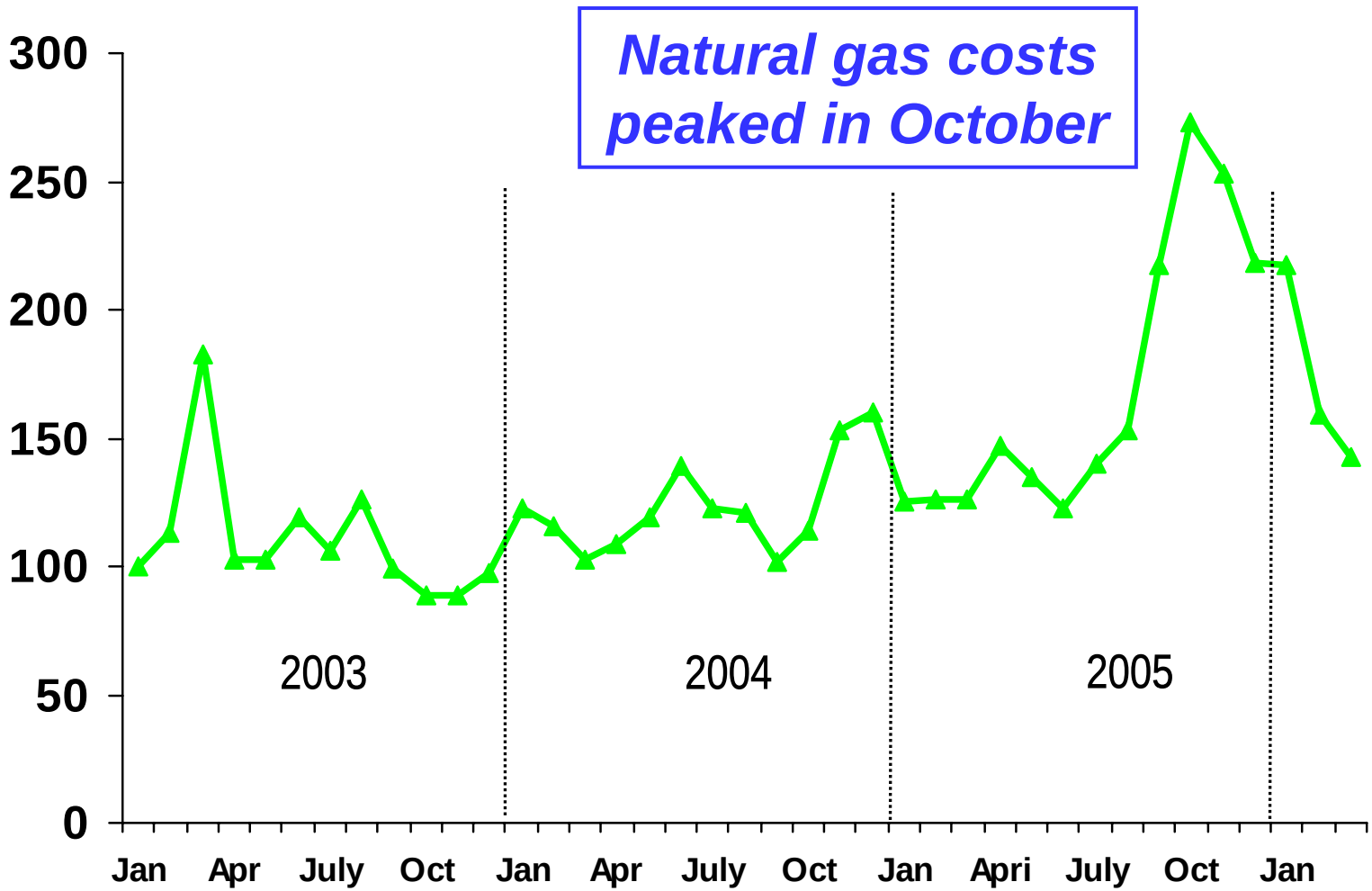


Natural Gas Costs

Trended lower in 1Q'06

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Index: Jan 2003 Natural Gas Costs = 100



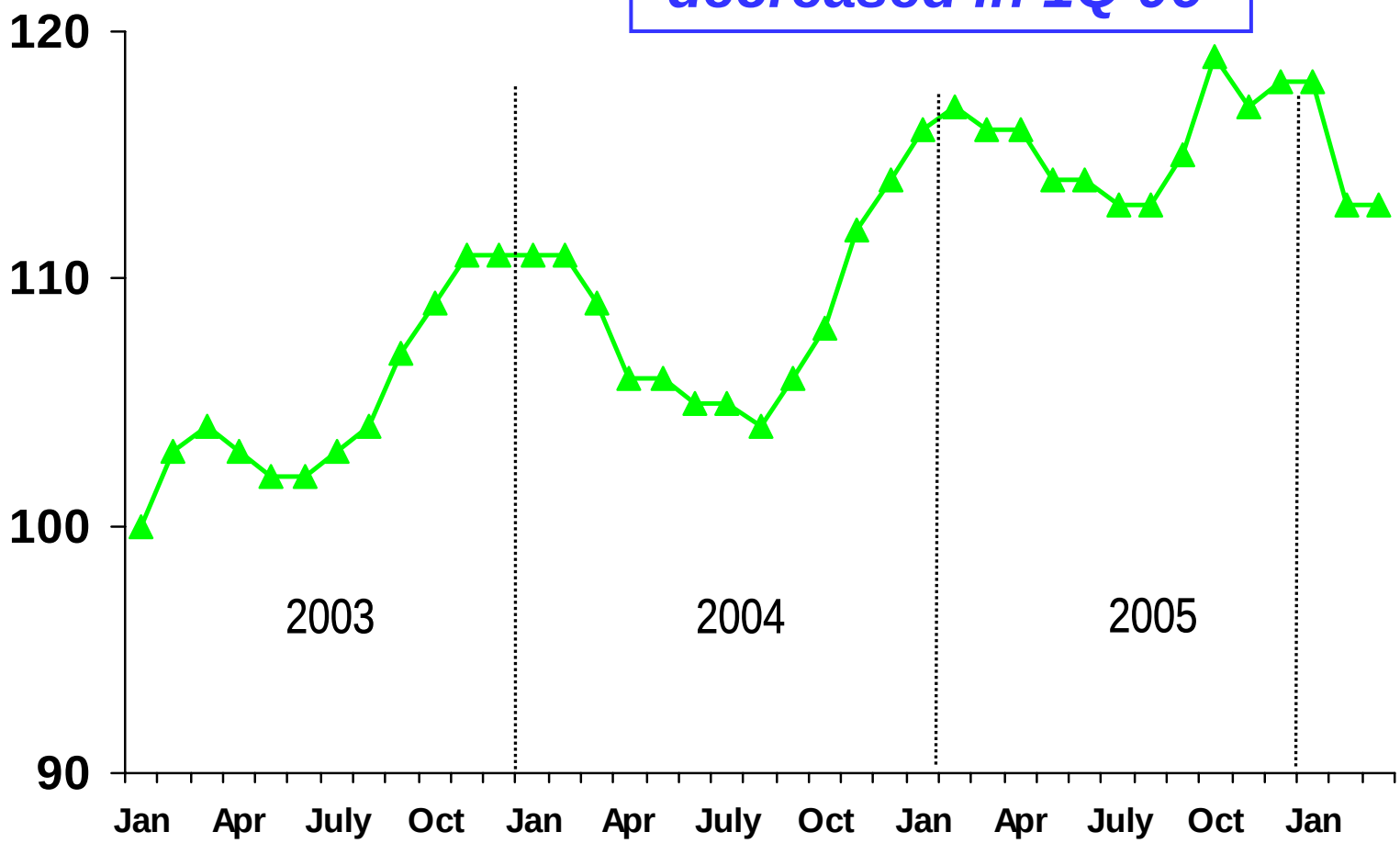
U.S. Mill Wood Costs

Trended lower in 1Q'06

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Index: Jan 2003 Wood Costs = 100

U.S. mill wood costs decreased in 1Q'06



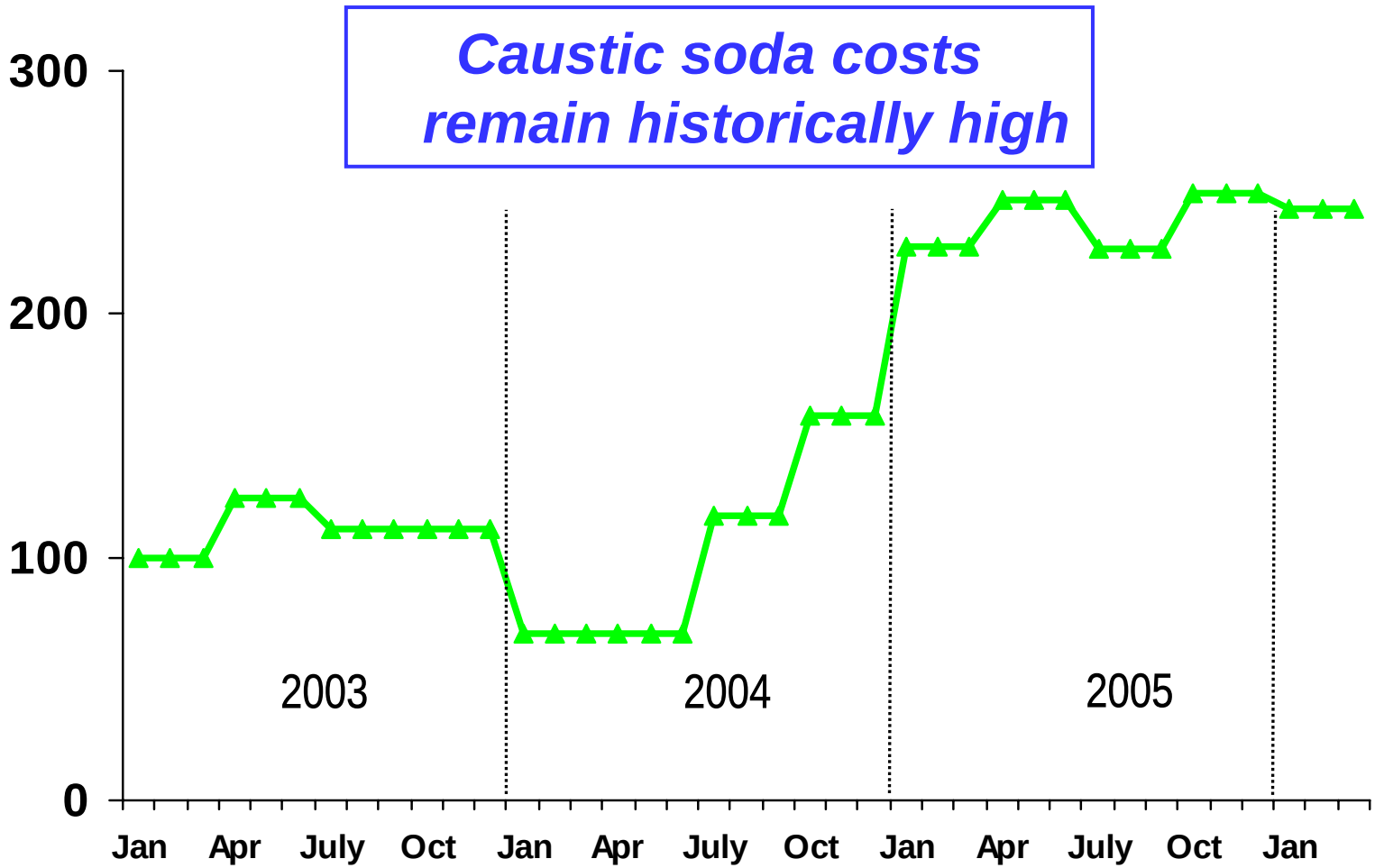
* Delivered cost to U.S. pulp & paper mills

Caustic Soda Costs

Trended slightly lower in 1Q'06

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Index: Jan 2003 Caustic Soda Costs = 100



Domestic Facilities

Key input indicative purchase levels

Energy	***Units***	***Annual Purchases[2]***
Natural Gas	MMbtus	37,000,000
# 6 Fuel Oil	BBLs	5,000,000
Coal	Tons	1,600,000
Fiber		
Wood	Tons	65,000,000
OCC[1]	Tons	600,000
Chemicals		
Caustic Soda	Tons	315,000
Sodium Chlorate	Tons	290,000
LD Polyethylene	Tons	100,000
Latex	Tons	41,000

[1] Old corrugated containers

[2] 2006 Run Rate

Minor Reclassifications

By industry segments

- Coated Papers and Kraft Papers moved to Discontinued Operations
- Coated Bristols to Consumer Packaging from Printing Papers
- Bleached Kraft to Printing Papers from Industrial Packaging

Minor Reclassifications

Sales & earnings by industry segments

1Q'05 industry segment information has been reclassified to conform with minor changes in 2006 organizational structure as well as to reflect Coated Papers and Kraft Papers businesses as discontinued operations

	Sales $ Millions		**Operating Profit** $ Millions	
	As Restated in 1Q'06	As Reported in 4Q'05	As Restated in 1Q'06	As Reported in 4Q'05
	1Q'05	1Q'05	1Q'05	1Q'05
Printing Papers	$1,510	$1,985	$157	$183
Industrial Packaging	1,215	1,295	102	105
Consumer Packaging	740	630	32	23
Distribution	1,530	1,530	18	18
Forest Products	610	610	207	207
Other Businesses	275	275	10	10
Less: Intersegment Sales	(287)	(314)		
	$5,593	$6,011	$526	$546


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