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# *First Quarter 2006 Review*

*May 4, 2006*


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**Chairman & CEO**

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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

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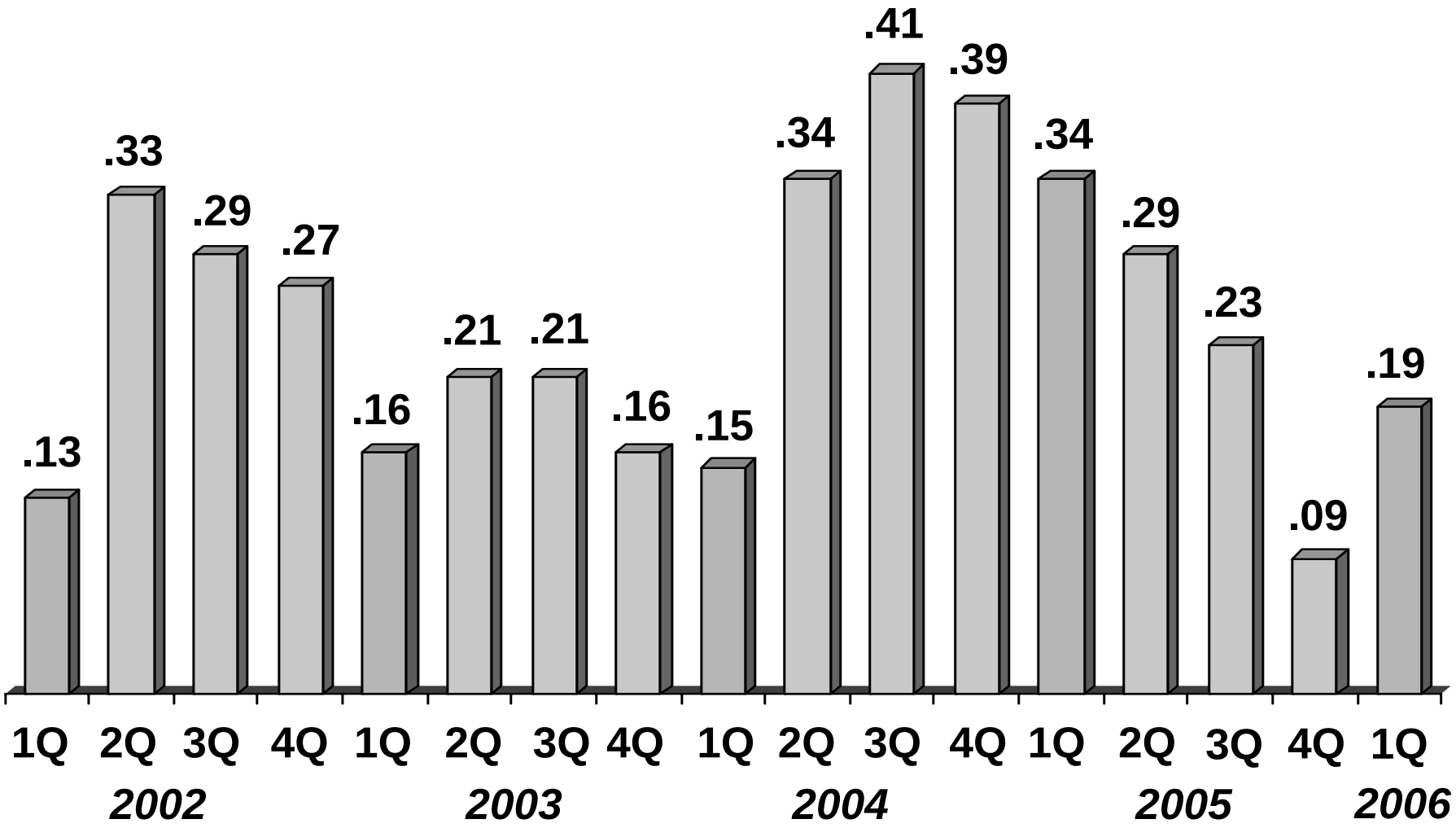
- First Quarter 2006 Review
- Second Quarter 2006 Outlook
- Transformation Plan Update

# First Quarter 2006 Summary

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- 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

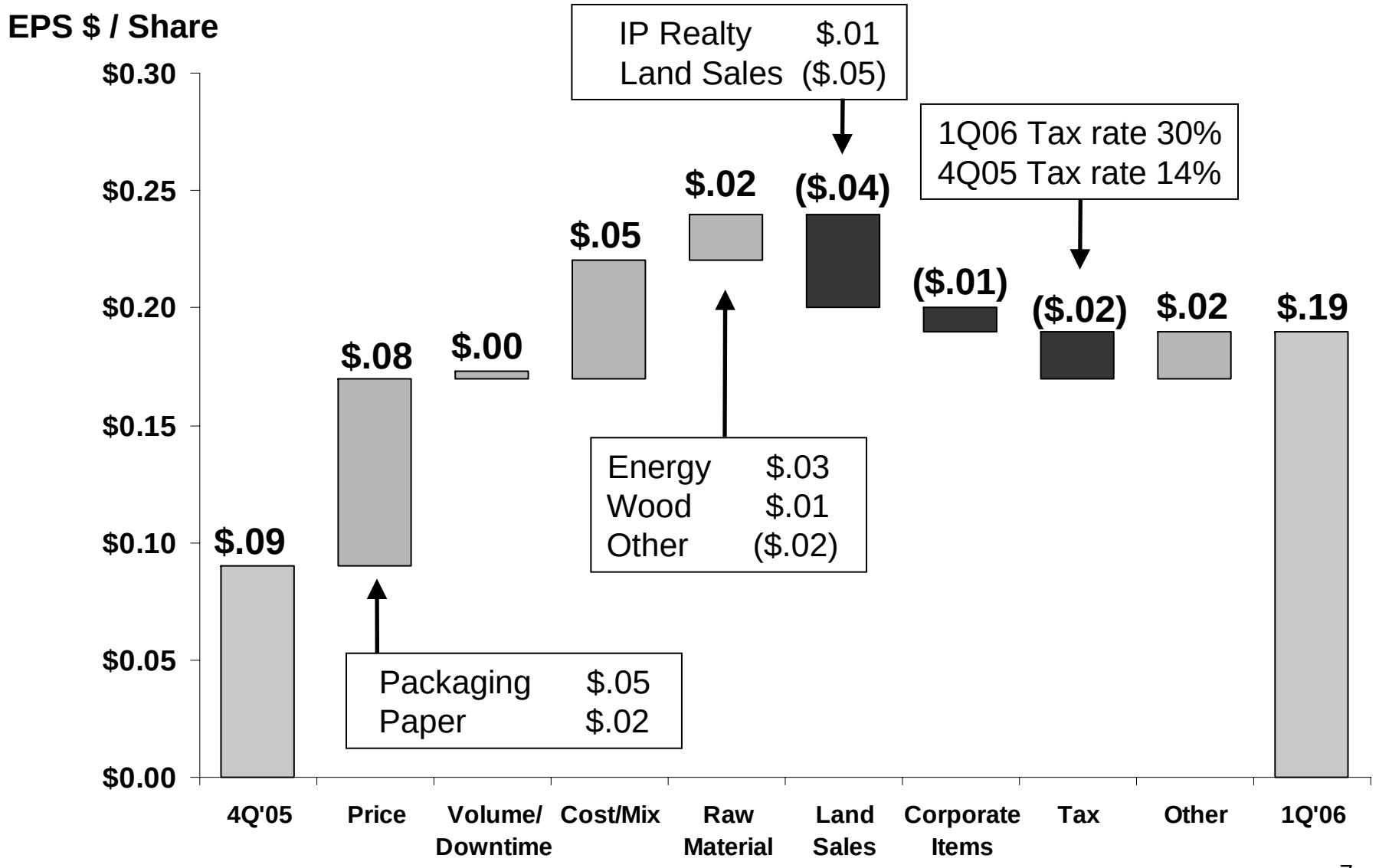
# Diluted EPS from Continuing Operations and Before Special Items




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

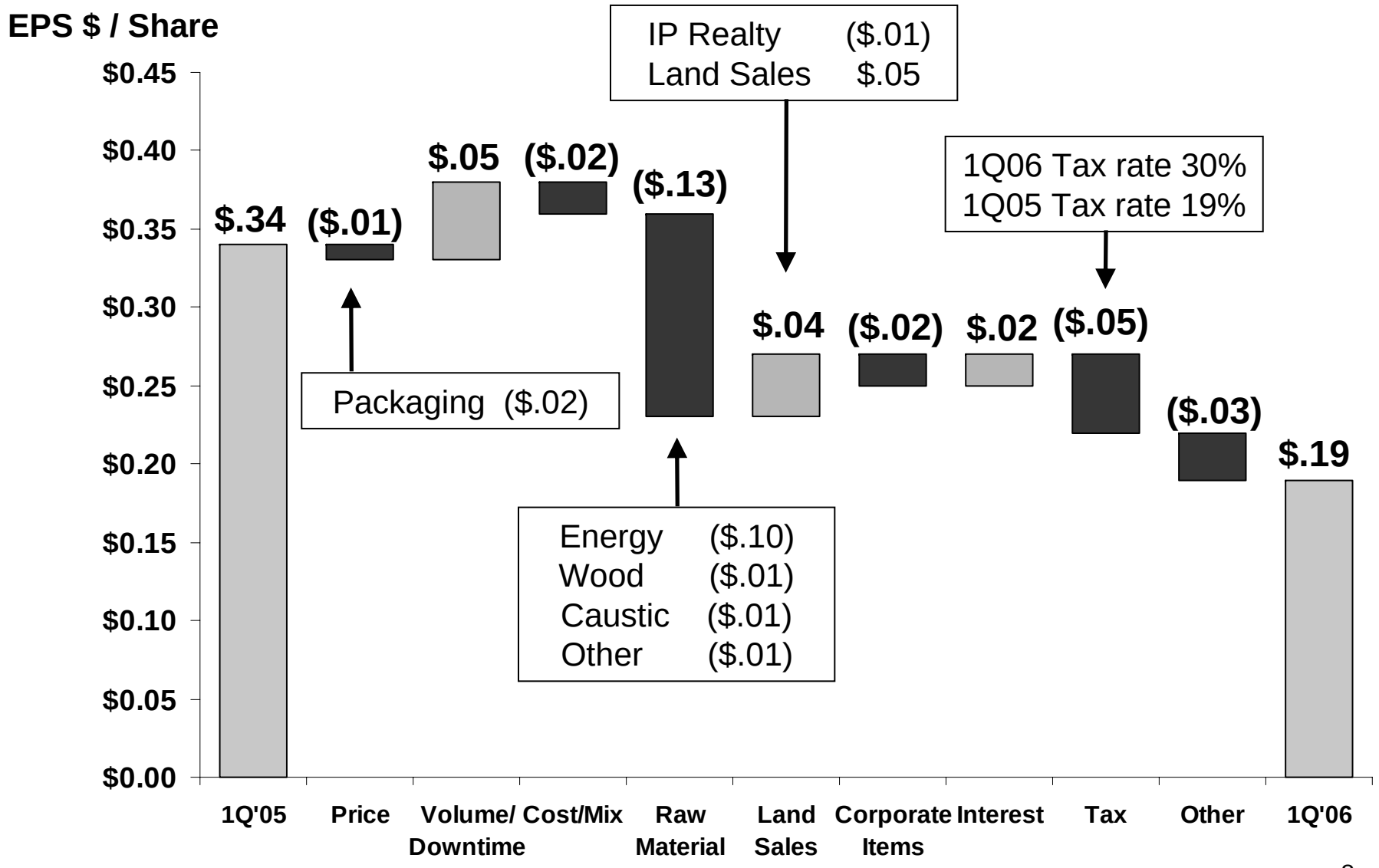
# 1Q'06 vs. 4Q'05

## *EPS from cont. ops before special items*



# 1Q'06 vs. 1Q'05

## *EPS from cont. ops before special items*

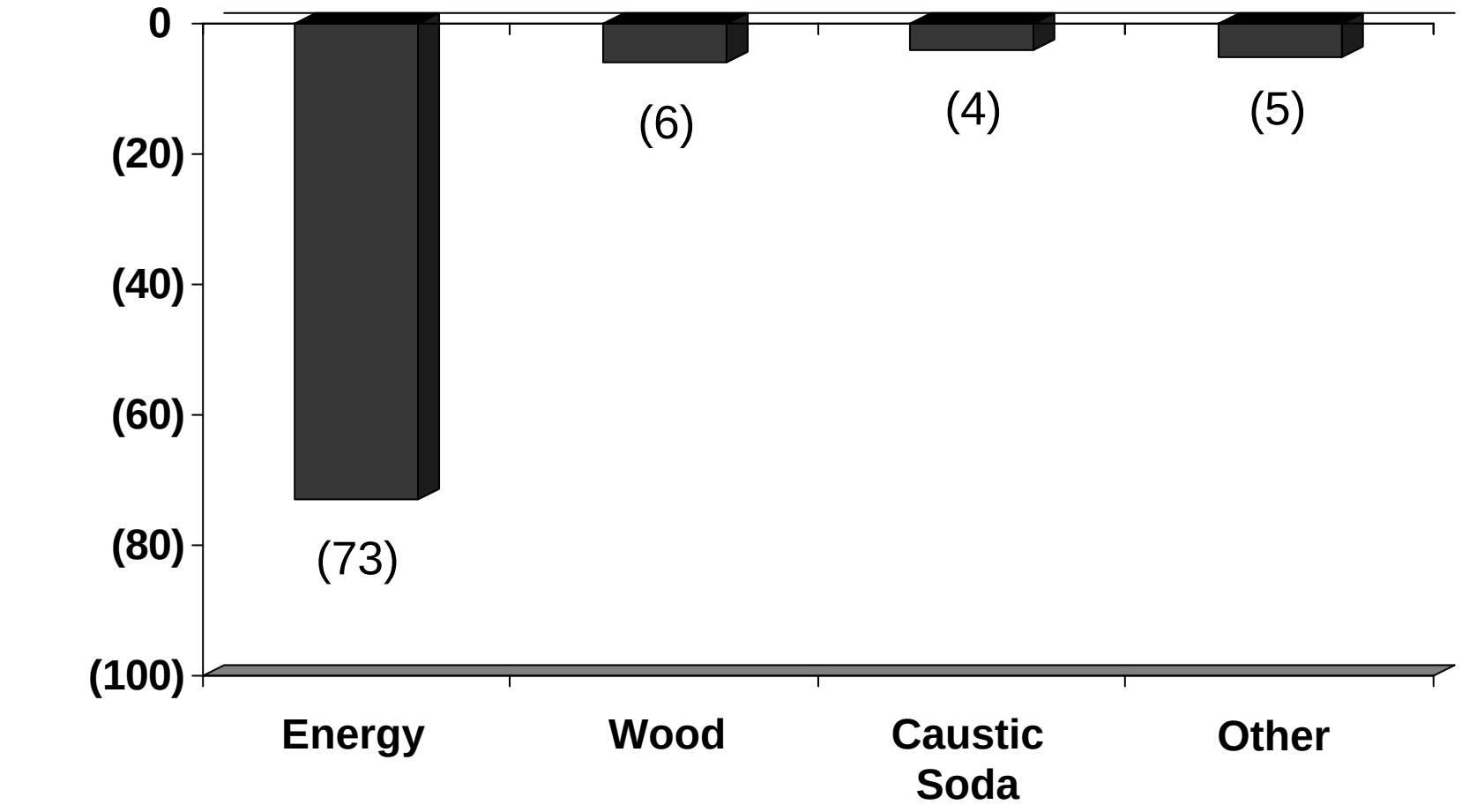


# Higher Raw Material Costs

***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

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| *$ 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

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| *$ 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

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| 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

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| | 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

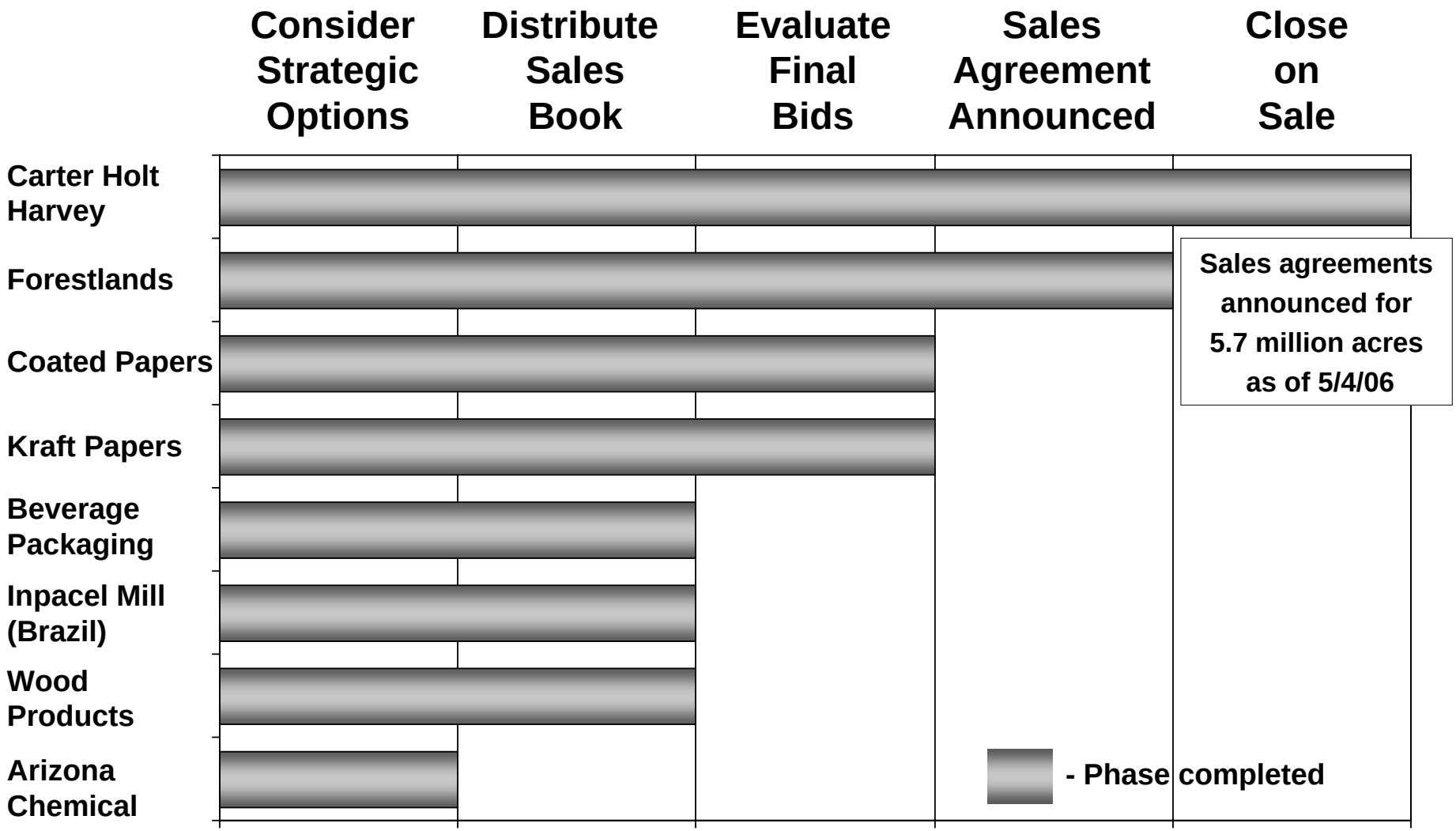
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- Volume remains solid
- Implementing IP's announced price increases in paper and packaging
- Continued progress in improving operations
- Input costs mixed
  - Natural gas and wood costs down
  - Fuel oil and transportation costs up
- Tax rate – 33%

# Transformation Plan Update

## *Divestments status as of May 4, 2006*

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# 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

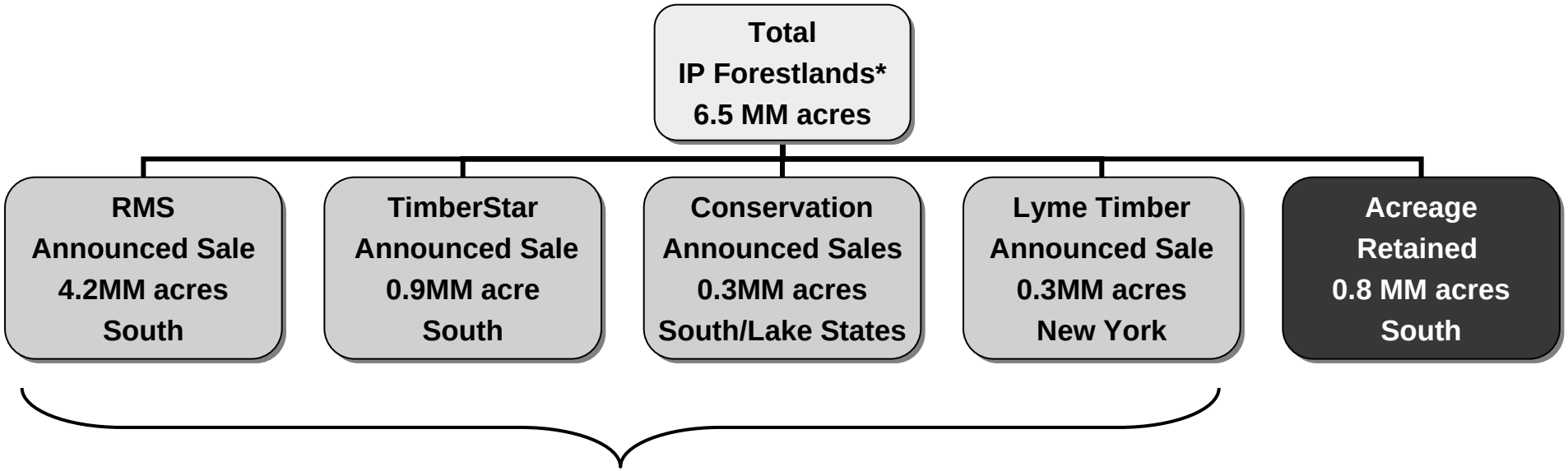
# Appendix

# 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

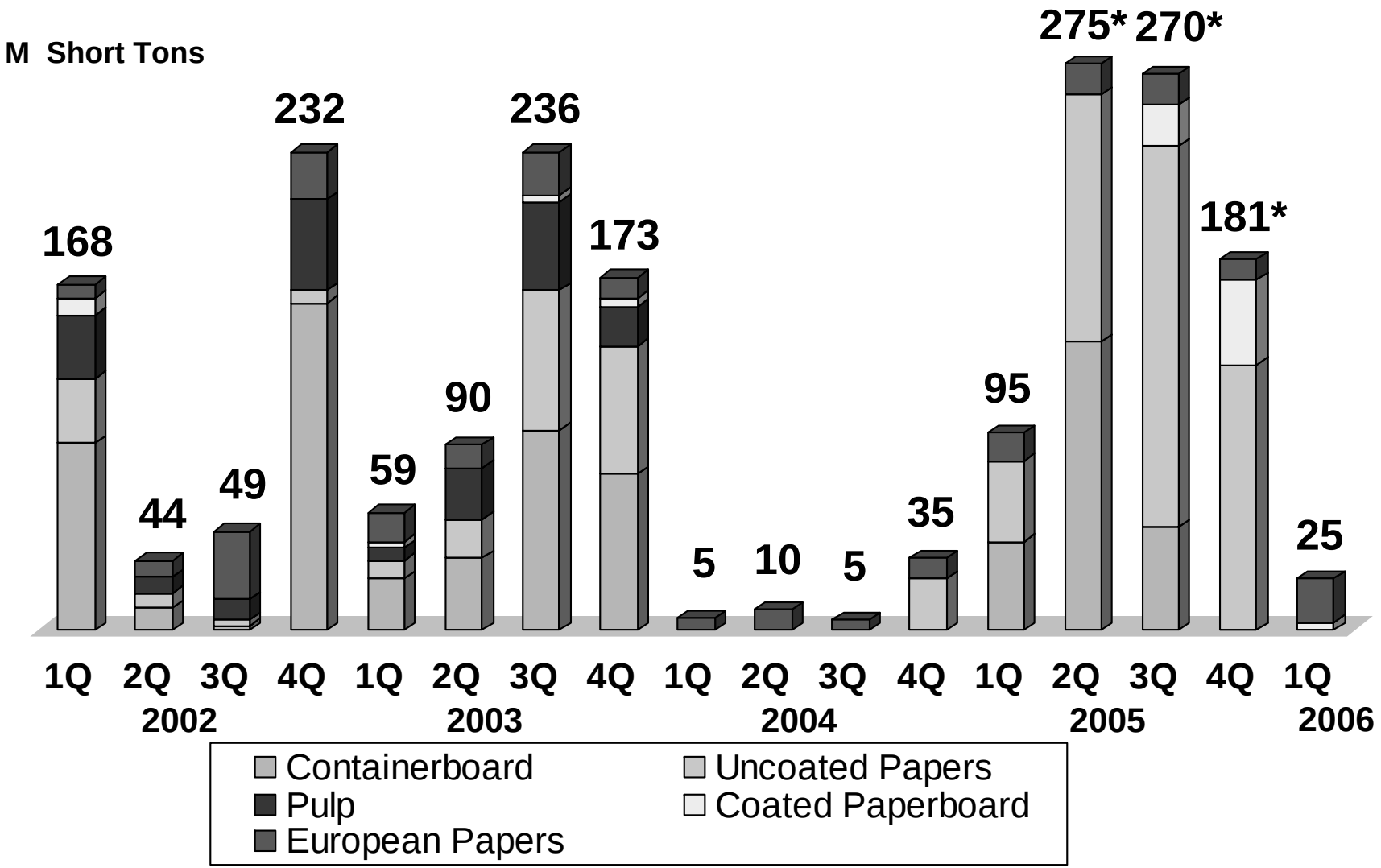
# Transformation Plan Update

## *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*

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| *$ 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

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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 | 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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| | | Average Sales Realizations | | | | |
|---|---|---|---|---|---|---|
| ***Segments**** | ***Grades*** | ***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

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*$ 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

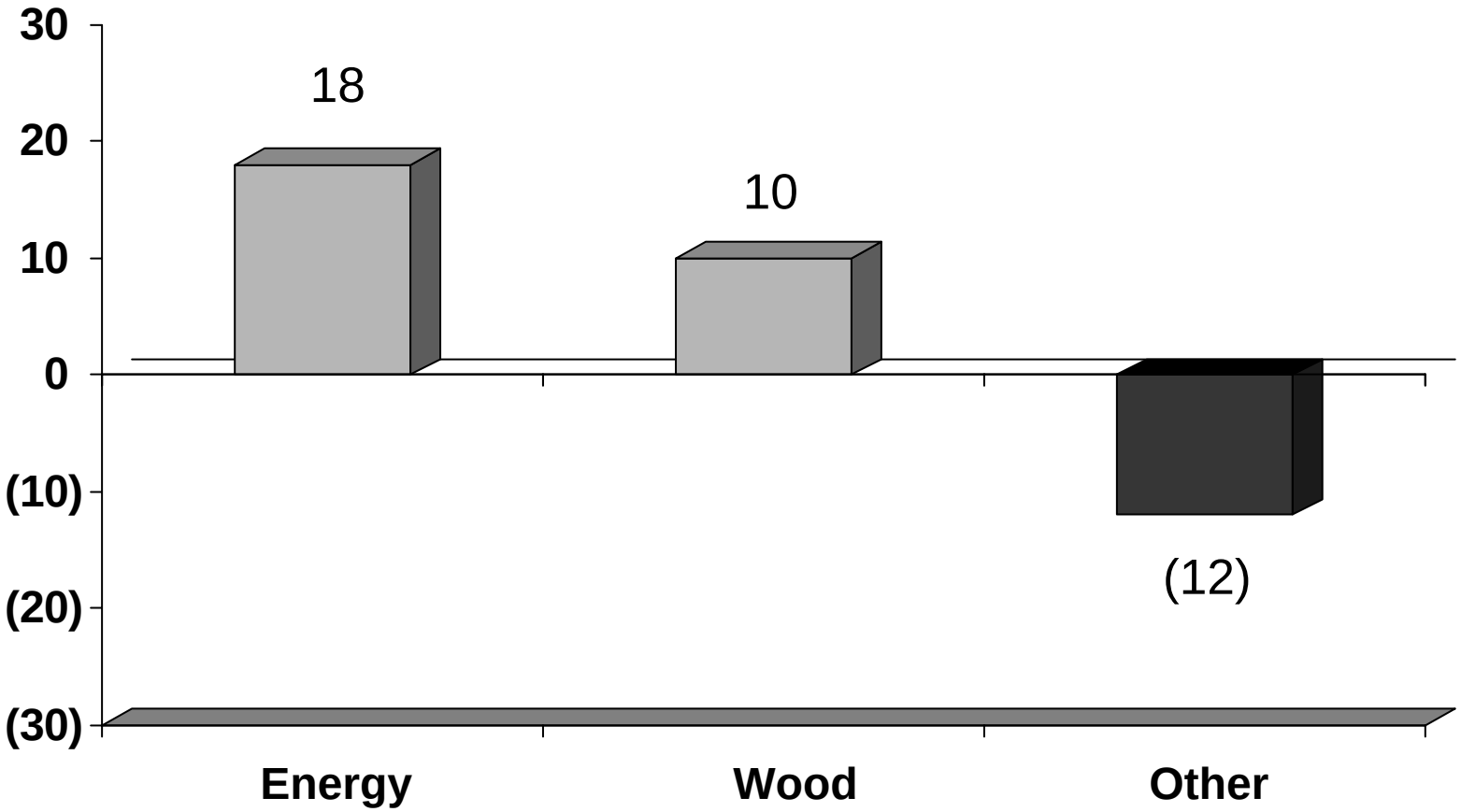
# Lower Raw Material Costs

***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***

EBIT ($MM)

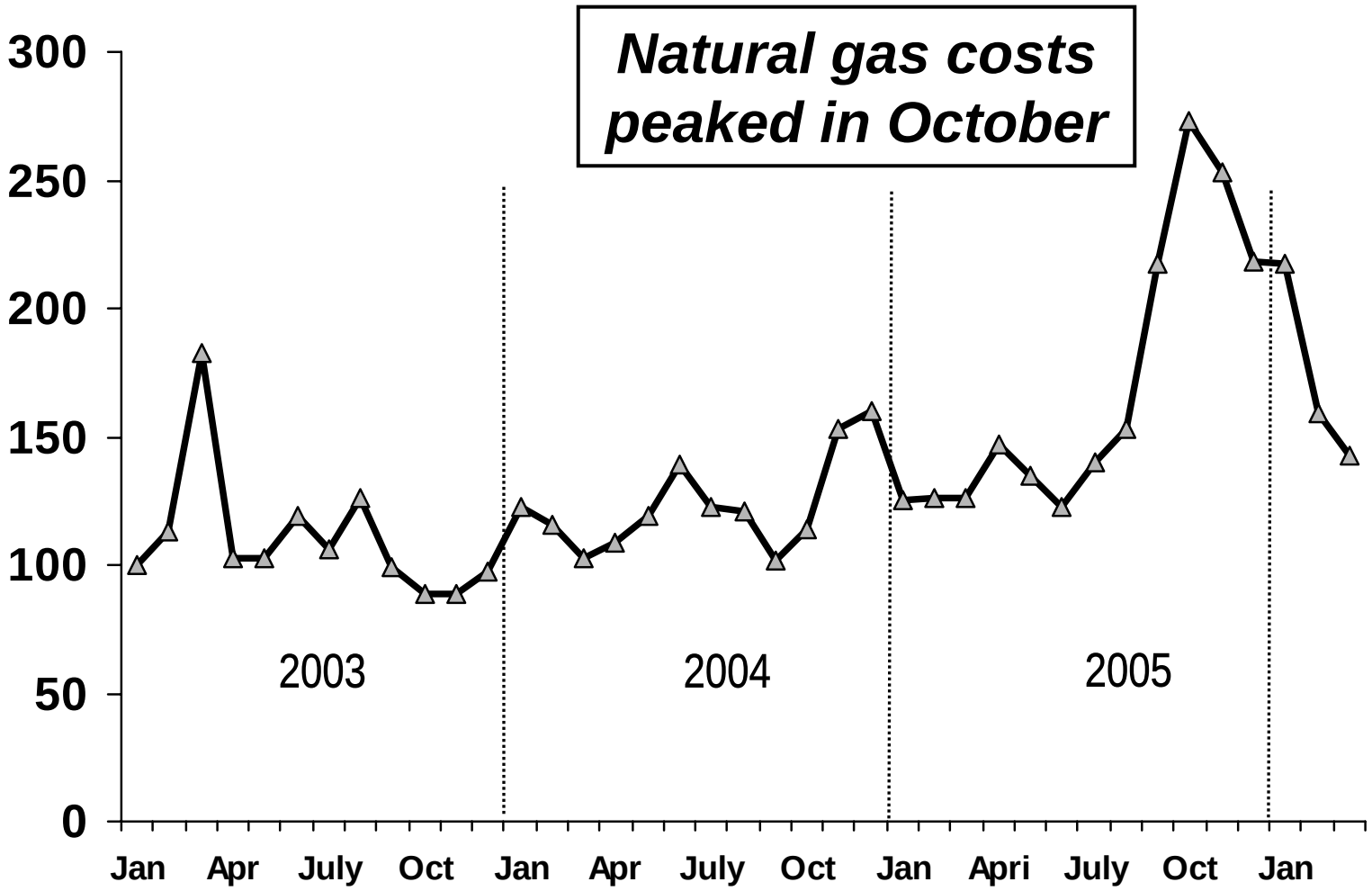


# Natural Gas Costs

## *Trended lower in 1Q'06*

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Index: Jan 2003 Natural Gas Costs = 100



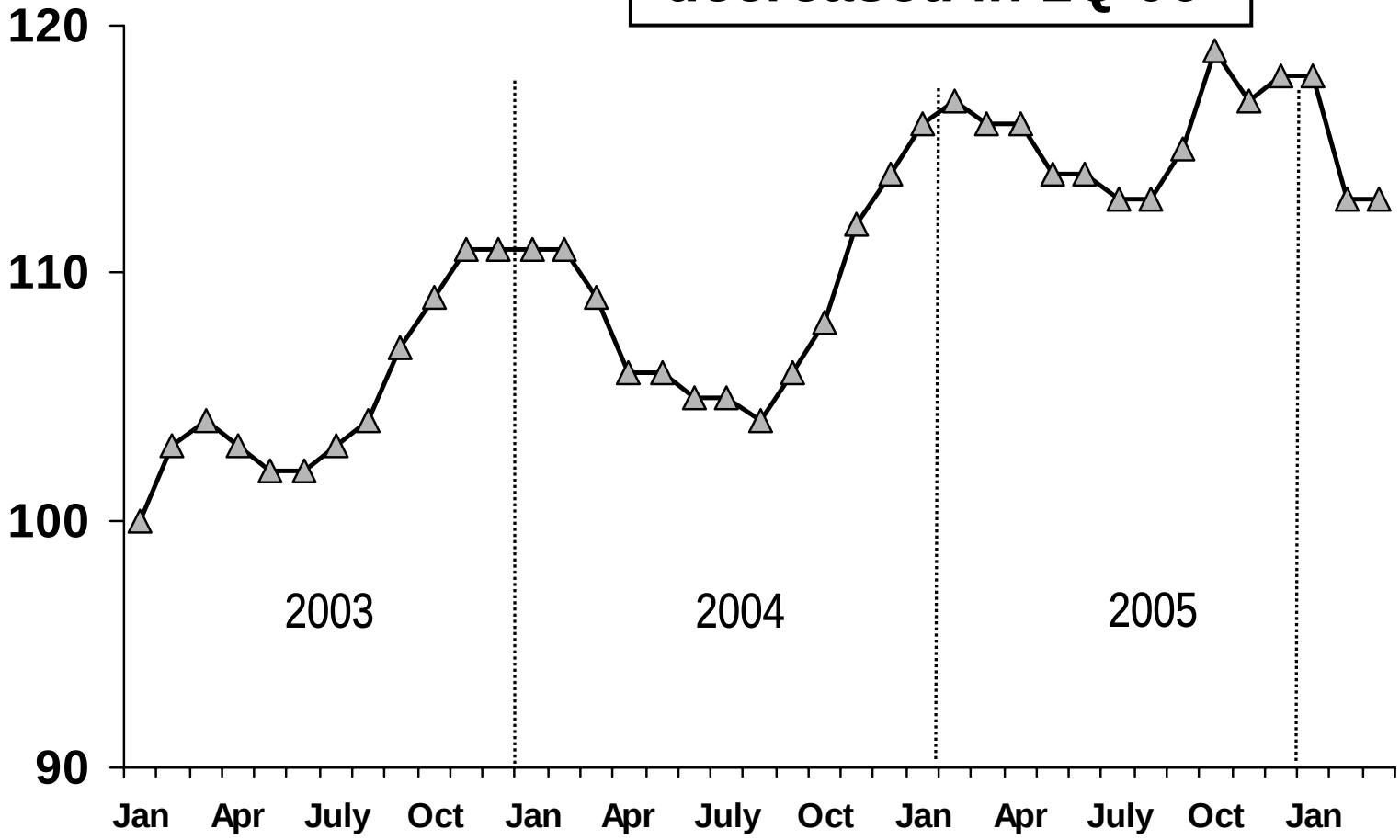
# U.S. Mill Wood Costs

## *Trended lower in 1Q'06*

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Index: Jan 2003 Wood Costs = 100

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



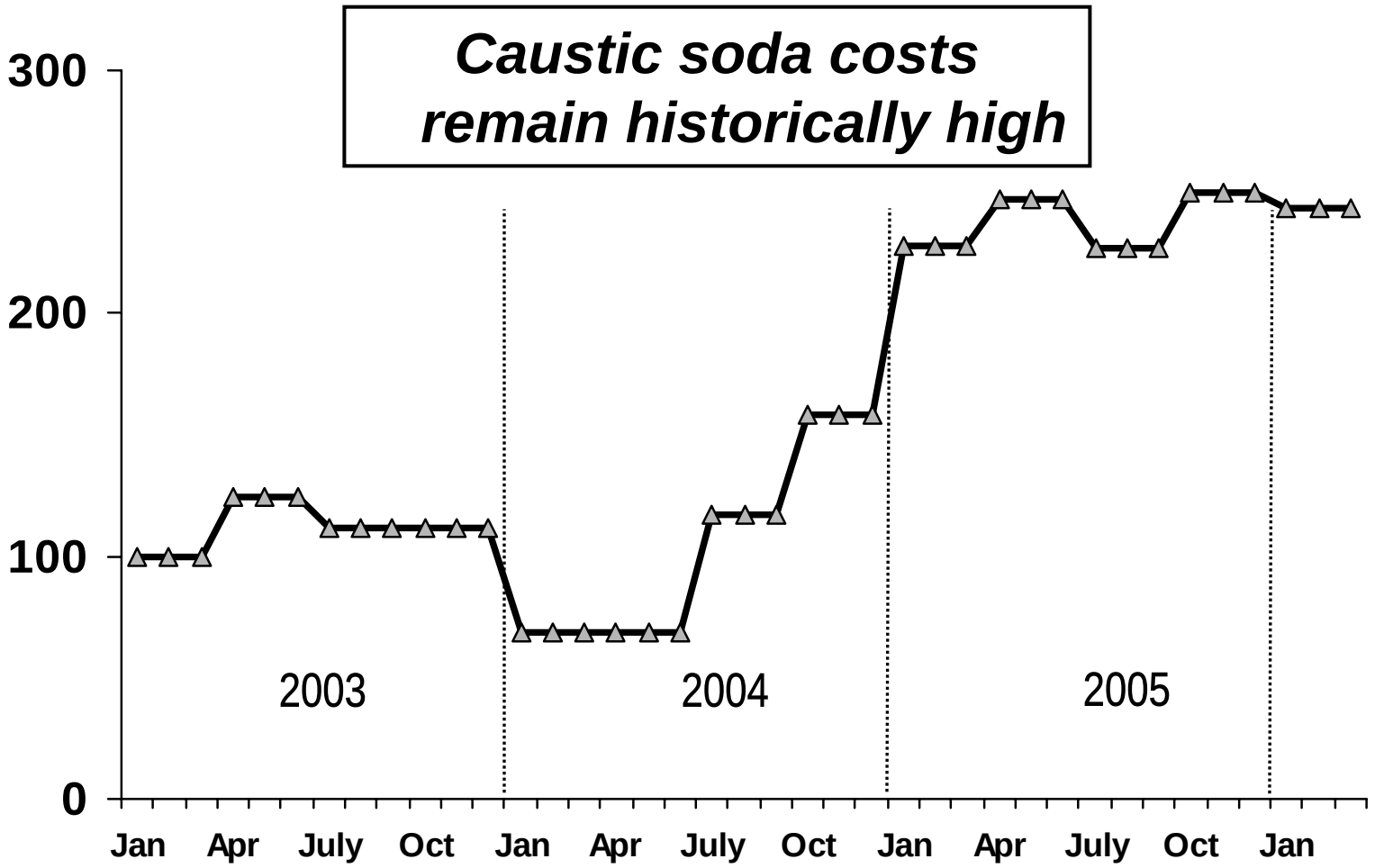

* Delivered cost to U.S. pulp & paper mills

# 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***

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| ***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*

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*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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