

INTERNATIONAL PAPER

Second Quarter 2006 Review

August 1, 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 that could cause actual results to differ relate to: (i) 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 material 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; (ii) the ability of the Company to accomplish the transformation plan, including the ability to realize anticipated profit improvement from the plan and the ability to successfully negotiate satisfactory sale terms for assets that are being evaluated for sale but are not currently under contract; and (iii) the effect of economic and industry conditions on the Company generally, and on the market price of the Company's stock, including unanticipated events (in type, scope or magnitude) that would have a material adverse impact upon the Company's liquidity or results of operations. 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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- Second Quarter 2006 Review
- Third Quarter 2006 Outlook
- Transformation Plan Update

Second Quarter 2006 Summary

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- Solid second quarter, strong revenue
- Improving IP paper and packaging pricing
- Comparable volume to first quarter 2006
- Strong manufacturing operations
- Lower raw material costs / higher freight costs
- Lower land sales / higher tax rate
- Coated Papers included in continuing operations

Diluted EPS from Continuing Operations and Before Special Items

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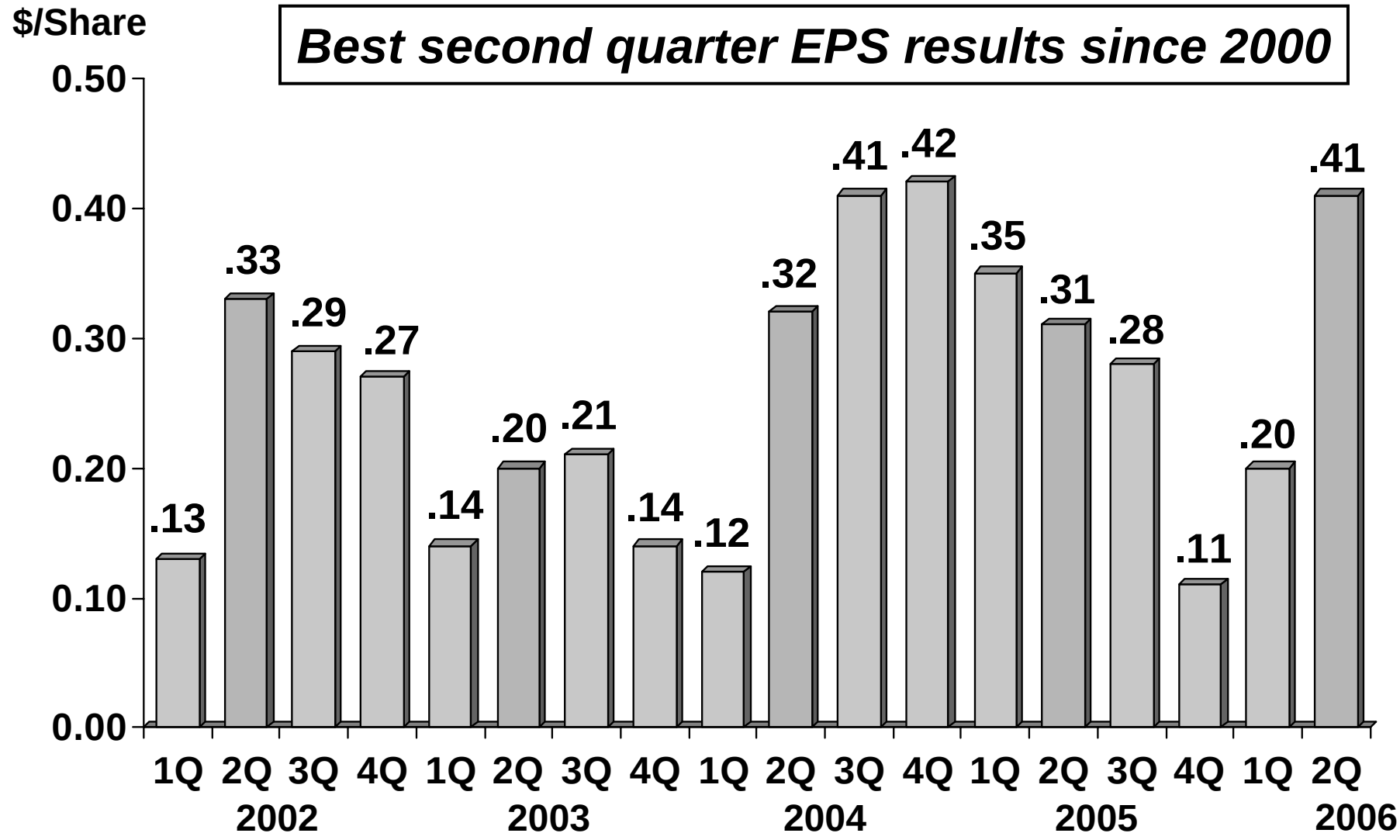
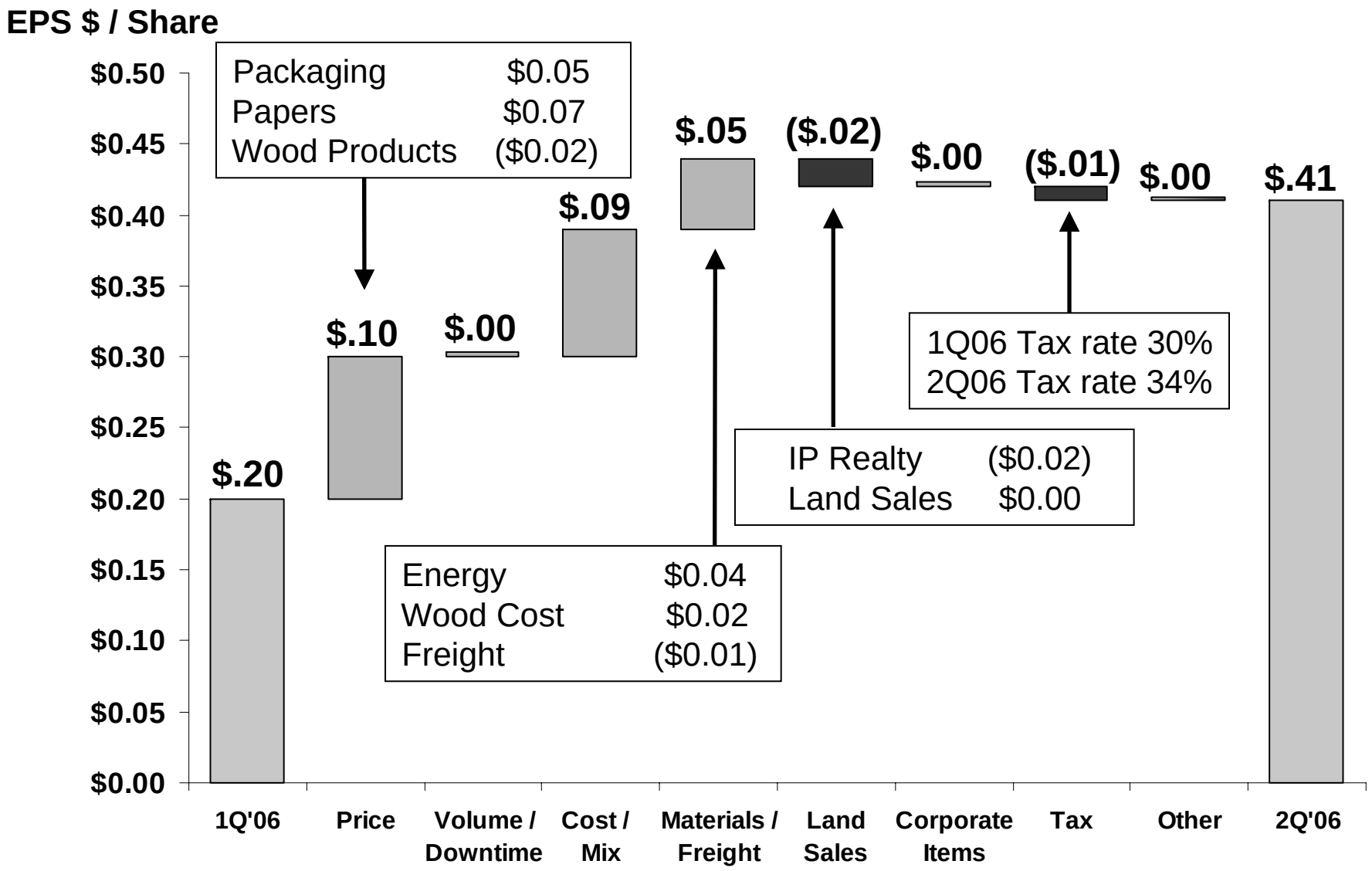


** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investors*

2Q'06 vs. 1Q'06

EPS from cont. ops before special items



6M'06 vs. 6M'05

EPS from cont. ops before special items

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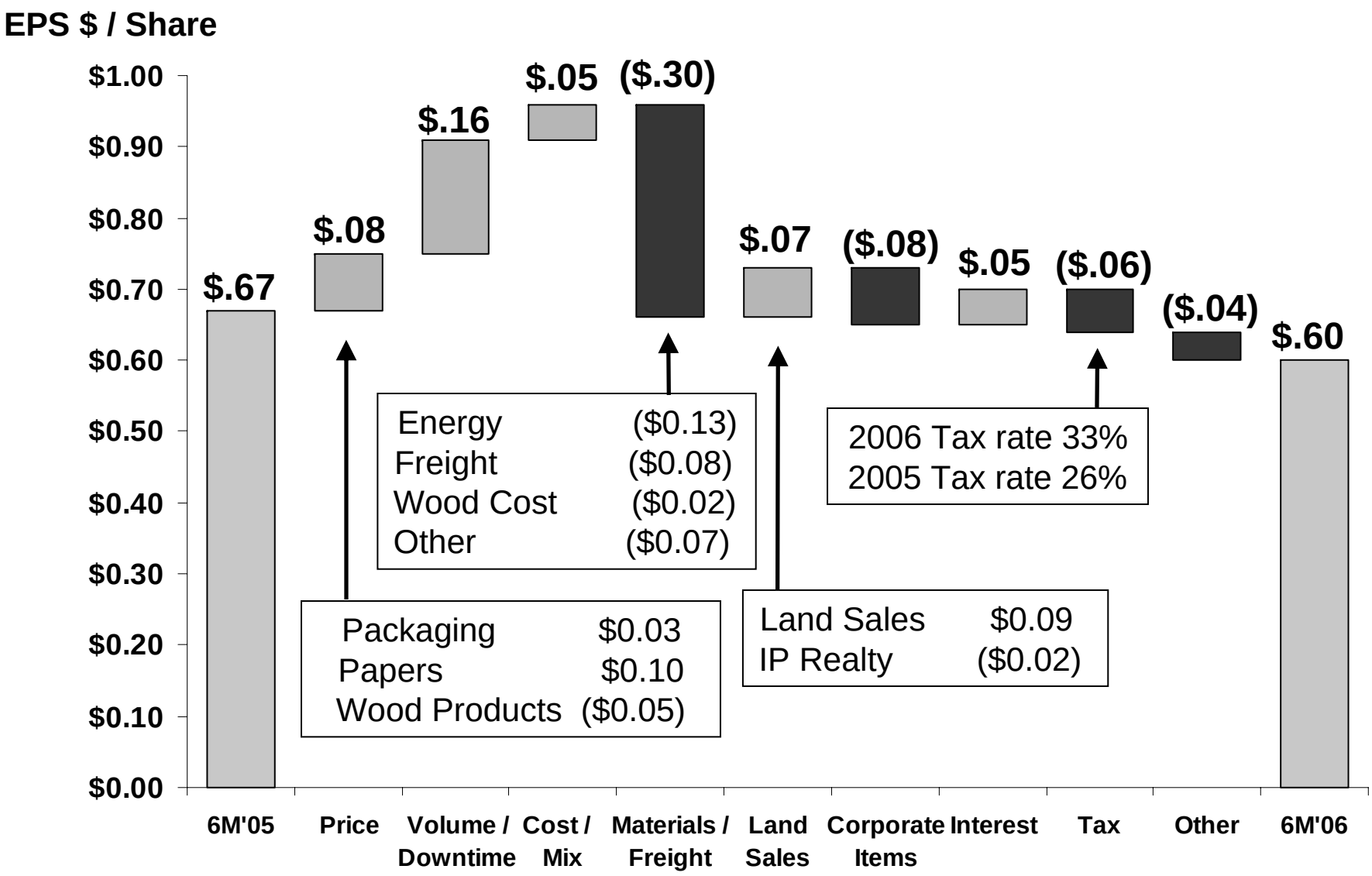

Raw Material & Freight Costs

EBIT impact 6M'06 vs. 6M'05

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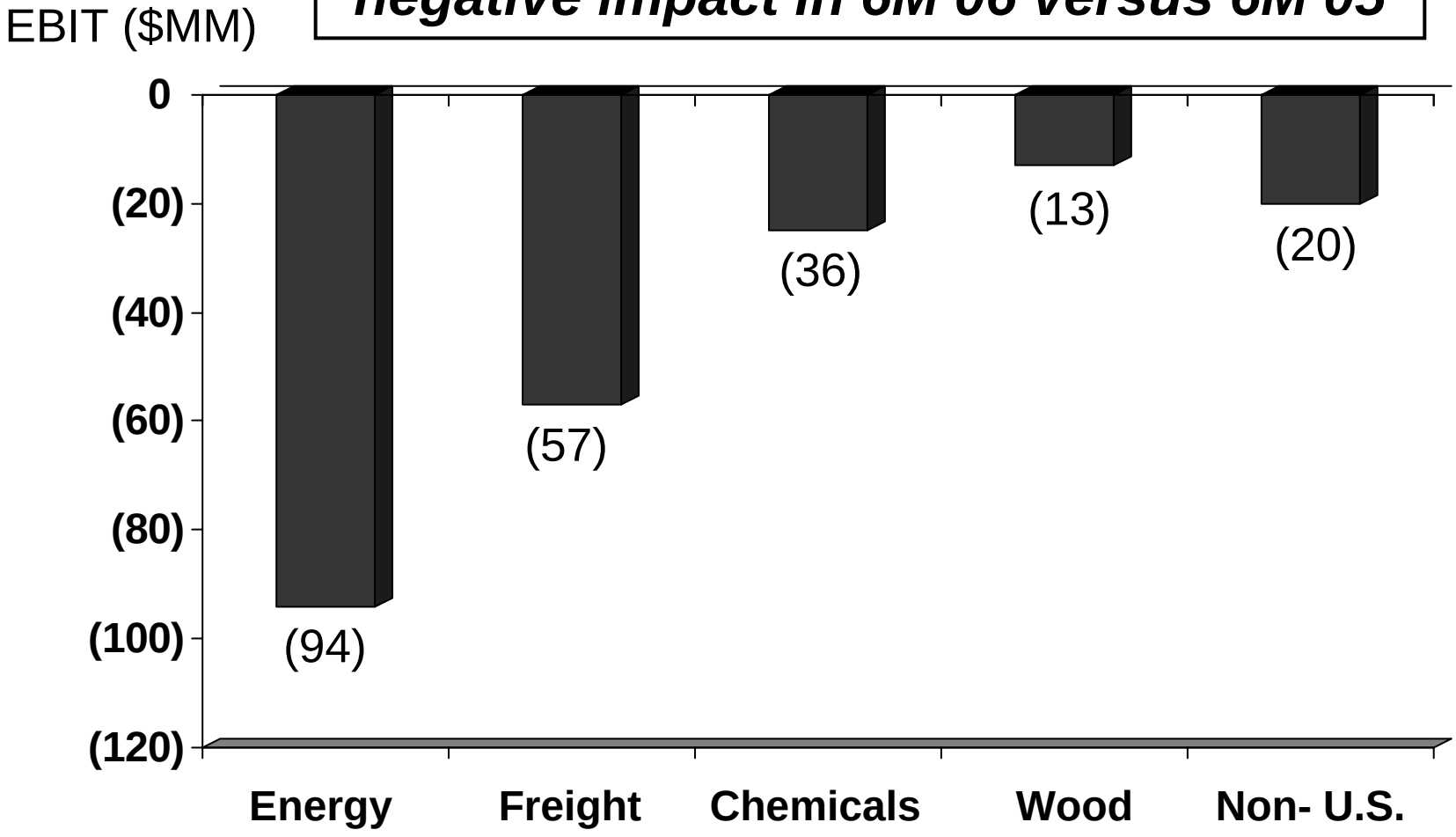
Total of $220 million or $0.30 per share negative impact in 6M'06 versus 6M'05



Printing Papers

$ Millions	*2Q'06*	*1Q'06*
Sales	$1,915	$ 1,895
Earnings	254[1]	128

2Q'06 Change vs 1Q'06:

	Volume	*Realizations/ton*
Uncoated[2]	(2)%	$60
Pulp[2]	2%	$25
Europe[3] (uncoated)	(10)%	€20

[1]Includes a $31 million benefit from the elimination of Coated Paper's depreciation expense

[2]U.S. operations only

[3]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	*2Q'06*	*1Q'06*
Sales	$ 1,240	$ 1,170
Earnings	100	38

	2Q'06 Change vs 1Q'06:	
	Volume	*Realizations/ton*
Containerboard[1]	(12%)	$50
U.S. Container	3%	$35

[1] U .S. operations only

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

Consumer Packaging

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$ Millions	*2Q'06*	*1Q'06*
Sales	$ 795	$ 775
Earnings	41[1]	35

2Q'06 Change vs 1Q'06:

	Volume	*Realizations/ton*
Coated Paperboard[2]	3%	Flat

	Sales Revenue
Converting Businesses	4%

[1] Includes a charge of $8 million for Shorewood Packaging asset write-off

[2] U.S. operations only

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

Distribution

$ Millions	*2Q'06*	*1Q'06*
Sales	$ 1,690	$ 1,650
Earnings	36	27

- xpedx reported record earnings for month, quarter and six-month period
- Revenues improved 8% vs. second quarter 2005
- Expenses down, margins up

Forest Products

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$ Millions	*2Q'06*	*1Q'06*
Sales	$ 595	$ 630
Earnings	184	226

2Q'06 Change vs 1Q'06:

	Volume	*Realizations/unit*
Lumber[1] (mbf)	6%	($15)
Plywood (msf)	3%	($5)

[1] U.S. operations only

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

Special Items & Discontinued Operations – 2Q'06

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	$MM	EPS
Special Items – After Tax		
• Transformation Plan Costs & Other	(70)	
• Divestitures		
Gain on Conservation Tracts	39	
Estimated Loss on Coated Paper Sale	(53)	
Special Items Total	(84)	($0.17)
Discontinued Operations (Kraft Papers)		
• Earnings	9	
• Estimated Loss on Sale	(10)	
Discontinued Operations Total	(1)	$0.00

Reconciliation to 2Q'06 Diluted Earnings Per Share

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	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$0.41
Special Items	(0.17)
Earnings from Continuing Operations	0.24
Discontinued Operations	0.00
Net Earnings	$0.24

Third Quarter 2006 Outlook

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- Volume – Continued solid, inventories in good shape
- Implementing IP's previously announced price increases in paper and packaging
- Continued progress in improving operations
- Costs remain high, outlook mixed

Transformation Plan Update

Second Quarter 2006

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- Continued focus on improving our key platform operations
- Communicated details on returning value to shareholders on July 13, 2006
  - Board authorized up to $3 billion share repurchase
  - Plan to spend $6-7 billion to strengthen balance sheet
  - Disciplined approach to strategic opportunities for selective reinvestment
- Divestment program on track

Transformation Plan Update

Divestments status as of August 1, 2006

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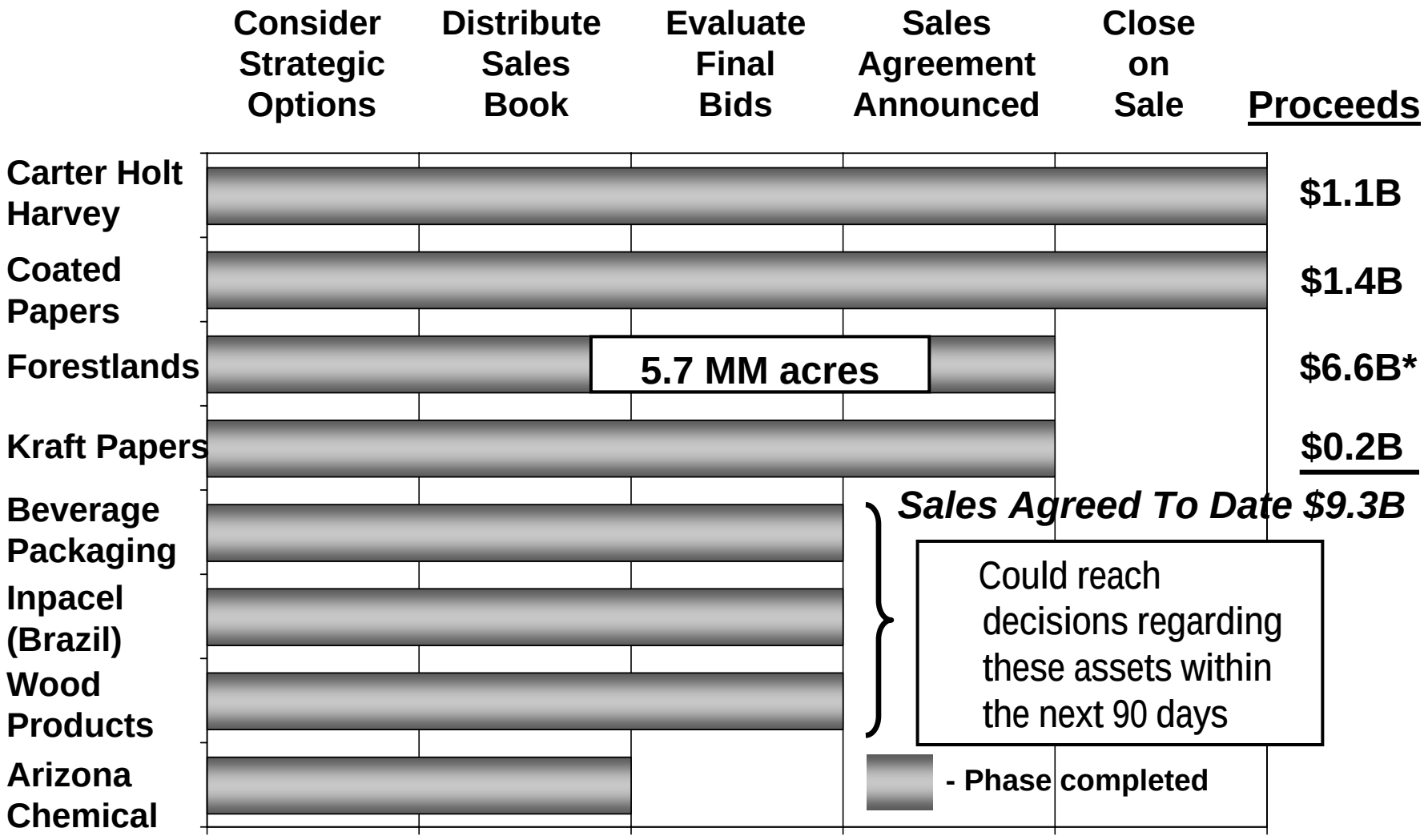

**Estimated proceeds to be received in 3Q'06 and 4Q'06*

Q & A

Appendix

Key Financial Statistics

Updated as of August 1, 2006

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	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	$ 1.2 – 1.3 B
Net Interest Expense[3]	$ 710 MM	$ 650 MM	$ 600 MM
Corporate Items	$ 470 MM	$ 595 MM	$ 700 - 750 MM
Effective Tax Rate[3]	26%	27%	33%

[1] Excludes Carter Holt Harvey results

[2] Includes impact of all businesses except Coated Papers and Kraft Papers for entire year

[3] Before special items

Lack of Order Downtime

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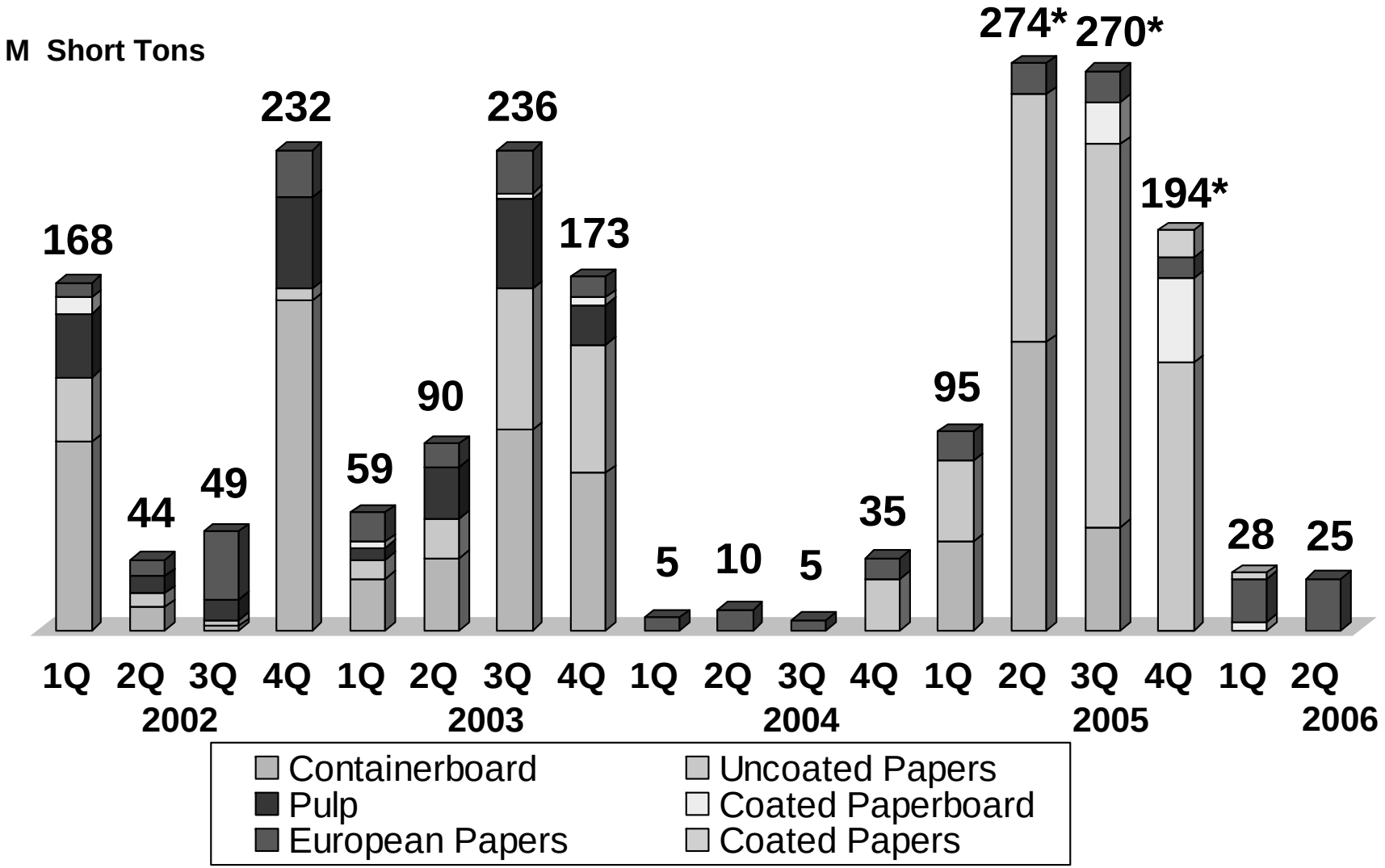

*Includes indefinitely closed uncoated papers capacity at Pensacola, FL, Bastrop, LA and Jay, ME in 2Q05 (72,000 tons), 3Q05 (108,000 tons) and 4Q'05 (108,000 tons). Permanently closed at end of 4Q'05.

Earnings by Industry Segment

Before special items & Coated Papers depreciation expense

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$ Millions	***2Q'06***	***1Q'06****	***2Q'05****
Earnings by Industry Segment			
Printing Papers	$215	$128	$156
Industrial Packaging	100	38	84
Consumer Packaging	49	35	53
Distribution	36	27	18
Forest Products	184	226	205
Other Businesses	16	10	7
Operating Profit	**600**	**464**	**523**
Interest Expense	(148)	(148)	(166)
Minority Interest	2	3	2
Corporate Items, net	(174)	(176)	(133)
Earnings from continuing operations before income taxes, minority interest & special items	**$280**	**$143**	**$226**

**Industry segment information has been reclassified to conform with minor changes in 2006 organizational structure as well as to reflect the Kraft Papers business as a discontinued operation and Coated Papers as a continuing operation.*

2006 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	143	(44)	(4)	95	30%	486.3	0.20
Q2	311	(106)	(5)	200	34%	487.2	0.41
Special Items							
Q1	(1,310)	36	-	(1,274)	3%	486.3	(2.62)
Q2	(129)	45	-	(84)	35%	487.2	(0.17)
Earnings from Continuing Operations							
Q1	(1,167)	(8)	(4)	(1,179)	(1%)	486.3	(2.42)
Q2	182	(61)	(5)	116	34%	487.2	0.24

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

Average Sales Realizations

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		Average Sales Realizations				
Segments*	**Grades**	**Jun 06**	**Jun 05**	**2Q'06**	**1Q'06**	**2Q'05**
Printing Papers	Uncoated	885	810	862	803	813
	Pulp	528	475	525	499	496
$/ton						
Packaging	Containerboard	502	442	489	437	450
$/ton	Corrugated boxes	772	721	754	721	726
Forest Products	Lumber, $/MBF	347	416	372	389	406
	Plywood, $/MSF	285	309	293	300	300

* U.S. only

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

Forest Resources

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$ Millions

	2Q'06	1Q'06	2Q'05
▸ Earnings Sources – Gross Margin			
• Forestland Sales[1]	$101	$103	$67
• Harvest & Recreational Income	61	72	62
▸ Forestland Expenses	(31)	(30)	(39)
▸ Land Utilization (real estate), Net of Expenses	29	45	39
Total EBIT	$160	$190	$129

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

Raw Material & Freight Costs

EBIT impact 2Q'06 vs. 1Q'06

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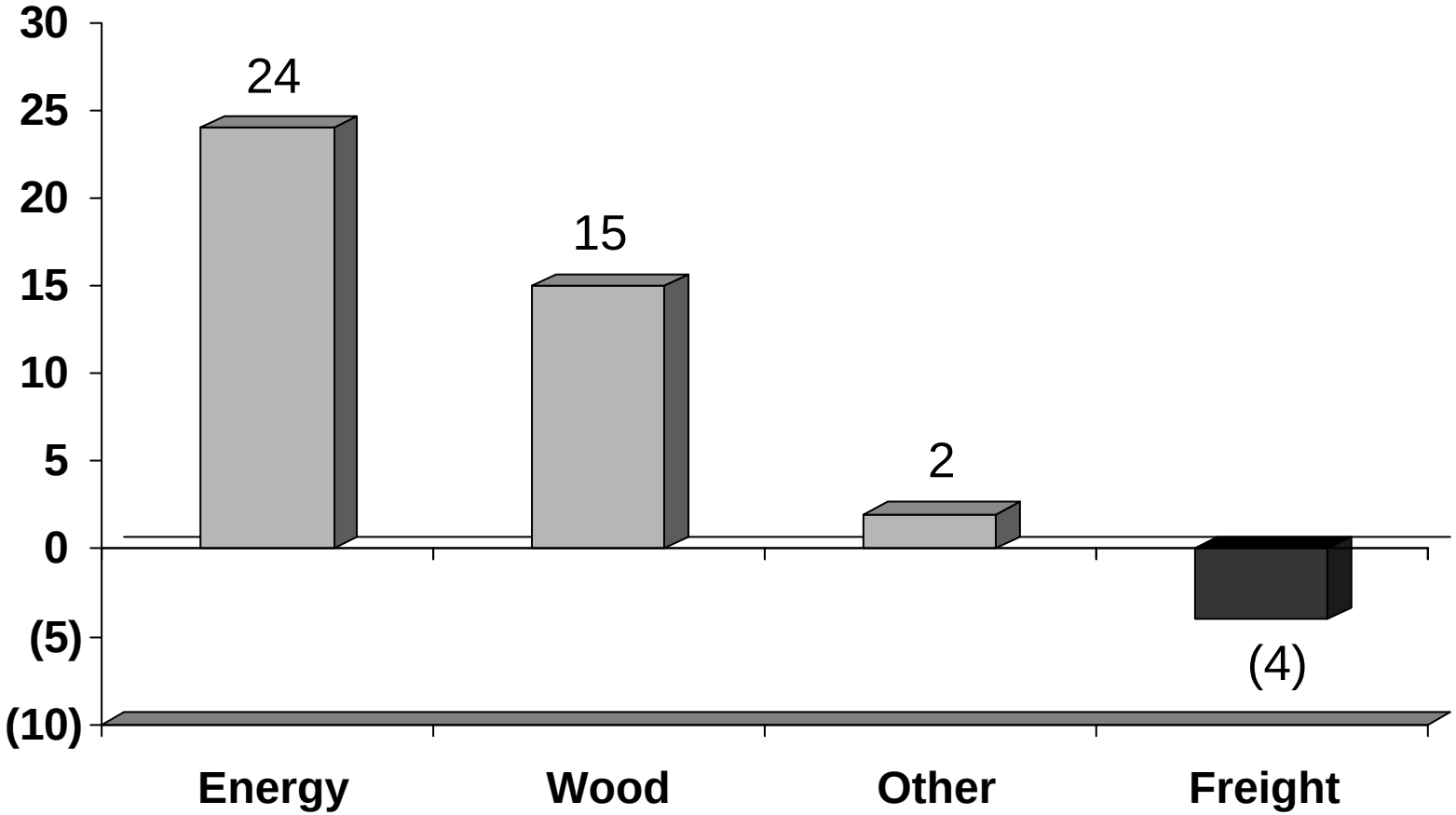
Total of $37 million or $0.05 per share positive impact in 2Q'06 versus 1Q'06

EBIT ($MM)



Natural Gas Costs

Trended lower in 2Q'06

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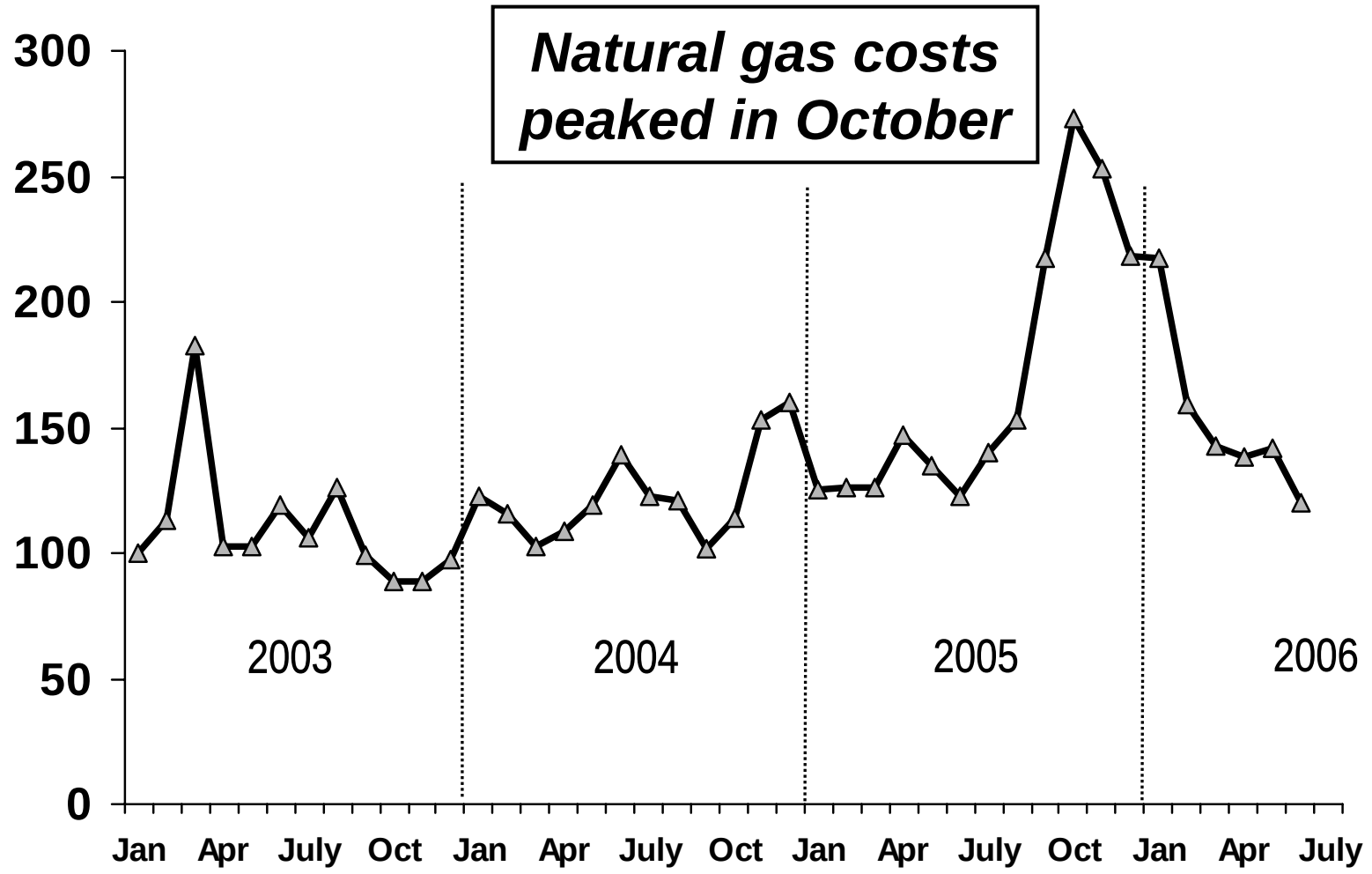
Index: Jan 2003 Natural Gas Costs = 100



* U.S. pulp & paper mills average

U.S. Mill Wood Costs

Trended lower in 2Q'06

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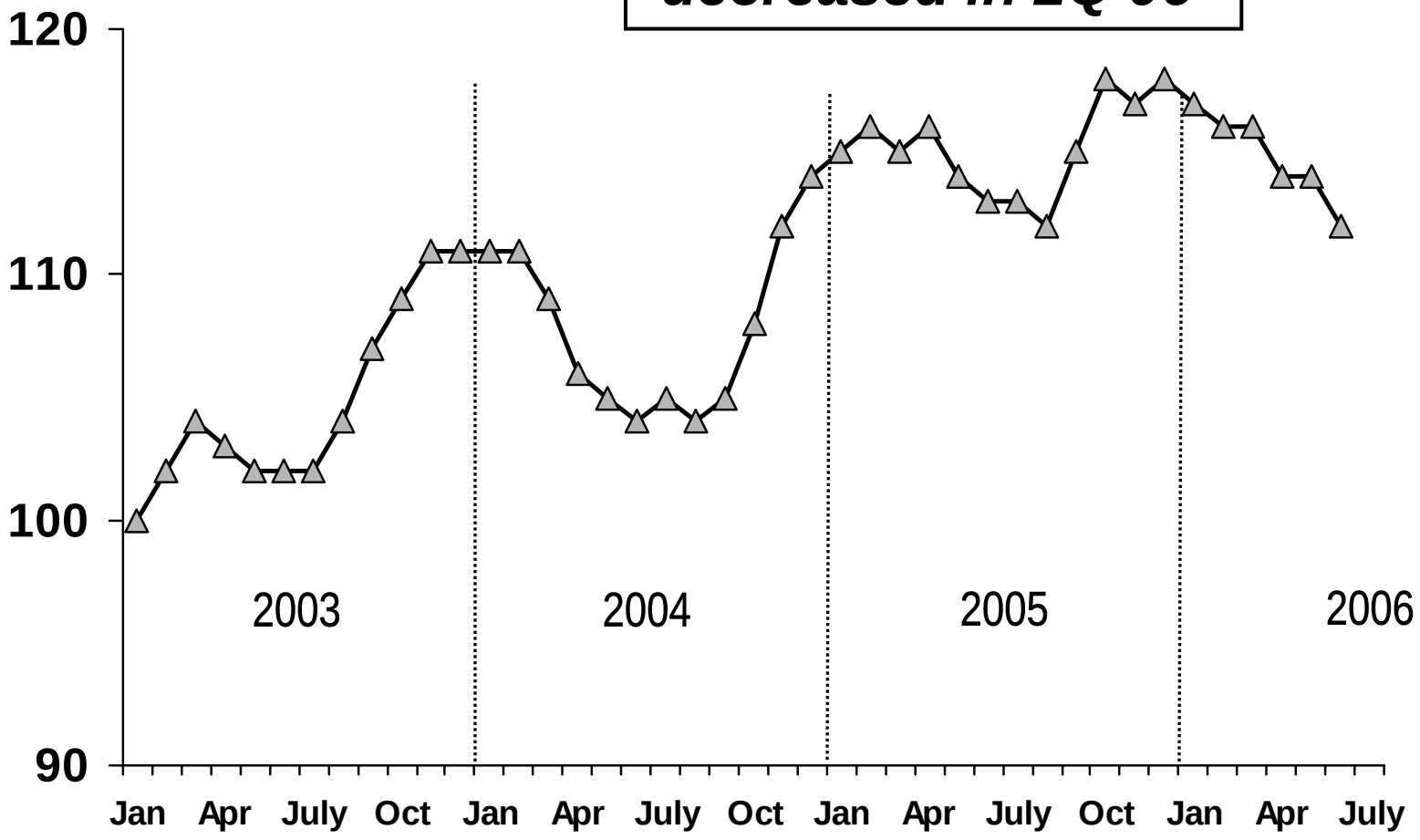
Index: Jan 2003 Wood Costs = 100

U.S. mill wood costs decreased in 2Q'06



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

Caustic Soda Costs

Trended lower in 2Q'06

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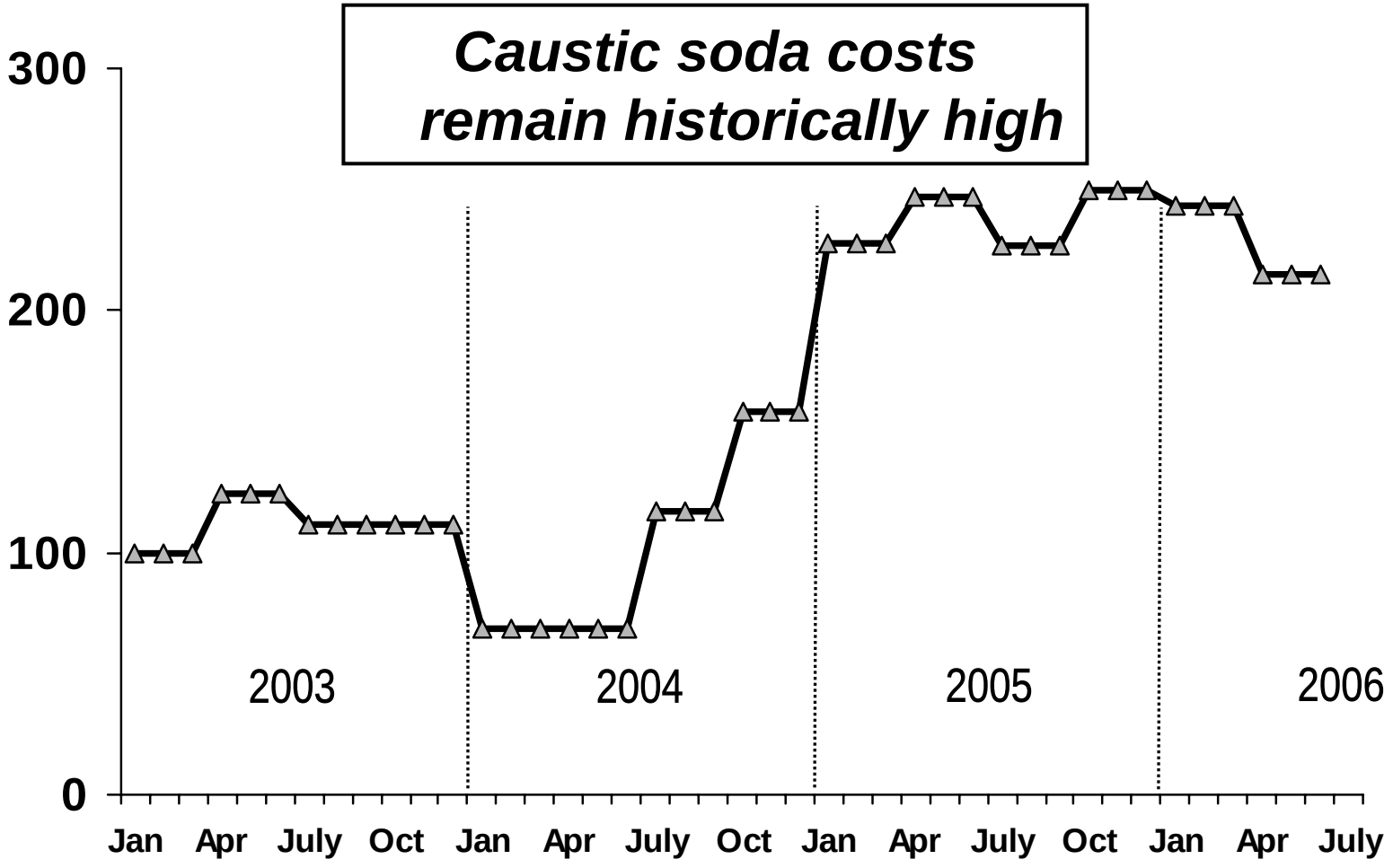
Index: Jan 2003 Caustic Soda Costs = 100



* Delivered cost to U.S. facilities

Global Consumption

Key input indicative annual purchase levels[1]

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Energy	***Units***	***U.S.[2]***	***Non- U.S.***
Natural Gas	MMbtu	37,000,000	16,000,000
# 6 Fuel Oil	BBL	5,000,000	440,000
Coal	Tons	1,600,000	230,000
Fiber			
Wood	Tons	65,000,000	5,700,000
OCC[3]	Tons	600,000	310,000
Chemicals			
Caustic Soda	Tons	315,000	60,000
Sodium Chlorate	Tons	290,000	40,000
LD Polyethylene	Tons	100,000	-
Latex	Tons	41,000	4,000

[1] 2006 Run Rate [2] Includes Coated Papers business [3] Old corrugated containers


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