

John V. Faraci
Chairman & CEO

Marianne M. Parrs
EVP & CFO

International Paper & Ilim Pulp Joint Venture in Russia

October 25, 2006

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Agenda

- Ilim Pulp JV Overview
- Strategic Rationale
- Economics
- Creating Value
- Next Steps

Selective Reinvestment - Russia

50:50 JV with Ilim Pulp

- Ilim Pulp Profile
  - Leading Russian integrated pulp and paper company
  - Produces uncoated free sheet, coated board, containerboard, and pulp
  - Serves customers in Russia, Eastern Europe, and China
- JV Profile
  - Equal representation on JV BOD
  - Ilim names Chairman
  - IP nominates CEO
  - CEO appoints key positions

Strategic Rationale

Russian JV gives multiple profitable growth options

- IP has enjoyed excellent results and growth in its Eastern European Business
- Svetogorsk and Kwidzyn platforms are fully developed and sold out
- Russian JV creates additional growth opportunities
  - Paper and Packaging Products
  - Russia, Eastern Europe, China regions
- JV capacity will be among lowest cost delivered to target markets

Economics

Attractive option for IP in Russia and China

- The Deal
  - $ 1.3 Billion Enterprise value
- The lowest cost approach to participate in further growth in Russia
  - ~$520 per ton of capacity acquired is less than replacement cost
  - ~$520 per ton of capacity acquired is less than Svetogorsk build out cost
  - $1.2 billion of capex over 6 years expected to be substantially funded by JV cash flow

The best option for IP in Russia

- Ilim Pulp is profitable today
- Earnings accretion would be immediate
- Projected EBITDA multiple is attractive and consistent with other Russian transactions
- IRR of investment expected to be greater than cost of capital

Value Creation

Repeat the Kwidzyn/Svetogorsk Success Models

- Transition JV's current products to higher value
- Improve quality to western standards
- Debottleneck mills to optimum capacity
- Cost reduction to best-in-class
- JV to invest new capital in existing assets

Next Steps

6 month process expected

- Complete due diligence
- Negotiate Shareholders' and Share Purchase Agreements
- Russian regulatory approvals
- IP and Ilim Board Approvals


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Appendix

Ilim Mills in Russia

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Ilim Pulp Fact Sheet

- 2005 revenues of ~ $ 1.5 billion
- Leading Russian pulp, paper and packaging producer with 2.5 million tons
- Four world scale pulp and paper mills including Kotlas (Europe's largest)
- Top 10 in world in forest harvest volumes and pulp production
- Leading supplier to China customers for market pulp and linerboard
- Sustainably managed forest estate of 5.1 million hectares

Russian Macroeconomic Outlook is Attractive

- GDP
  - 5% – 7% p.a. growth 2002 – 2005
  - 6.3% growth in 2006
  - 4% – 5% p.a. growth 2007 – 2010
- Inflation
  - Improving since 1998 RUR devaluation & Soviet collapse
  - 21% in 2001
  - 10% in 2006
  - 7% – 8% in 2008 – 2010
- F/X
  - Stable
  - 28.3 RUR/USD in 2005
  - 26.8 RUR/USD in Sept 2006
  - 27 – 28 range in 2008 – 2010

Sources : EIU, Global Insight, X-rates.com, Citigroup

Demand Outlook
Russia, CIS & Ukraine

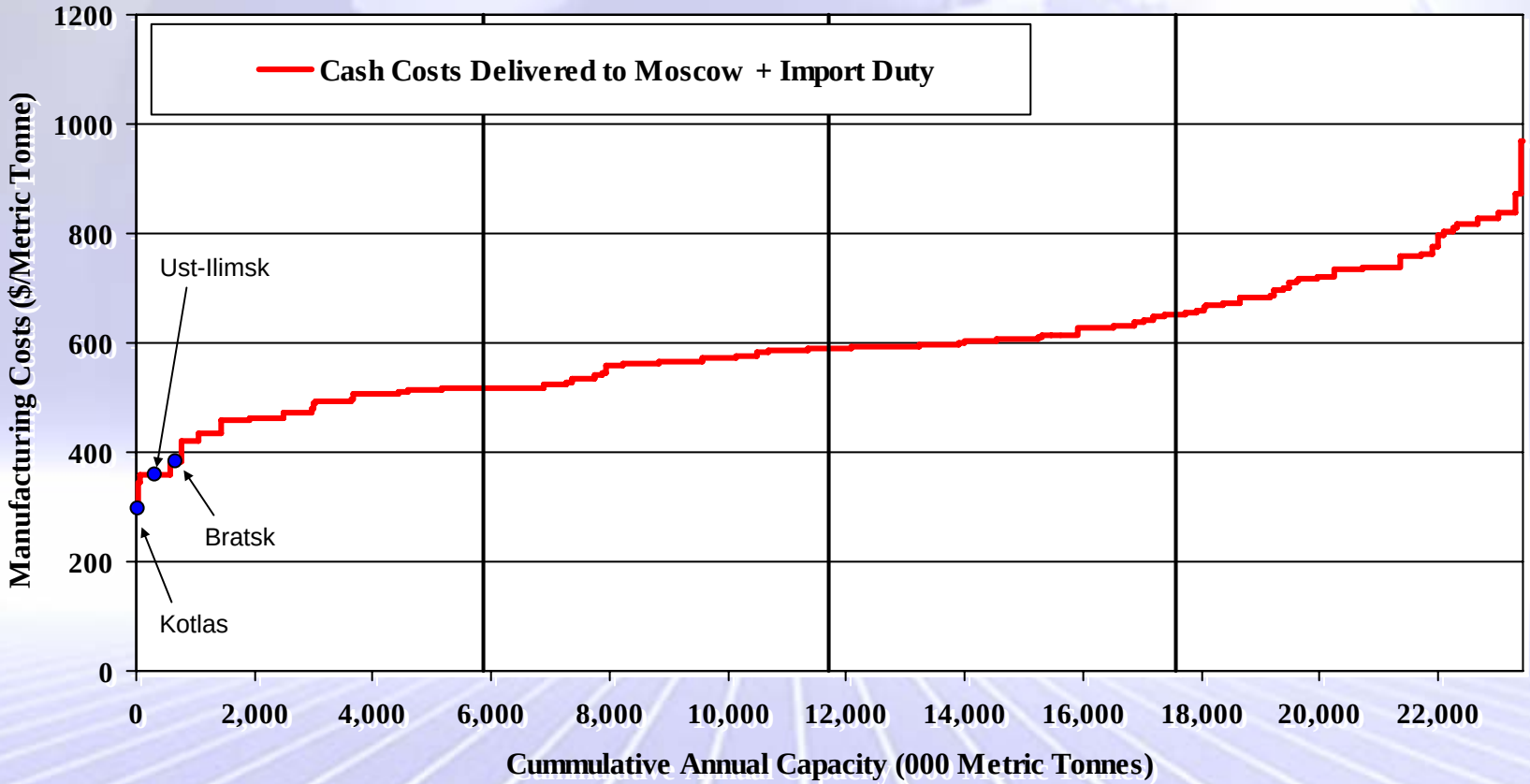
	'06 Demand (k tons)	'00 – '06 CAGR (%)	'07 – '10 CAGR (%)
Uncoated Wood free	920	10%	8%
Coated Board (FBB)	180	15%	8%
Container Board	1,100	10%	8%
Corrugated Boxes(1	2,500	10%	8%
Pulp Imports to China	6,800	9%	7%

'06 YTD August Actual & Full Year Estimate

[1] in MM M^2

Sources: Pyrabelisk, RISI, Eugropa, Cepi Cartonboard, Cepifine, Jaakko Poyry, IP analysis

Global Cost Curve
Bleached Softwood Kraft Market Pulp



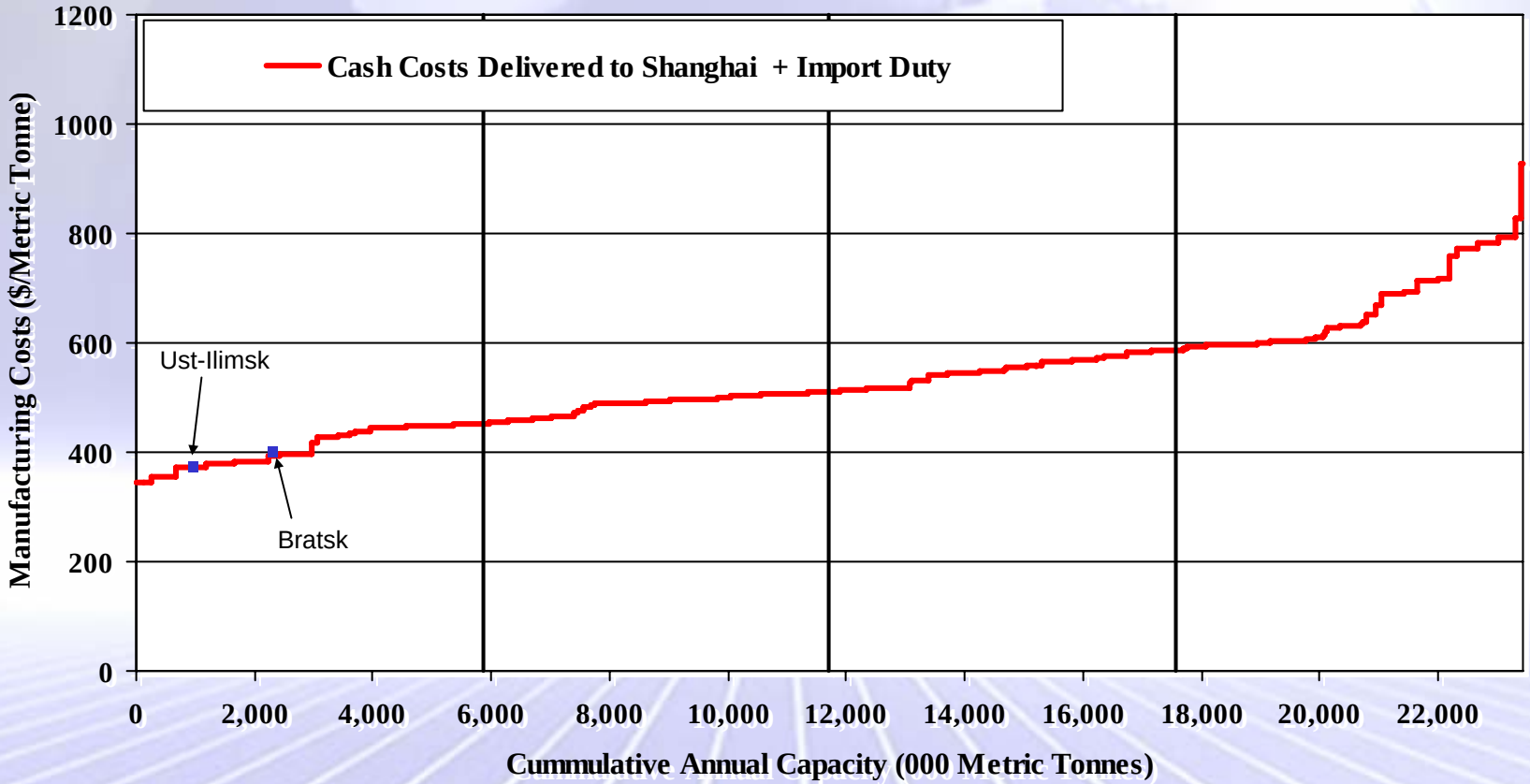
Based on Jaakko Poyry 2005 CostTrac
At 2nd Quarter, 2006, Prices and Exchange Rates.

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Global Cost Curve

Bleached Softwood Kraft Market Pulp

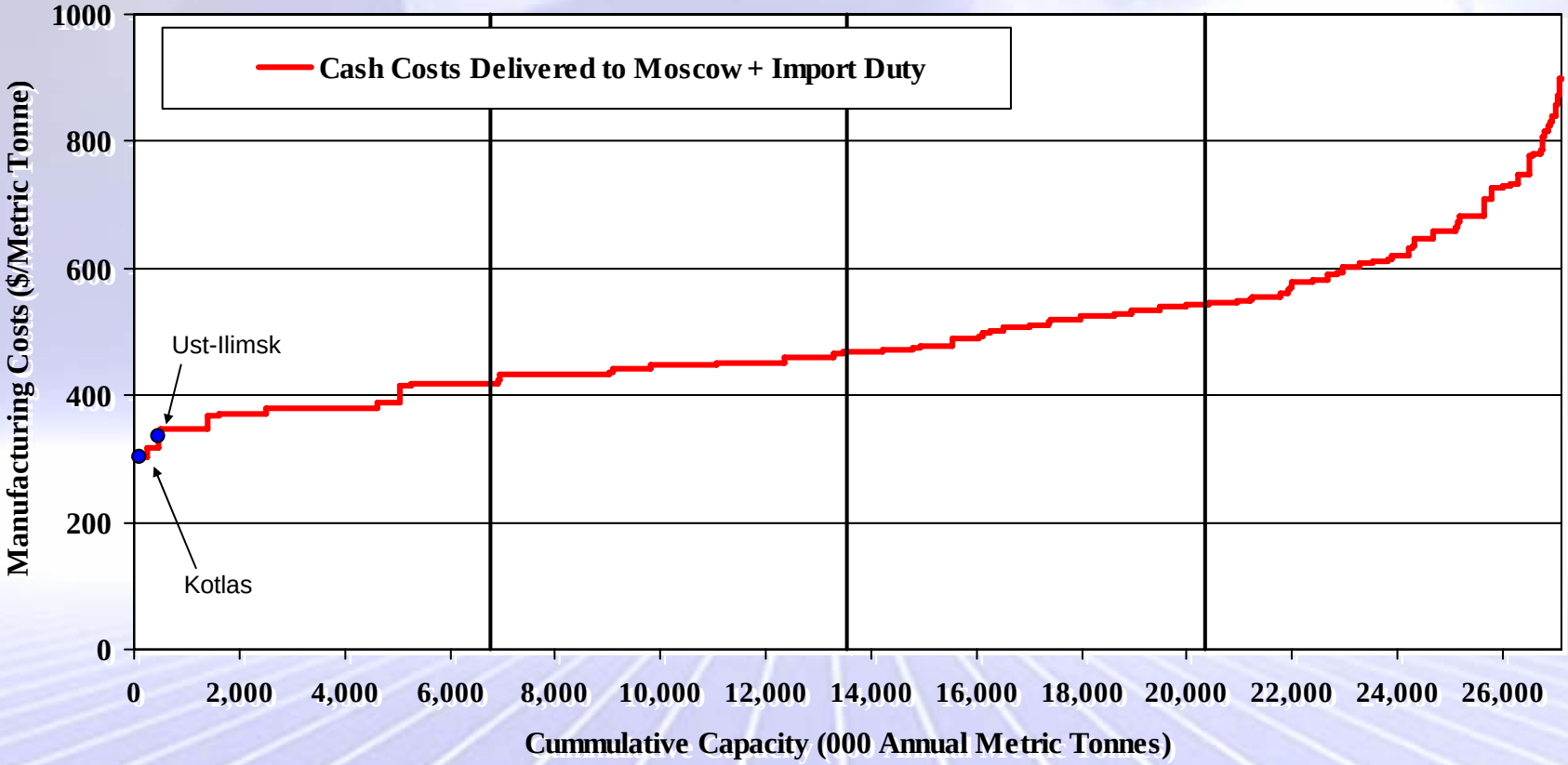
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Based on Jaakko Poyry 2005 CostTrac
At 2nd Quarter, 2006, Prices and Exchange Rates.

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Global Cost Curve
Bleached Hardwood Kraft Market Pulp

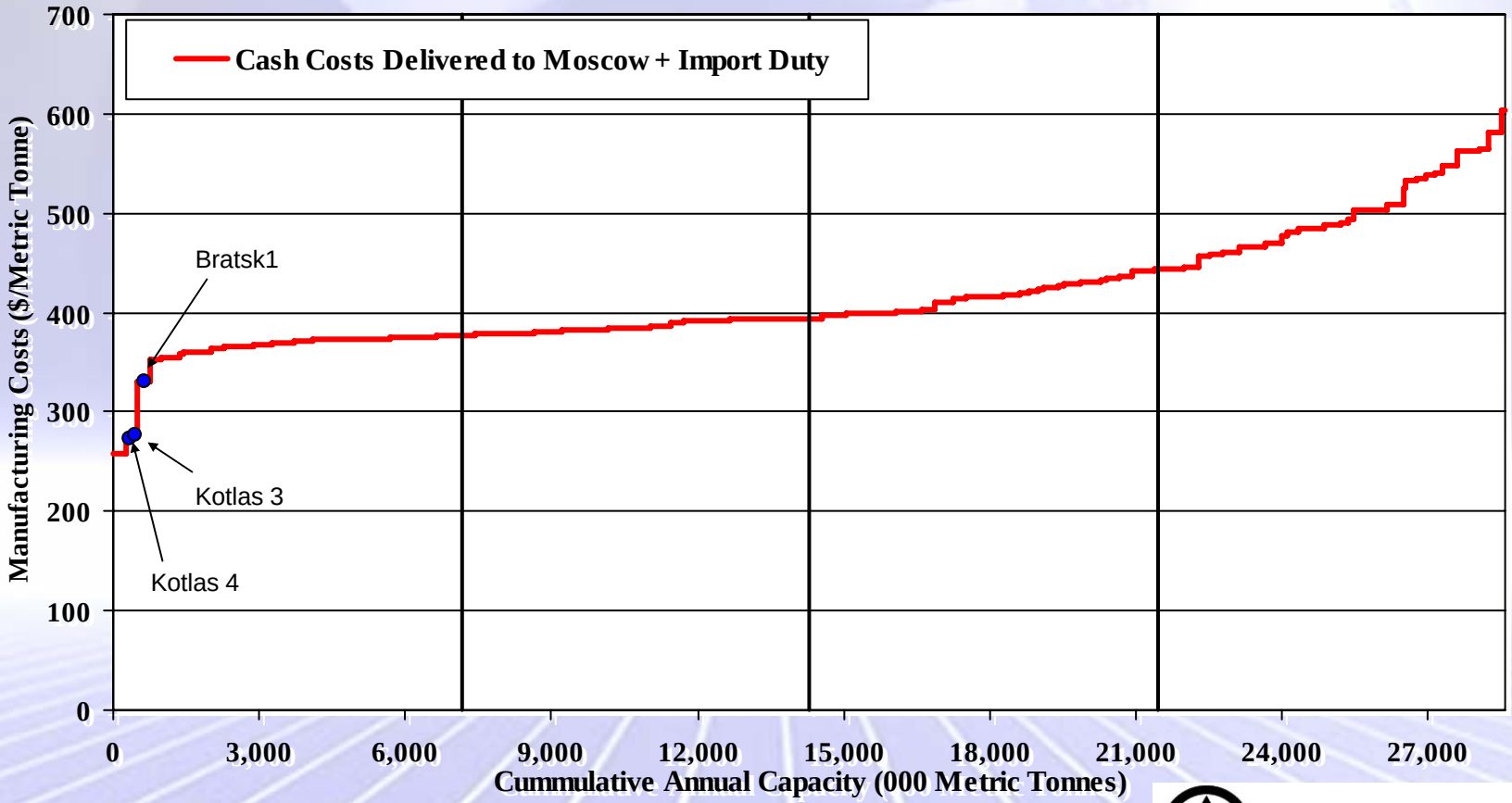


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Global Cost Curve
42# Linerboard

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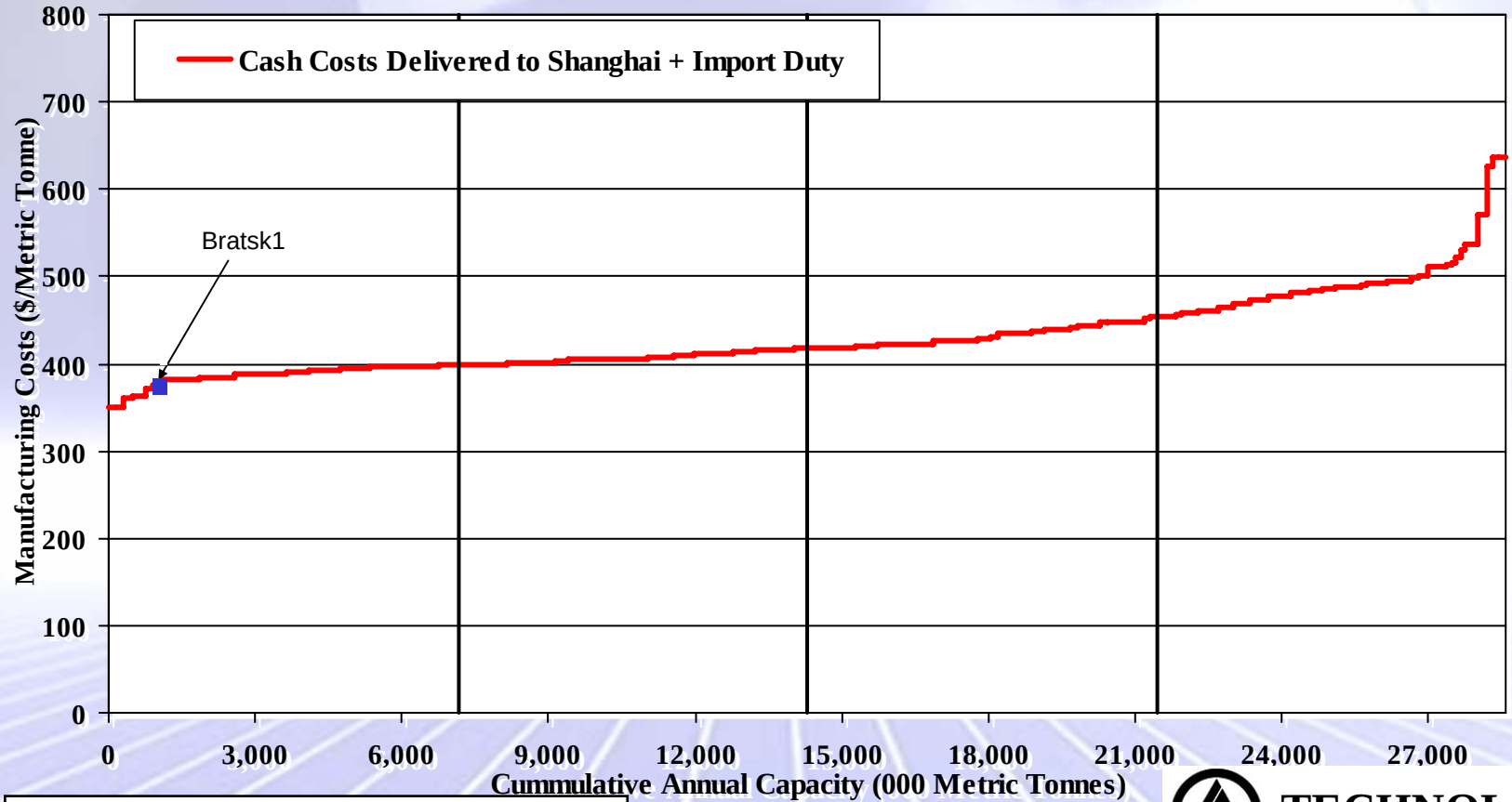


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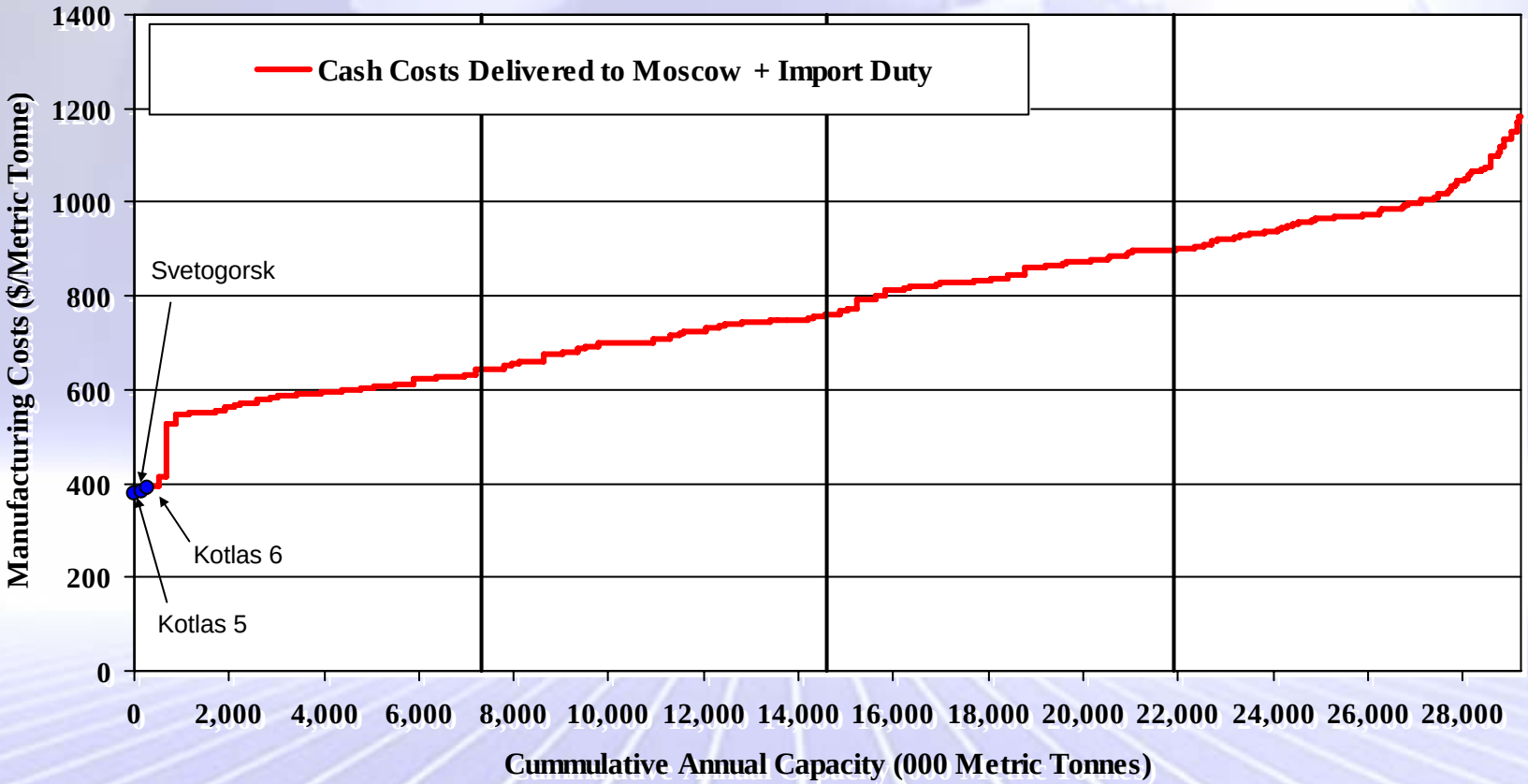
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Global Cost Curve

Uncoated Freesheet - Rolls (20#)

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