

INTERNATIONAL PAPER

Third Quarter 2006 Review

November 2, 2006

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Forward-Looking Statements

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These slides and statements made during this presentation 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, the ability to successfully negotiate satisfactory sale terms for assets that are contemplated for sale but are not currently under contract and the ability to invest proceeds with attractive financial returns; (iv) the execution of sale transactions currently under contract and the realization of anticipated sales proceeds there under, 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 and the presentation tab.

Agenda

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- Third Quarter 2006 Review
- Fourth Quarter 2006 Outlook
- Transformation Plan Update

Third Quarter 2006 Summary

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- Solid third quarter results from North American Paper and Packaging
  - Record Quarter for North American Paper
  - Operating earnings improved $80 million
  - Margin expansion in NA Paper and Packaging
- Improved IP paper and packaging pricing
- Continued outstanding mill operations
- Solid Volumes
- Higher distribution costs
- Wood Products results sharply down
- Lower tax rate

Diluted EPS from Continuing Operations and Before Special Items

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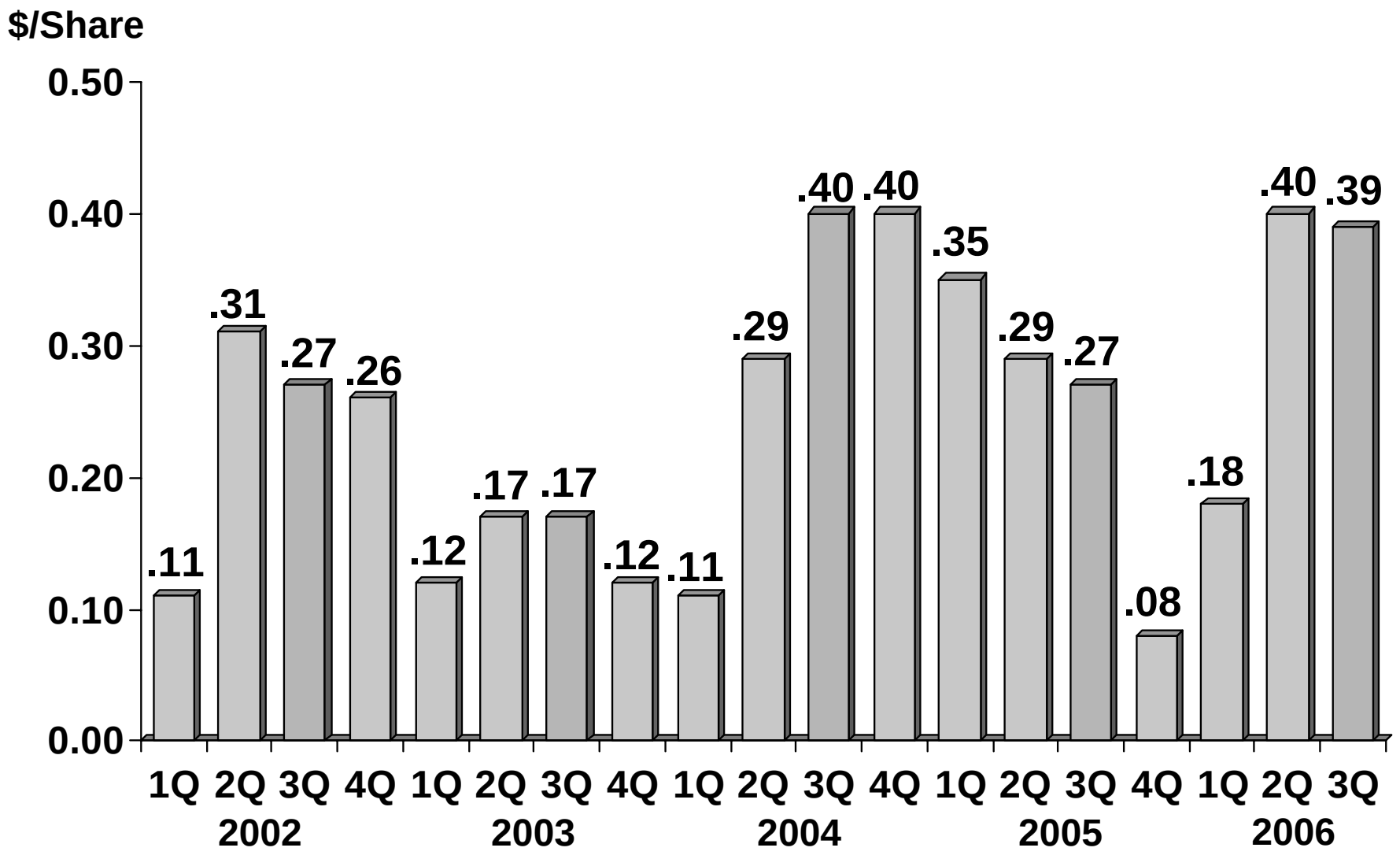

** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investors*

3Q’06 vs. 2Q’06

EPS from cont. ops before special items

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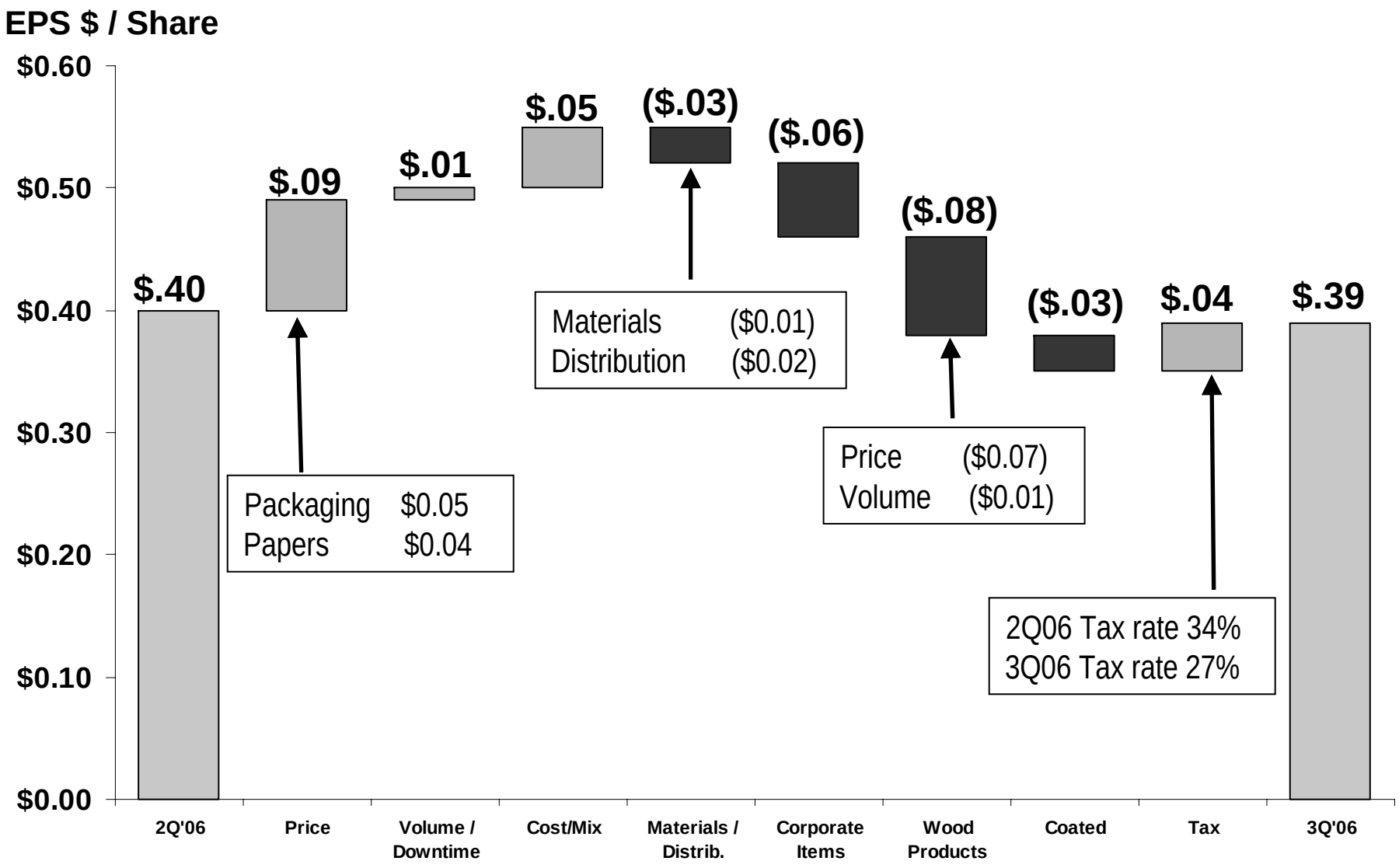

9M'06 vs. 9M'05

EPS from cont. ops before special items

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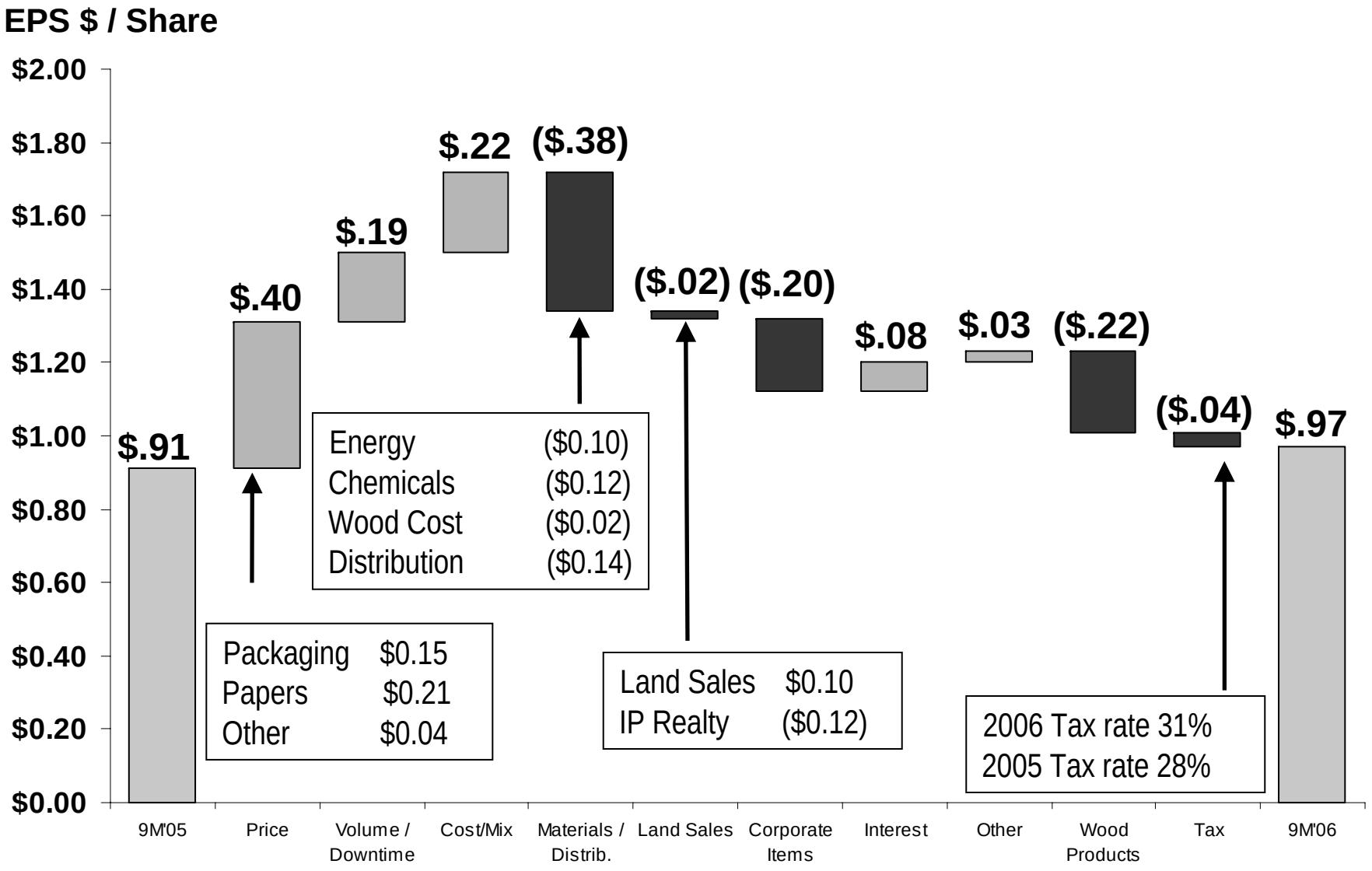

Raw Material & Distribution Costs

EBIT impact 9M'06 vs. 9M'05

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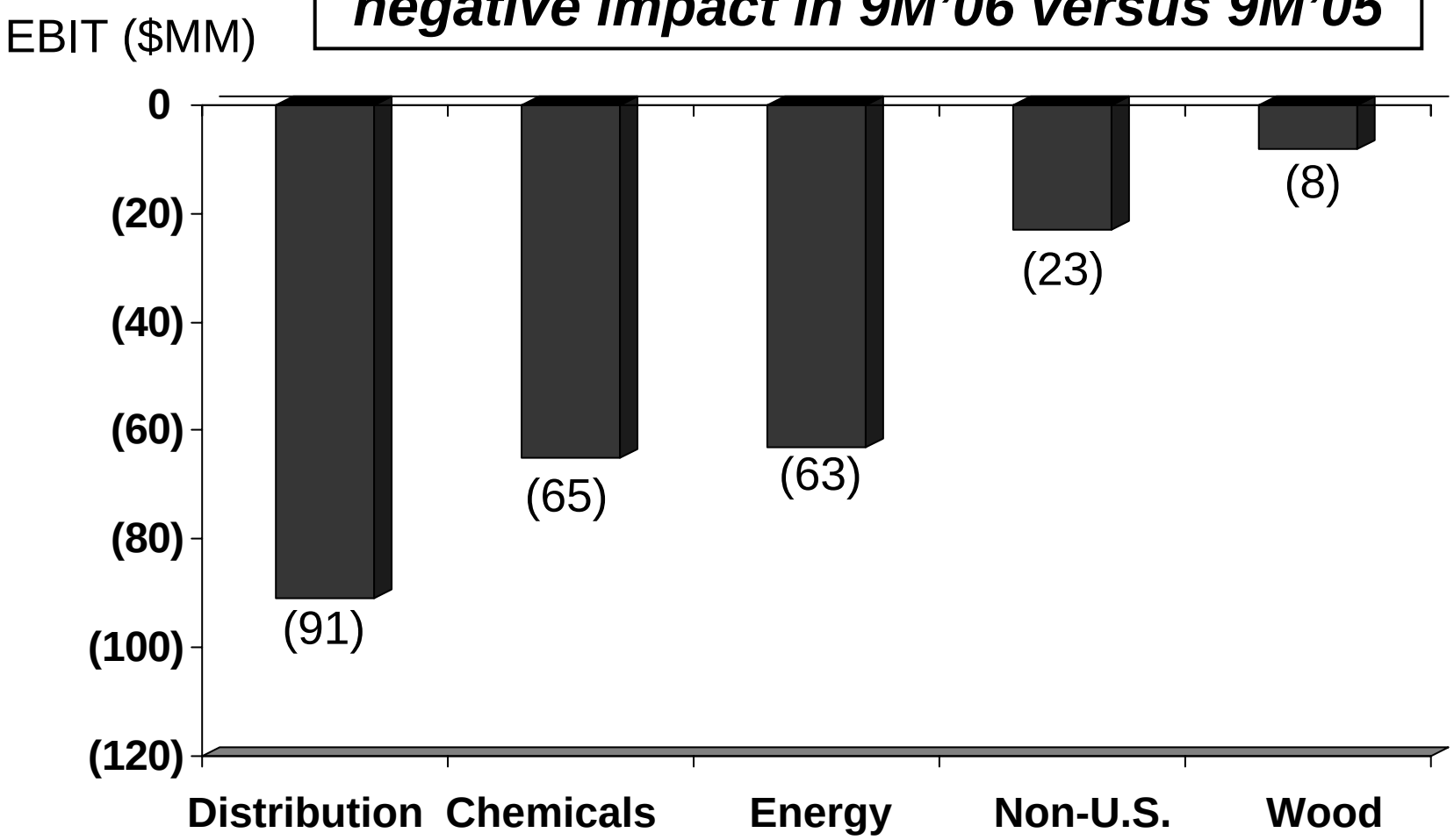
Total of $250 million or $0.38 per share negative impact in 9M'06 versus 9M'05



[1] All cost exclude coated paper, wood products and discontinued operations

Printing Papers

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$ Millions	*3Q'06*	*2Q'06*
Sales	$1,670[1]	$ 1,860[1]
Earnings	249[2]	247[2]

3Q'06 Change vs 2Q'06:

	Volume	*Realizations/ton*
Uncoated[3]	Flat	$26
Pulp[3]	(4%)	$21
Europe[4] (uncoated)	4%	€9
Brazil (uncoated)	2%	R$40

[1] Sales from the U.S. Coated and Supercalendered Papers business, sold in the 2006 third quarter, were $140 million in the 3rd quarter and $385 million in the 2nd quarter.

[2] Earnings from the U.S. Coated and Supercalendered Papers business, sold in the 2006 third quarter, were $18 million in the 3rd quarter and $49 million in the 2nd quarter.

[3] U.S. operations only

[4] 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	*3Q'06*	*2Q'06*
Sales	$ 1,250	$ 1,240
Earnings	138[1]	100

3Q'06 Change vs 2Q'06:

	Volume	*Realizations/ton*
Containerboard[2]	3%	$12
U.S. Container	(3%)	$36

[1] Includes $13mm gain on sale of property in Spain
[2] U .S. operations only

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

North American
Return on Sales

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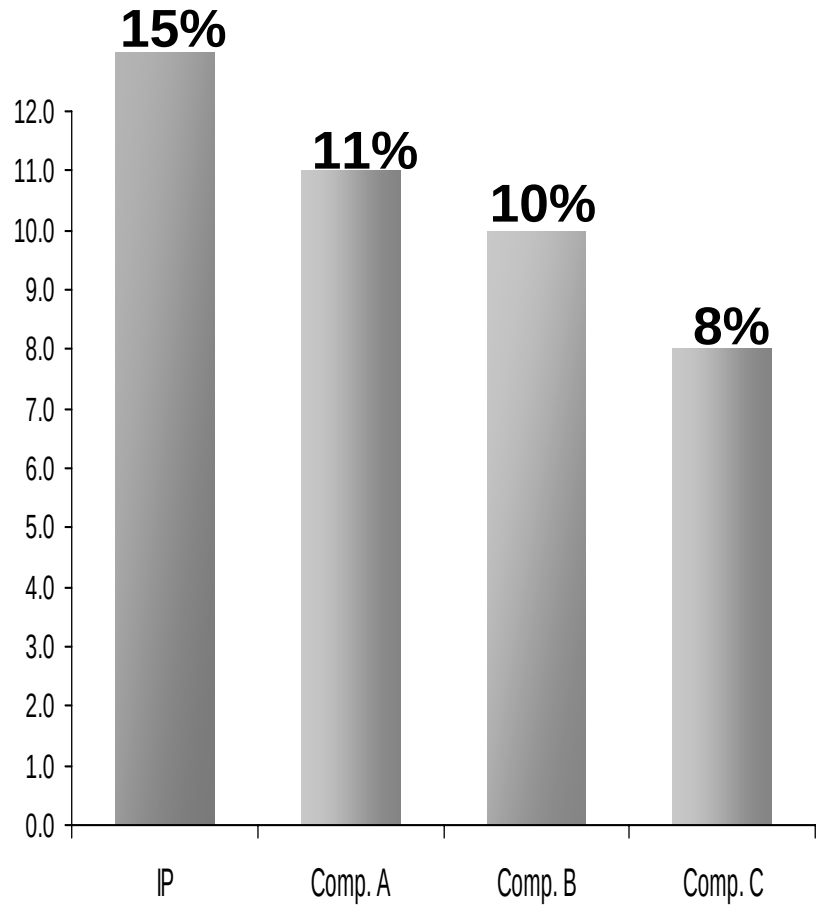
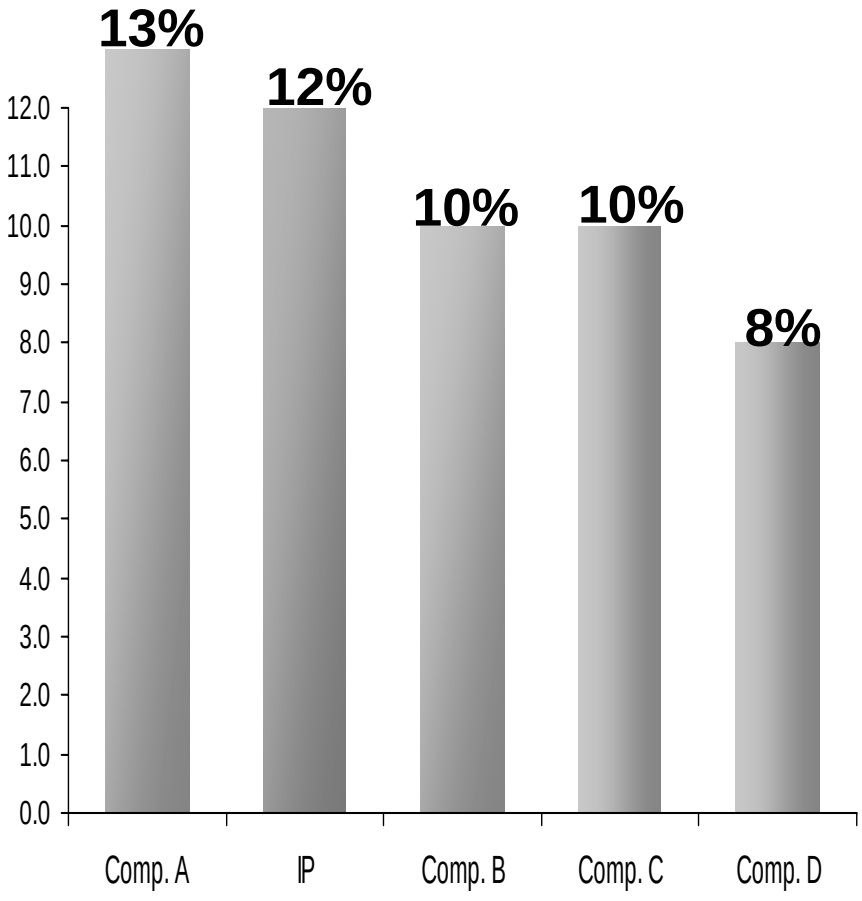
Printing Papers



Industrial Packaging



Source: IP analysis for 3Q'06

Consumer Packaging

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$ Millions	*3Q'06*	*2Q'06*
Sales	$ 855	$ 795
Earnings	64	41[1]

3Q'06 Change vs 2Q'06:

	Volume	*Realizations/ton*
Coated Paperboard[2]	Flat	$2

	Sales Revenue
Converting Businesses	2%

[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	*3Q'06*	*2Q'06*
Sales	$ 1,730	$ 1,690
Earnings	34	36

- Record third quarter earnings; up 50% compared to 2005
- Revenues improved 5% vs. third quarter 2005

Forest Products

$ Millions	*3Q'06*	*2Q'06*
Sales	$ 445	$ 595
Earnings	129	184

3Q'06 Change vs 2Q'06:

	Volume	*Realizations/unit*
Lumber[1] (mbf)	(8%)	($64)
Plywood (msf)	(3%)	($33)

[1] U.S. operations only

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

Special Items & Discontinued Operations – 3Q'06

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	$MM	EPS
Special Items – After Tax		
• Transformation Plan and Legal Costs	$(56)	
• Divestitures	(19)	
Special Items Total	$(75)	$(0.16)
Discontinued Operations (net of tax)		
• Brazil Coated Papers	$80	
• Kraft Papers	8	
Discontinued Operations Total	$88	$0.19

Reconciliation to 3Q'06 Diluted Earnings Per Share

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	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$ 0.39
Special Items	(0.16)
Earnings from Continuing Operations	0.23
Discontinued Operations	0.19
Net Earnings	$0.42

Fourth Quarter 2006 Outlook

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- Volumes seasonally slower towards end of year
- Prices:
  - Q3 : Paper and Packaging increases largely implemented, Wood Products prices are near bottom
  - Q4 : On Nov 1st, IP communicated to its customers a $40/ton linerboard increase effective 1/1/07
- Continued progress in improving operations
- Input costs remain high and mixed, but some favorable signs
- Lower net interest expense

Transformation Plan Update

Third Quarter 2006

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- Strengthen existing businesses
- Divestment program on track
- Return value to shareholders
- Strengthen balance sheet
- Selective reinvestments
  - Announced IP/VCP asset exchange transaction
  - Announced IP & Ilim potential joint venture

Selective Reinvestment - Russia

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50:50 JV with Ilim Pulp

- Ilim Pulp
  - Ilim Pulp is the leading Russian integrated pulp and paper producer with 2.5 million tonnes
  - Produces uncoated free sheet, coated board, containerboard, and pulp
  - Leading supplier to Russia and China customers for market pulp and linerboard
  - Ilim Pulp is profitable today
- Strategic Rationale
  - Strengthens IP's global paper and packaging businesses
  - Earnings accretive
  - Investment returns above our cost of capital for Russia

Selective Reinvestment - Russia

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Repeat the Kwidzyn/Svetogorsk Success Models

- IP has enjoyed excellent results in its Eastern European business
- Kwidzyn and Svetogorsk platforms are fully developed and sold out
- Russian JV creates additional growth opportunities by repeating the Kwidzyn and Svetogorsk models
- Capacity will be among lowest cost delivered to target markets

Economics

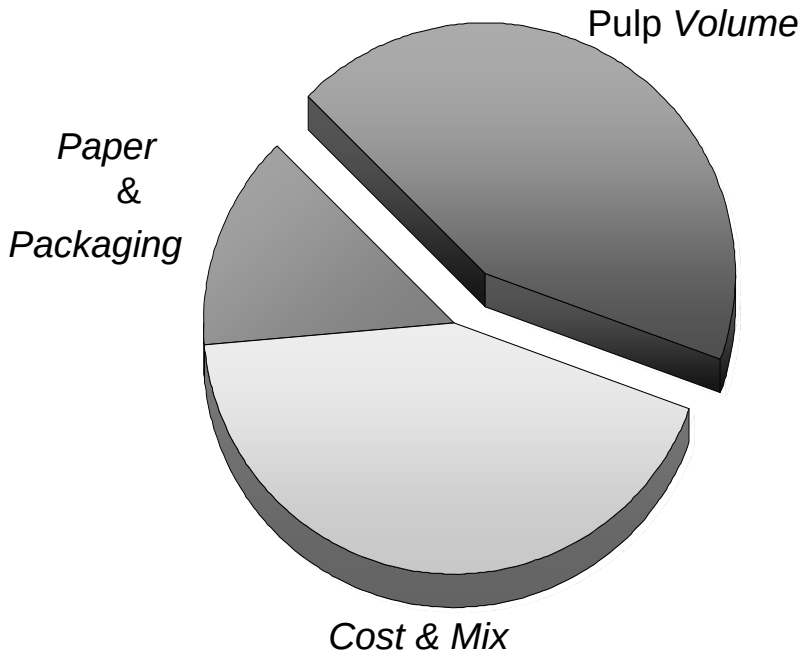
Attractive option for IP in Russia and China

- $1.3 Billion JV Enterprise value
- $400 million in cash from IP for 50% equity in JV
- $520 per ton of capacity acquired is less than replacement cost
- $1.2 billion of capex over 6 years expected to be substantially funded by JV cash flow
- Attractive financial returns expected
- Equal Board representation, Ilim names Chairman , and IP nominates CEO

Ilim Additional Points of Interest

- Russia
- Partners
- Assets
  - Mills
  - Forest
- Products
- Value Creation

JV Value Creation



Q & A

Appendix

Transformation Plan Update

Divestments status as of November 2, 2006

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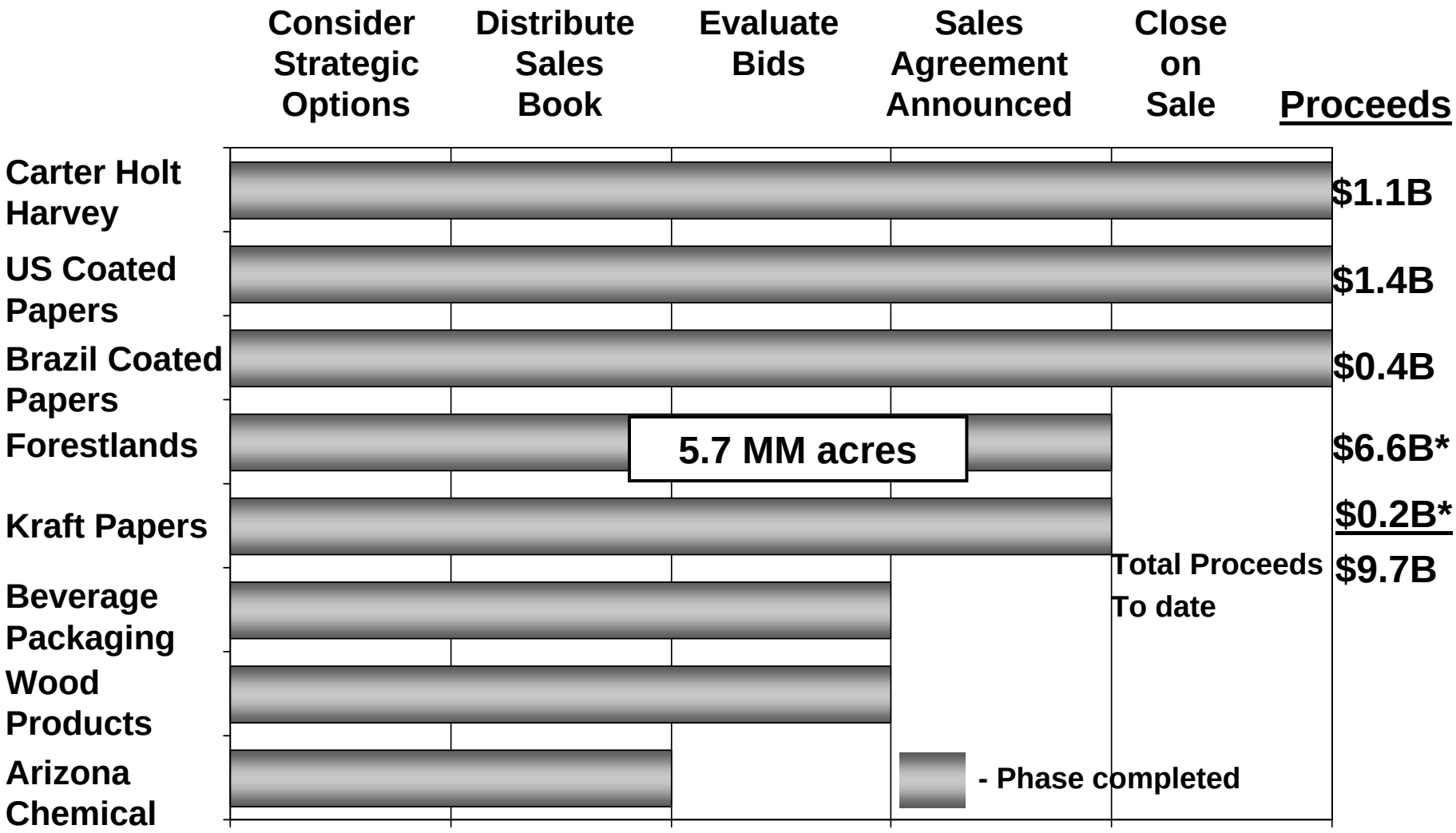

**During the second and third quarter, we received Forestland proceeds of about $400 million. The balance of the $6.6B should be received in the fourth quarter.*

Key Financial Statistics

Updated as of November 2, 2006

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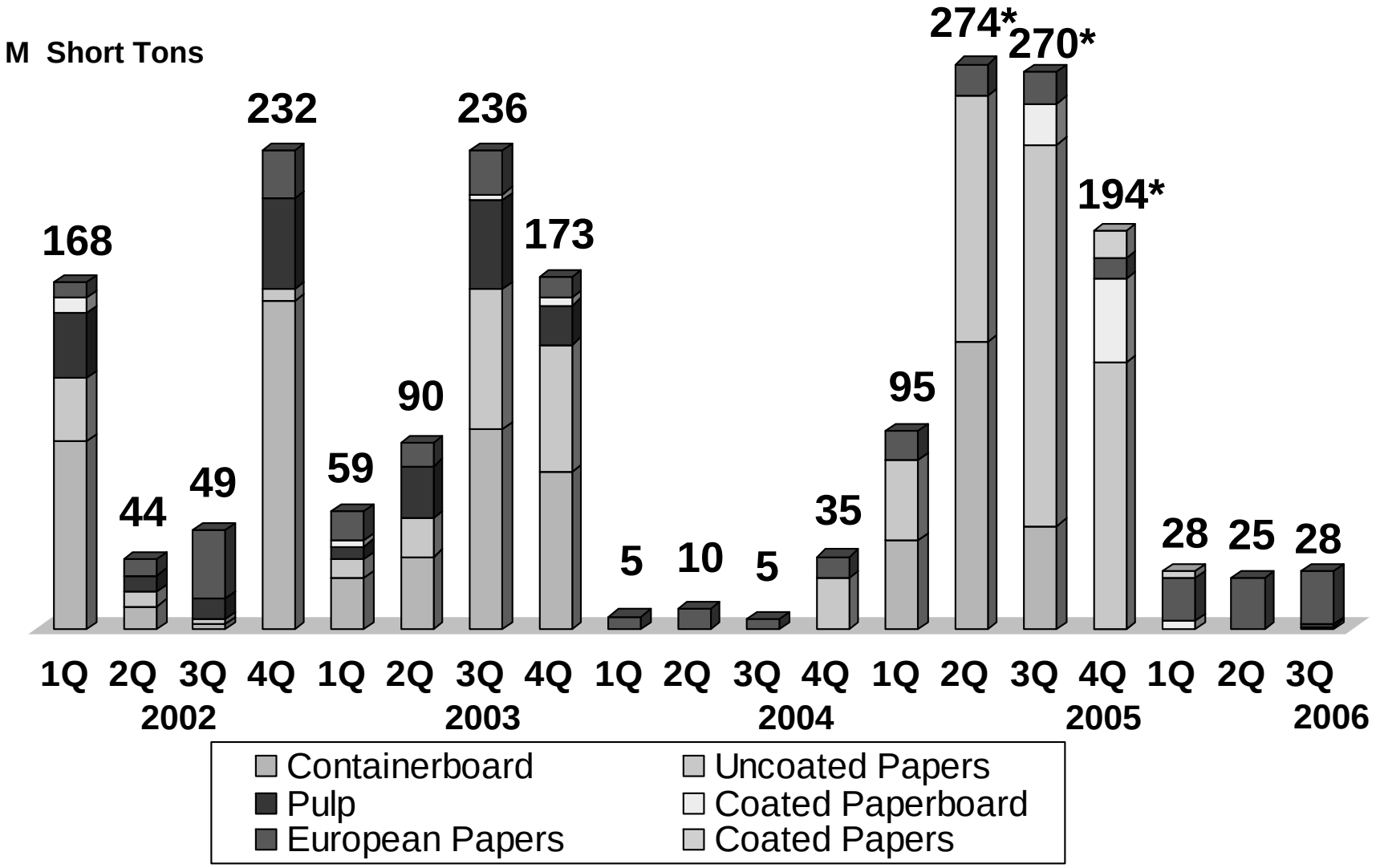
	2004[1]	2005[1]	2006 Est.[2]
Capital Spending	$ 1.2 B	$ 1.2 B	$ 1.2 B
Depreciation & Amort.	$ 1.4 B	$ 1.4 B	$ 1.2 – 1.3 B
Net Interest Expense[3]	$ 710 MM	$ 650 MM	$ 560 MM
Corporate Items	$ 470 MM	$ 595 MM	$ 700 - 750 MM
Effective Tax Rate[3]	26%	28%	31%

[1] Excludes Carter Holt Harvey results

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

[3] Before special items

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	***3Q'06***	***2Q'06****	***3Q'05****
Earnings by Industry Segment			
Printing Papers	$249	$247	$126
Industrial Packaging	125	100	33
Consumer Packaging	64	41	44
Distribution	34	36	23
Forest Products	129	184	273
Other Businesses	22	16	5
Operating Profit	**623**	**624**	**504**
Interest Expense, net	(144)	(147)	(164)
Minority Interest	-	2	-
Corporate Items, net	(216)	(174)	(140)
Earnings from continuing operations before income taxes, minority interest & special items	**$263**	**$305**	**$200**

**Industry segment information has been reclassified to conform with minor changes in 2006 organizational structure as well as to reflect Kraft Paper and the Brazil Coated Papers business 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	134	(41)	(4)	89	30%	486.3	0.18
Q2	305	(104)	(5)	196	34%	487.2	0.40
Q3	263	(70)	(5)	188	27%	484.9	0.39
Special Items							
Q1	(1,310)	36	-	(1,274)	3%	486.3	(2.62)
Q2	(129)	45	-	(84)	35%	487.2	(0.17)
Q3	18	(93)	-	(75)	N/A	484.9	(0.16)
Earnings from Continuing Operations							
Q1	(1,176)	(5)	(4)	(1,185)	N/A	486.3	(2.44)
Q2	176	(59)	(5)	112	34%	487.2	0.23
Q3	281	(163)	(5)	113	58%	484.9	0.23

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 and the presentation tab*

[2] *Assuming dilution*

Average Sales Realizations

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		Average Sales Realizations				
Segments*	**Grades**	**Sept 06**	**Sept 05**	**3Q'06**	**2Q'06**	**3Q'05**
Printing Papers	Uncoated, $/ton	887	797	887	862	792
	Pulp, $/ton	551	481	546	525	484
Packaging	Containerboard, $/ton	500	385	502	489	405
	Corrugated boxes, $/ton	794	693	790	754	704
Forest Products	Lumber, $/MBF	302	394	308	372	391
	Plywood, $/MSF	253	323	260	293	297

* U.S. only

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

Forest Resources

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$ Millions

	3Q'06	2Q'06	3Q'05
▸ Earnings Sources – Gross Margin			
• Forestland Sales[1]	$125	$101	$125
• Harvest & Recreational Income	63	61	63
▸ Forestland Expenses	(27)	(31)	(43)
▸ Land Utilization (real estate), Net of Expenses	5	29	65
Total EBIT	$166	$160	$210

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

Raw Material & Distribution Costs

EBIT impact 3Q'06 vs. 2Q'06

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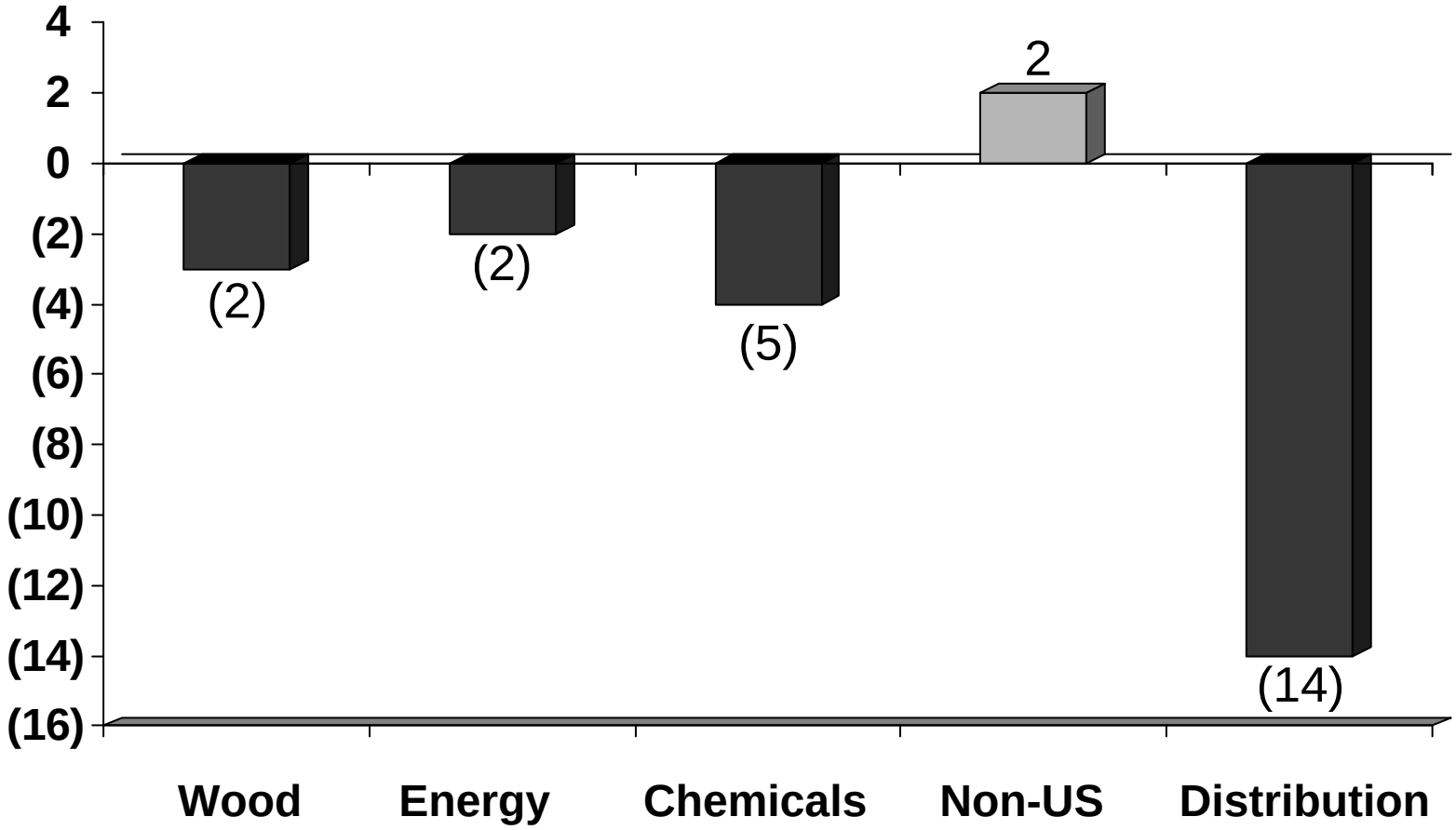
Total of $21 million or $0.03 per share negative impact in 3Q'06 versus 2Q'06

EBIT ($MM)



[1] All cots excludes U.S Coated Paper, Wood Products and discontinued operations

Natural Gas Costs

Trended higher in 3Q'06

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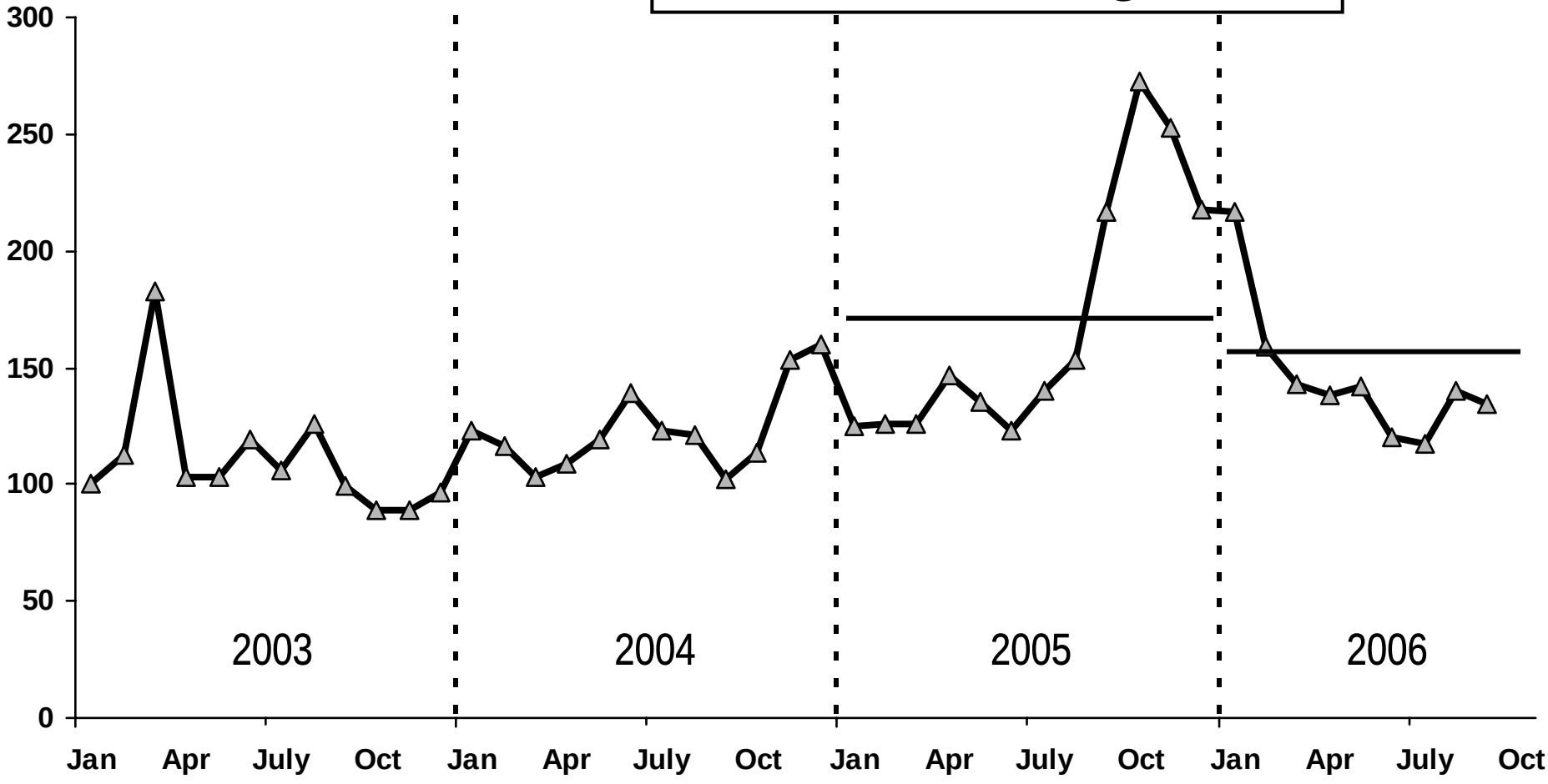
Index: Jan 2003 Natural Gas Costs = 100

Natural Gas costs below YTD average cost



* NYMEX Natural Gas closing prices

2006 YTD Average

2005 Average

U.S. Mill Wood Costs

Trended lower in 3Q'06

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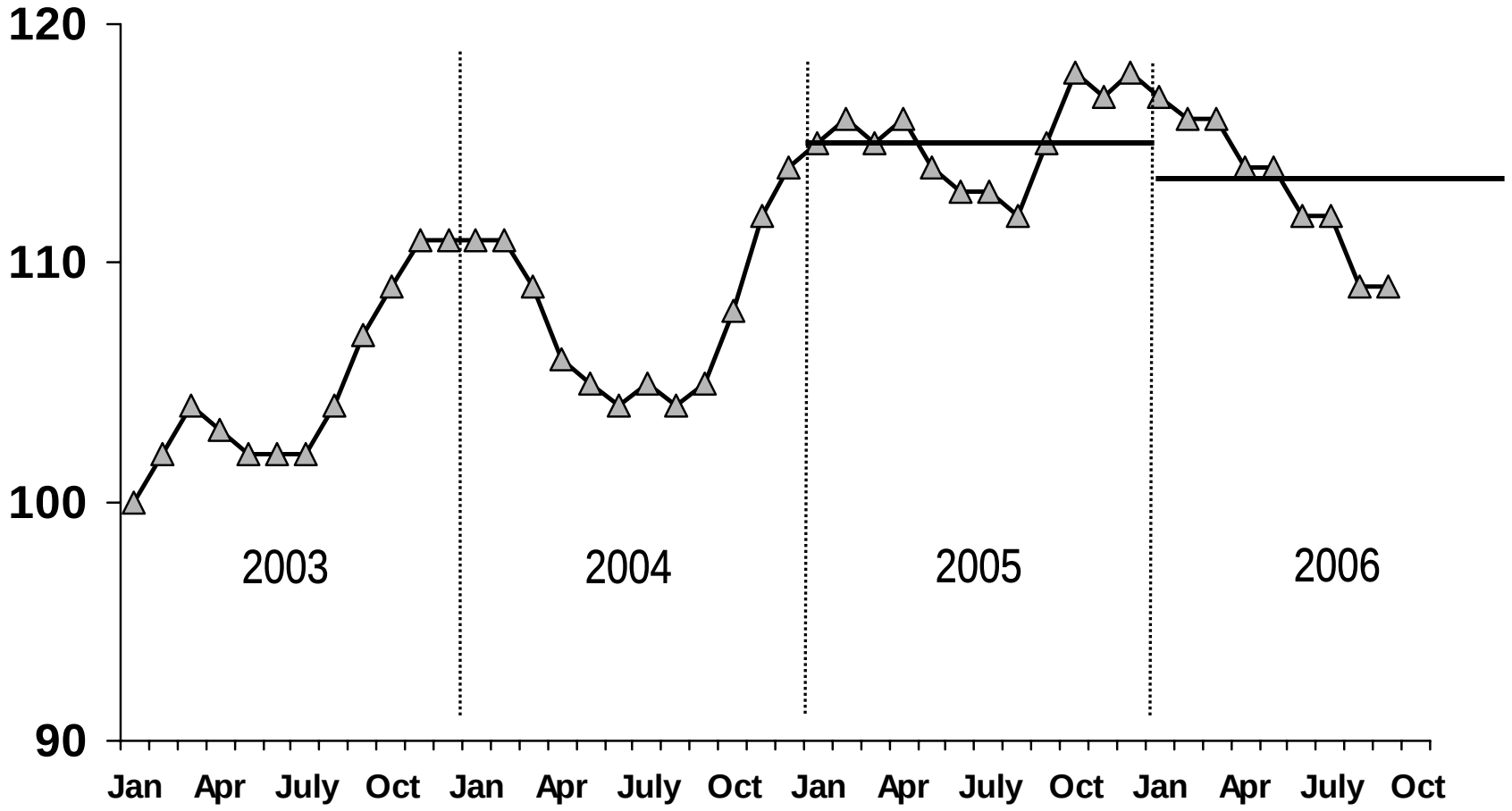
Index: Jan 2003 Wood Costs = 100

U.S. mill wood costs below YTD average cost



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

2006 YTD Average

2005 Average

Caustic Soda Costs

Trended lower in 3Q'06

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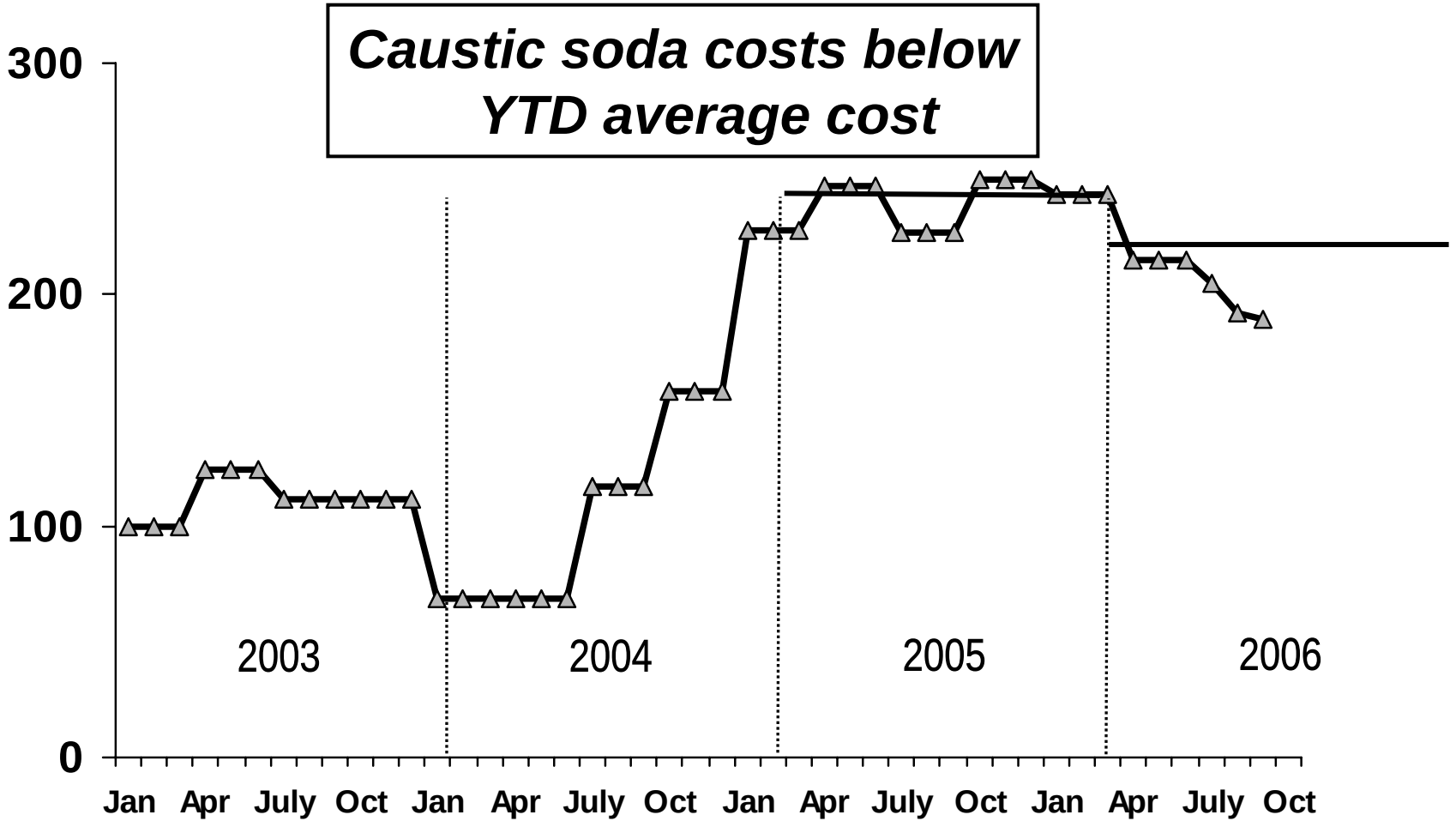
Index: Jan 2003 Caustic Soda Costs = 100



* Delivered cost to U.S. facilities

2006 YTD Average

2005 Average

Global Consumption

Key input indicative annual purchase levels[1]

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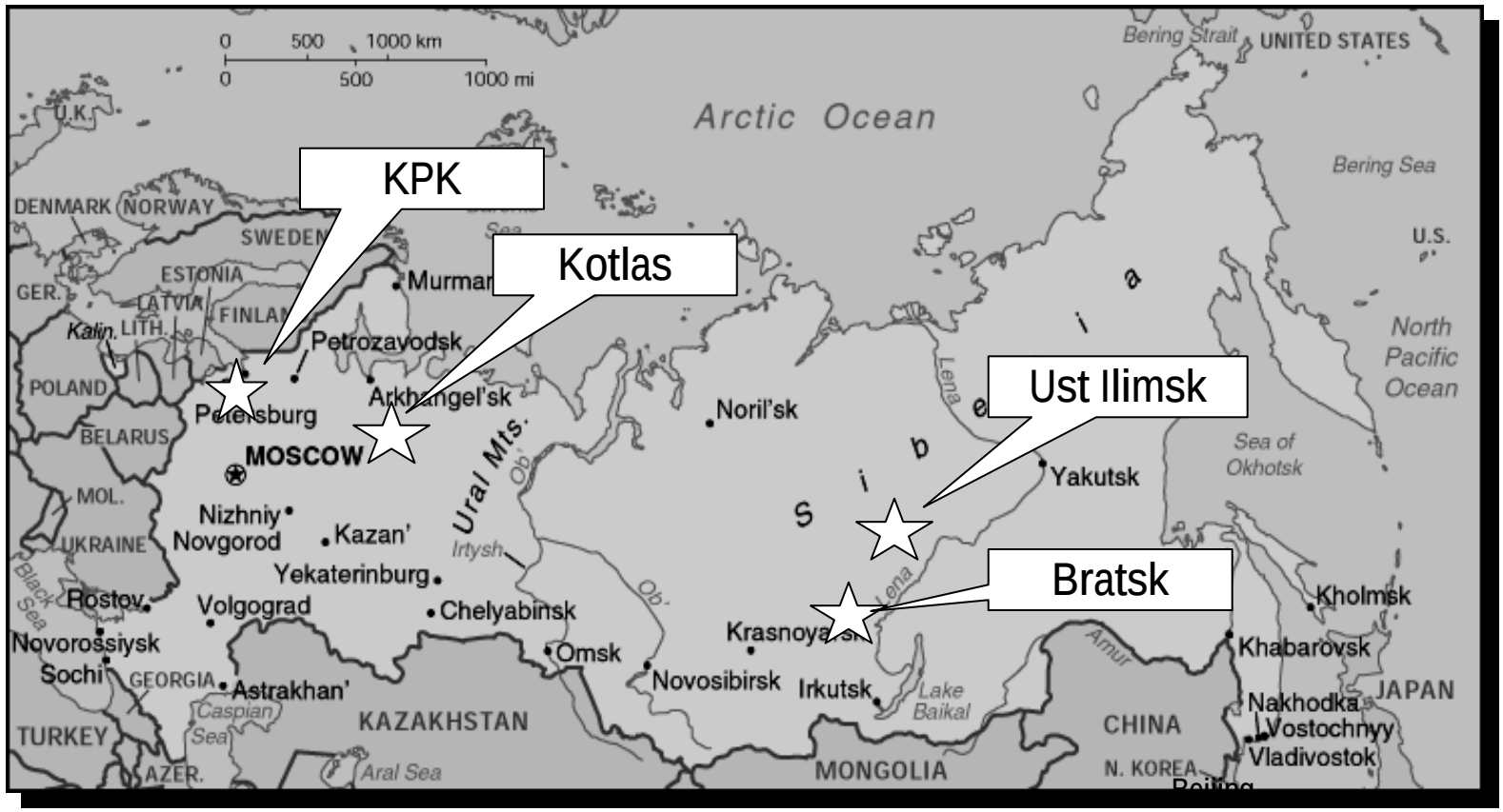
Energy	***Units***	***U.S.[2]***	***Non- U.S.***
Natural Gas	MMbtu	36,000,000	16,000,000
# 6 Fuel Oil	BBL	4,100,000	440,000
Coal	Tons	1,400,000	230,000
Fiber			
Wood	Tons	61,000,000	5,700,000
OCC[3]	Tons	600,000	310,000
Chemicals			
Caustic Soda	Tons	378,000	60,000
Sodium Chlorate	Tons	240,000	40,000
LD Polyethylene	Tons	90,000	-
Latex	Tons	30,000	4,000

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

Ilim Mills in Russia



Global Cost Curve

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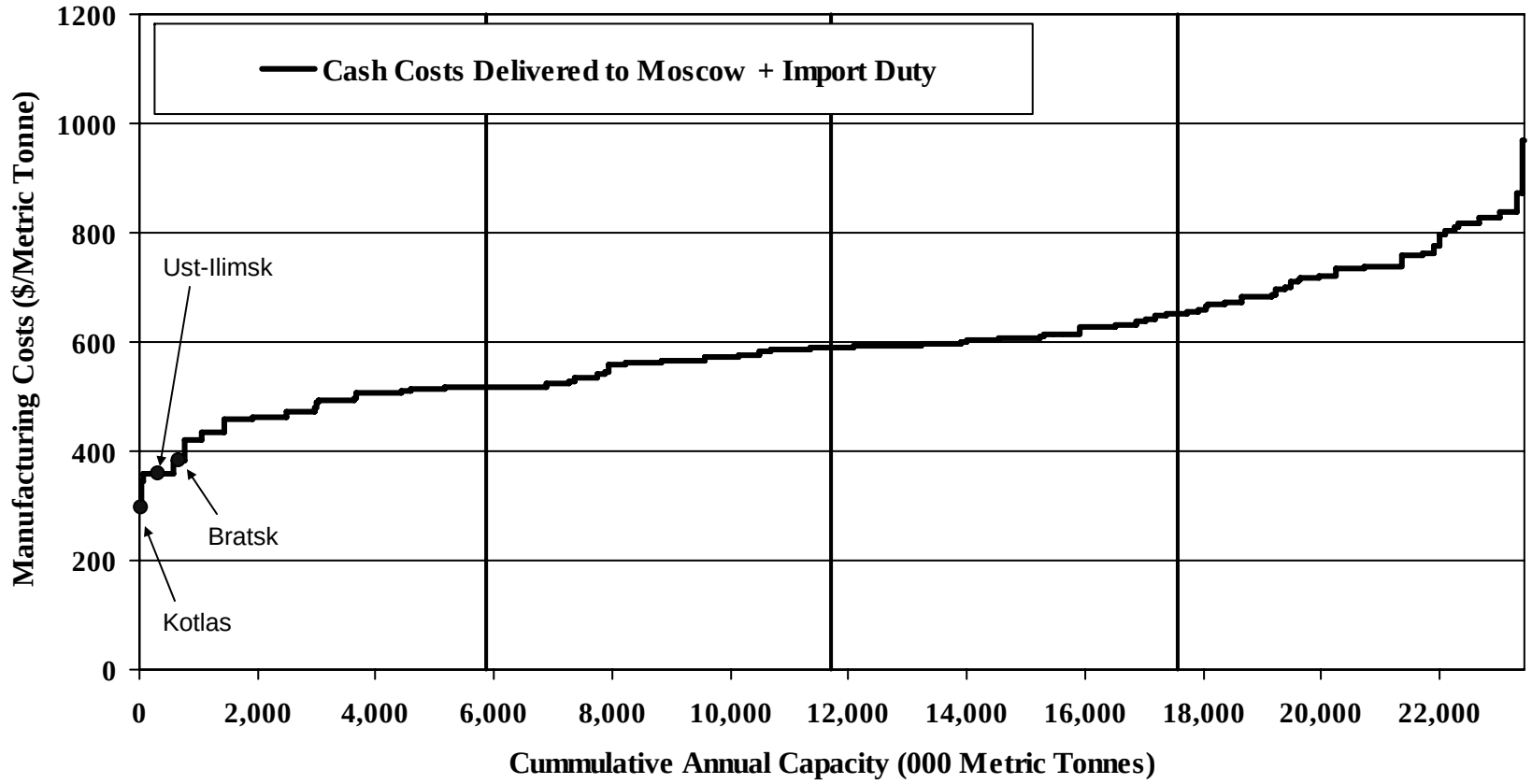

Based on Jaakko Poyry 2005 CostTrac
At 2nd Quarter, 2006, Prices and Exchange Rates.

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Global Cost Curve

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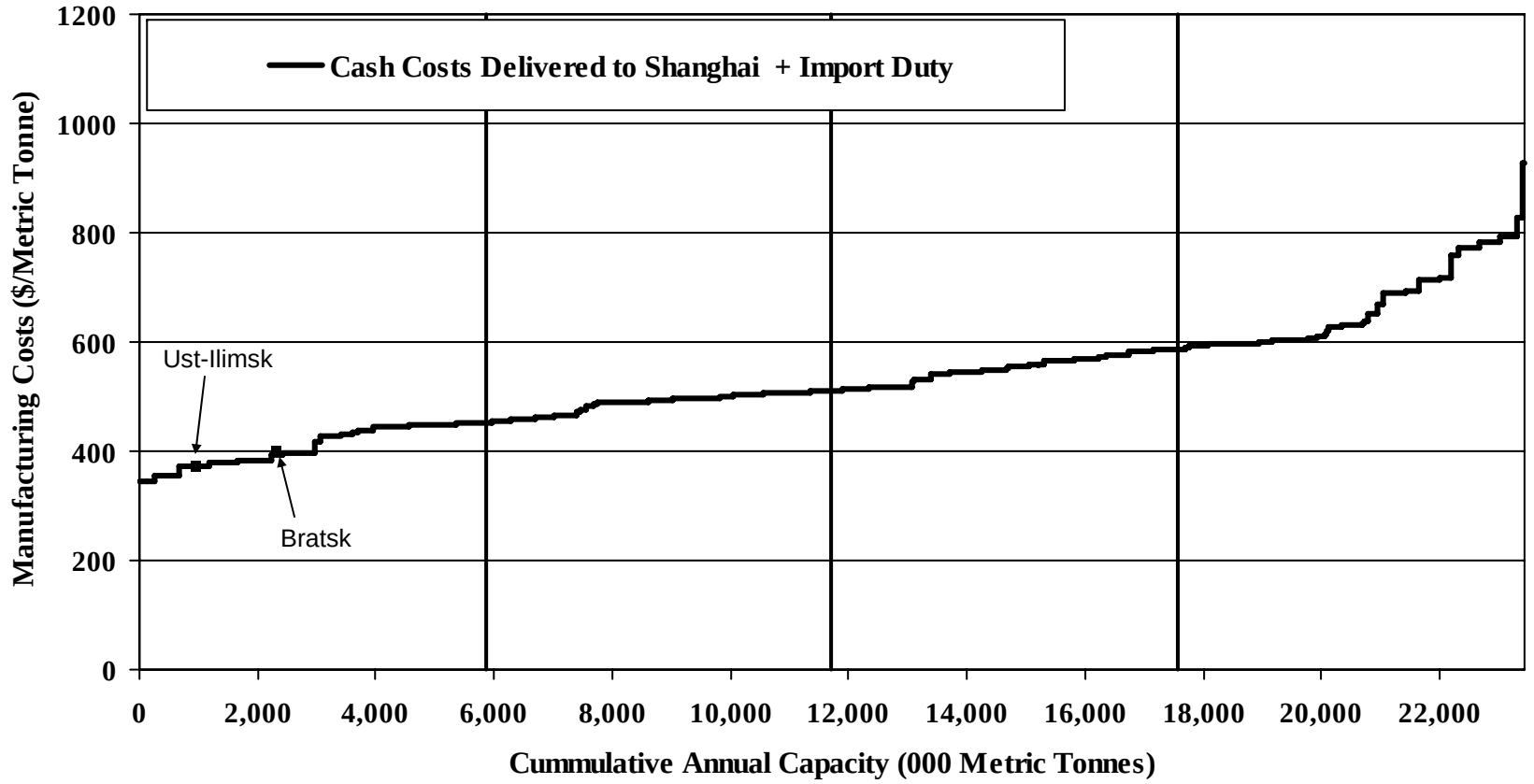

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Global Cost Curve

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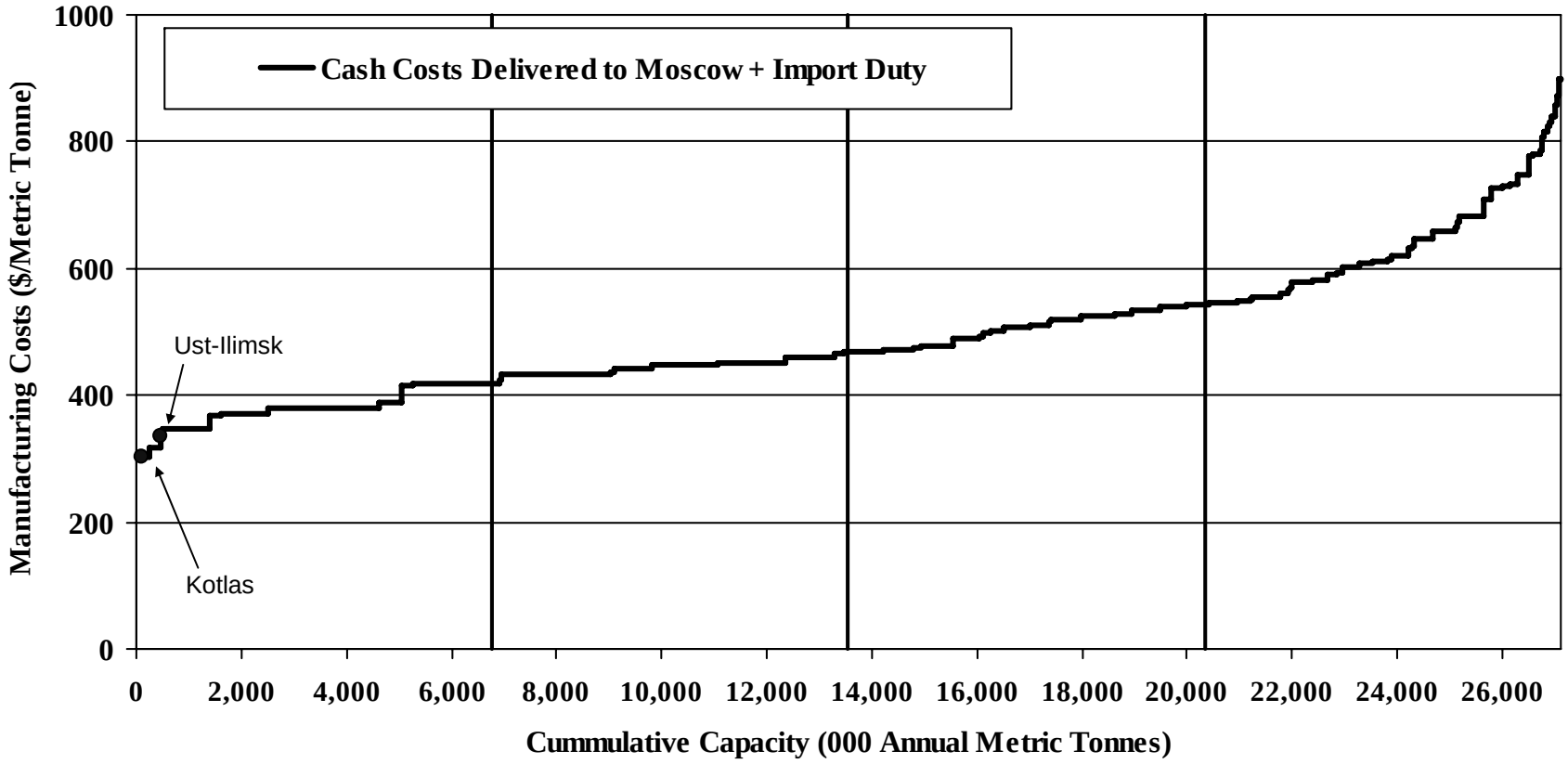

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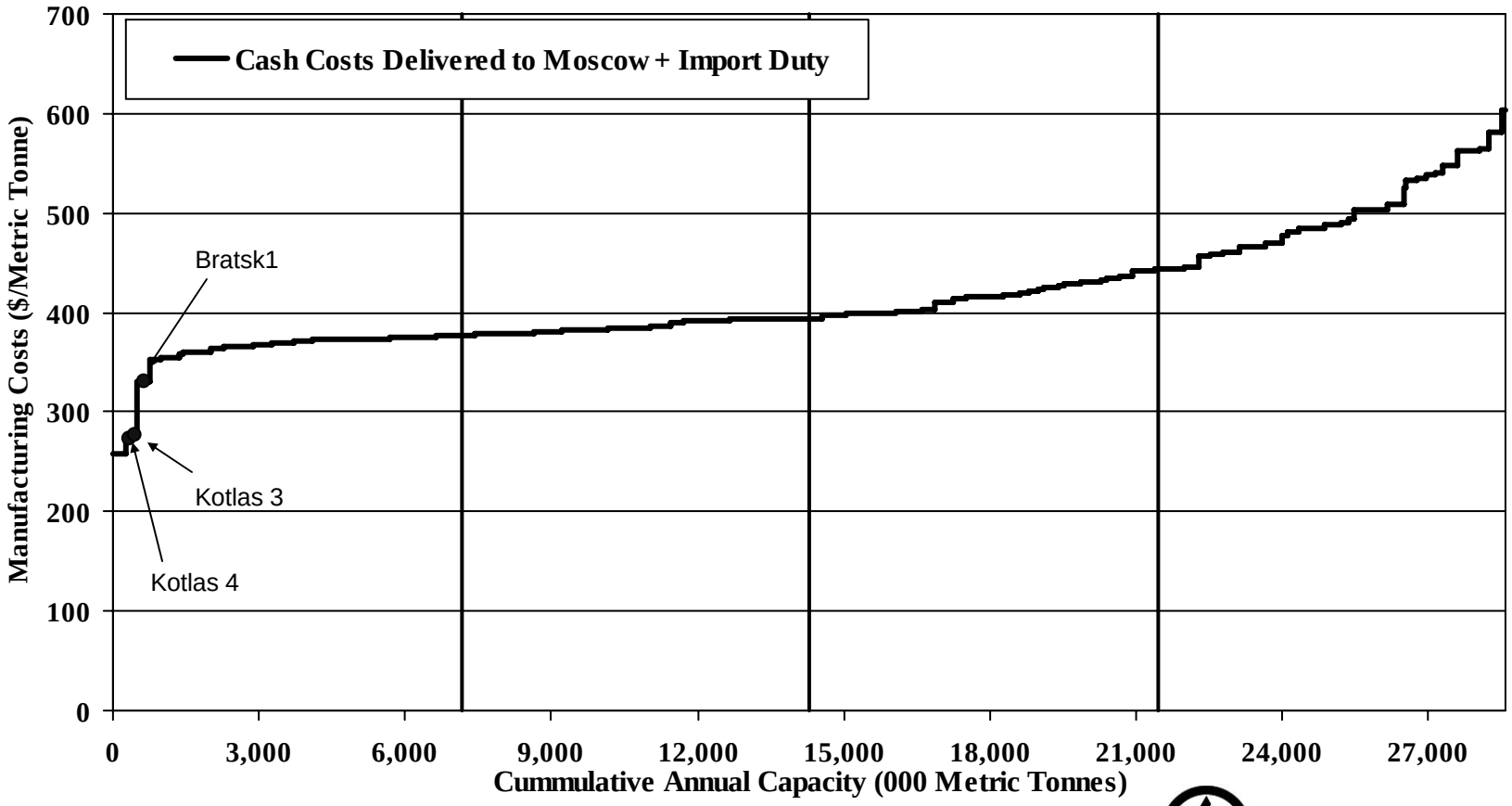

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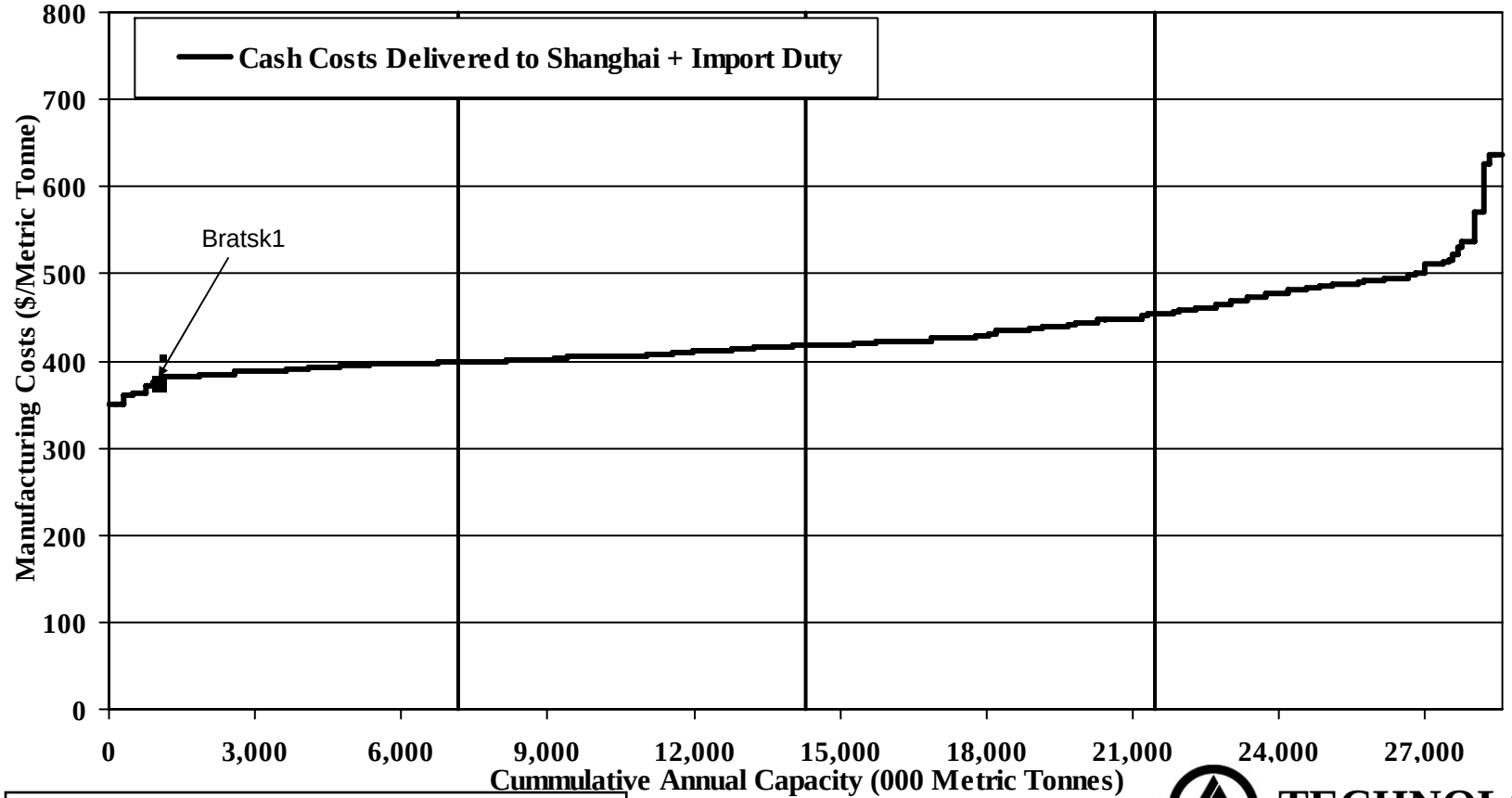

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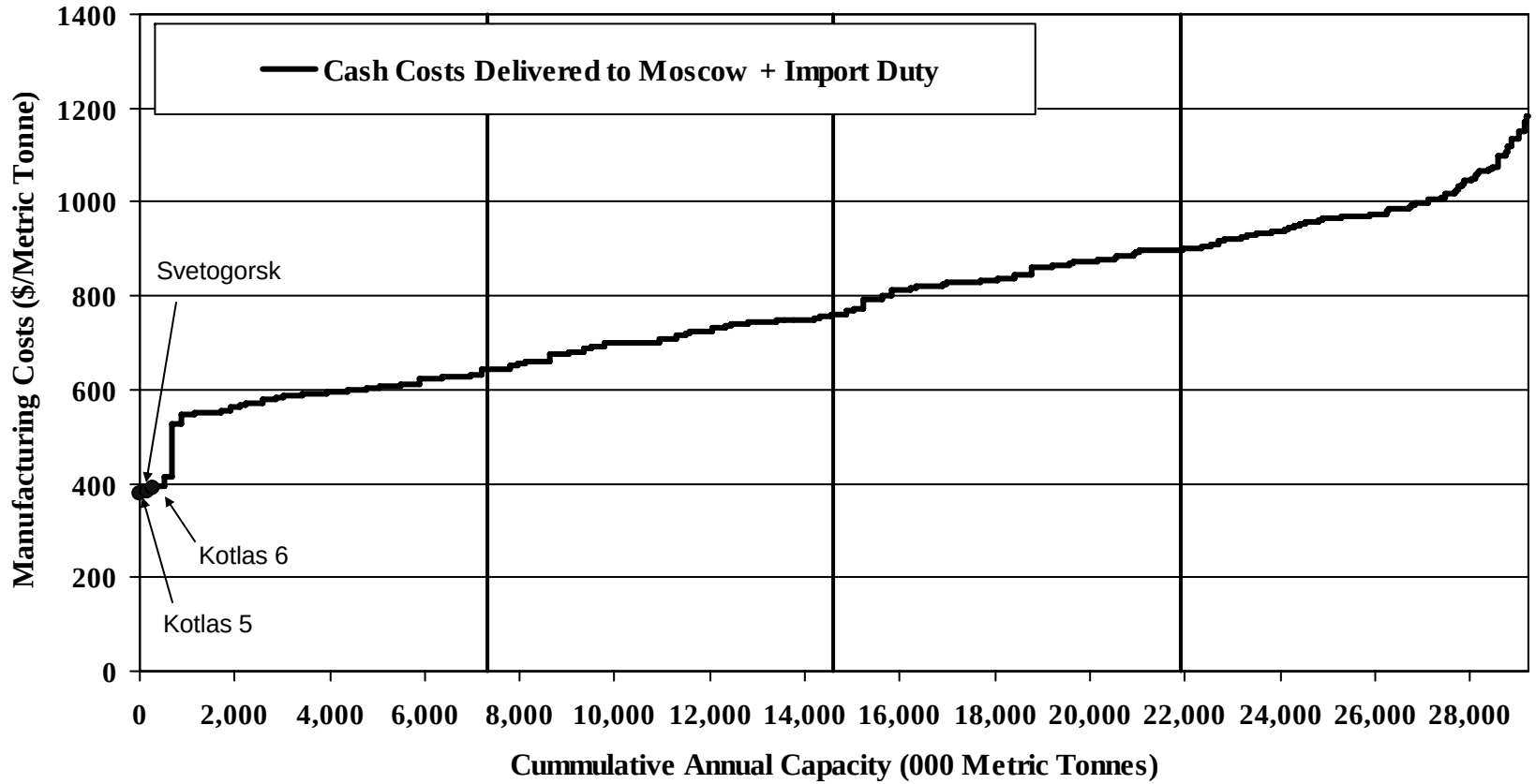

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