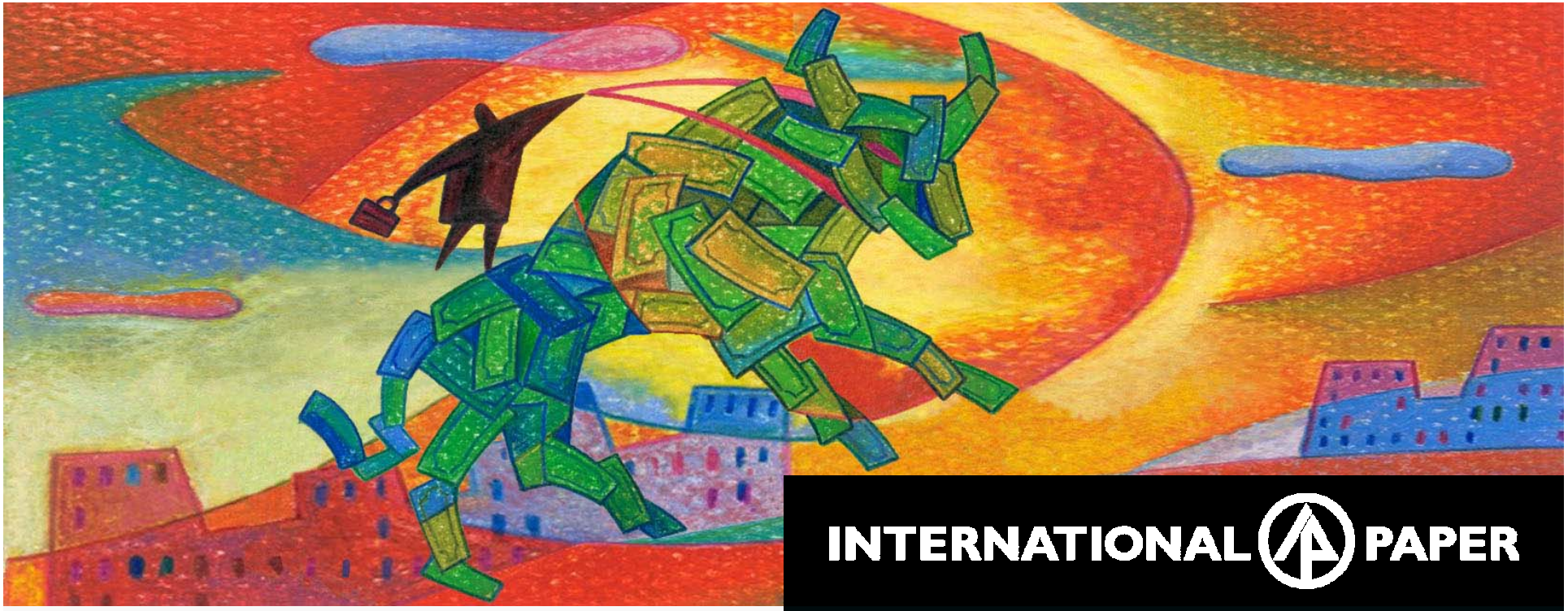

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IP Asia

Tom Gestrich

Asian Markets and Growth Are Compelling

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- N.A. and W. Europe are mature
- Asia drives global demand growth; premium segments are large and attractive
- Sourcing shifts to low cost countries, global customers continue to migrate
- Competitive landscape is different

Develop low-cost and low-capital regional capacity to capture Asia growth

IP Asia Footprint is Small . . .

Reshaping the Portfolio in the Faster Growing, Profitable Segments

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	2005	2006 / 2007
Shorewood plants	1	2
Corrugated box plants	5	9
Distribution business	50%	100%
Coated Board (JV) – existing	None	495K tons
– Under construction		330K tons
Uncoated Paper (JV) – potential	None	None
– Under construction		260K tons
Beverage packaging	4	None
– (Sale with global network)		

Capacity in short tons

Adapting Ourselves to Compete

- Local / regional competitors
- Rules to compete are different:
  - Selectively “forget” how it is done in the West
    - Capability to build “good enough”
  - Special economic zones and government incentives
- Recruiting, developing and retaining management talent

Putting It All Together:
IP / Sun Coated Board JV

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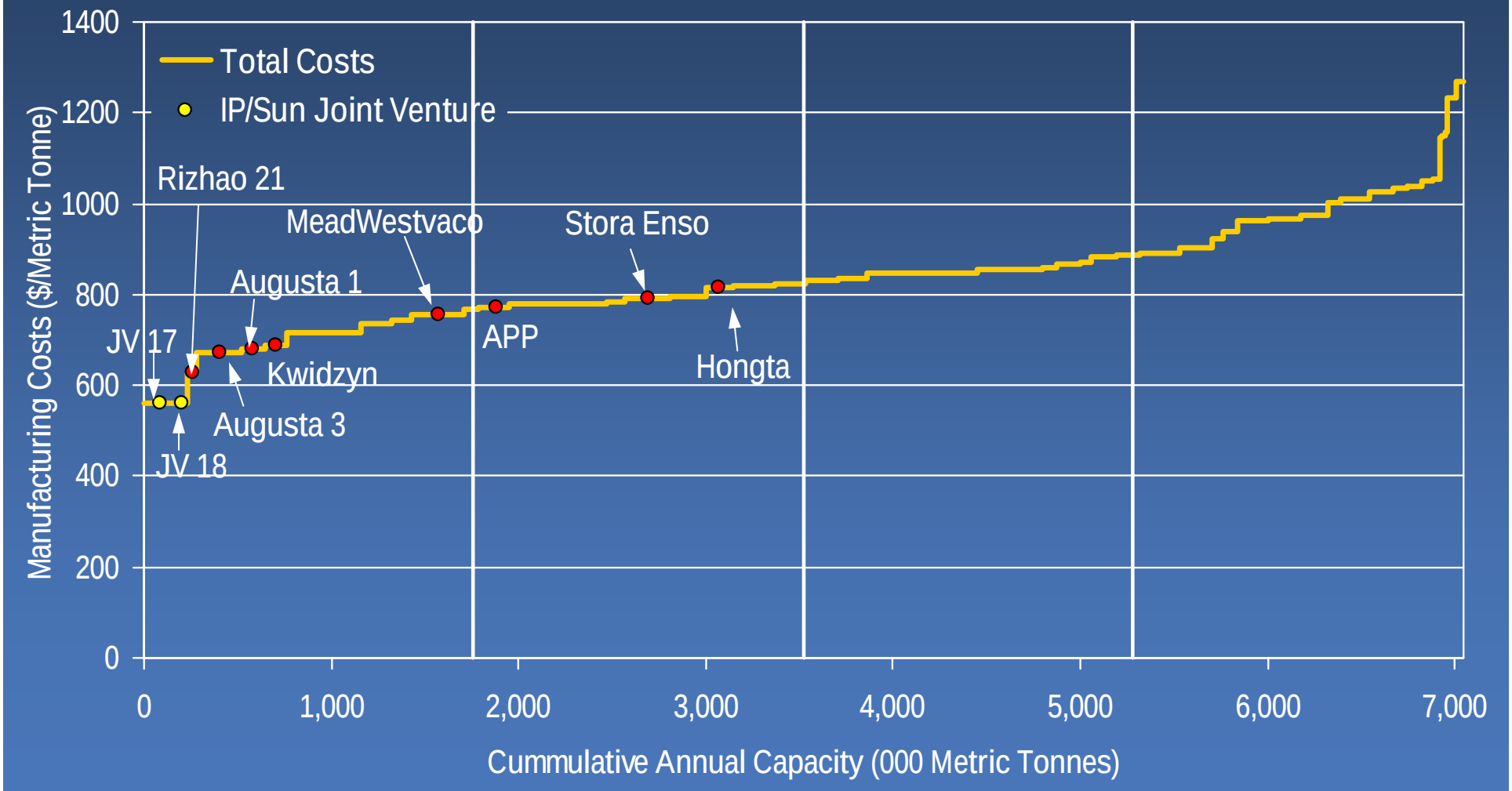
825M TPY of coated board capacity (2 existing machines + 1 new machine)

- Concluded that Sun was the best:
  - First-quartile delivered cost position
  - Low capital cost
  - Established market presence and quality products
  - People
- Excellent fit with IP
  - Technology and product lines
  - Customers, segments
  - IP's global coated board network

2007E EBIT: $35MM (total JV)
$17MM (IP's share)

Capacity in short tons

IP/Sun Coated Board JV has 1st Quartile Delivered Cost



Source: Jaakko Poyry, Cost Track with Q2'06 prices and exchange rates

Low Capital Cost Model Offers Significant Advantage

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Example:	China low capital cost model	Western capital cost model
Typical machine capacity	200,000-300,000 TPY	400,000+ TPY
Capital cost per ton of capacity	$400	$800-$1,100
Capacity utilization required to achieve 15% IRR	75%	120%

Sun Creates Leverage for IP

- Alignment with customers and high-growth geographies
- Significantly lower entry costs to China vs. peers to date
- Ability to apply low cost model to new projects and sourcing

>5 Times Sales Growth in the Next 3 Years

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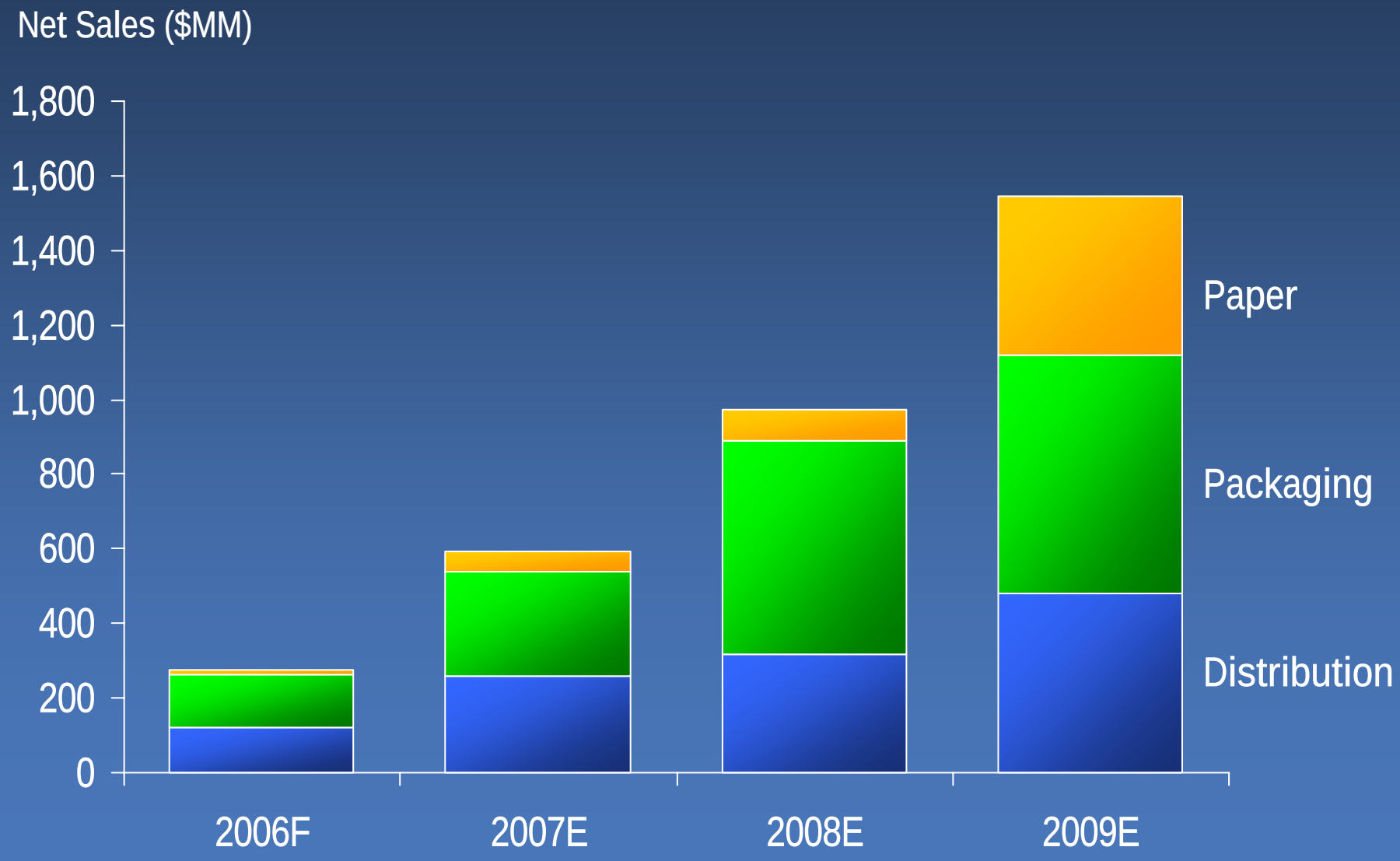

IP Asia Moving Forward

2007 Priorities

- Add 3 packaging facilities
- Deliver IP Sun JV performance
  - 3rd paper machine
- Evaluate UFS JV
- Develop people

How We Earn Cost of Capital and Deliver Bottom-Line Impact

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Be a global company with local advantages

Global leverage

- Technology
- Integrated network
- Customer contacts and relationship management
- Disciplined approach to investment
- Management expertise

Local advantages

- Low capital
- 1st quartile delivered cost
- Local management talent
- Government incentives
- Proximity to customers

A Stronger, More Valuable IP

