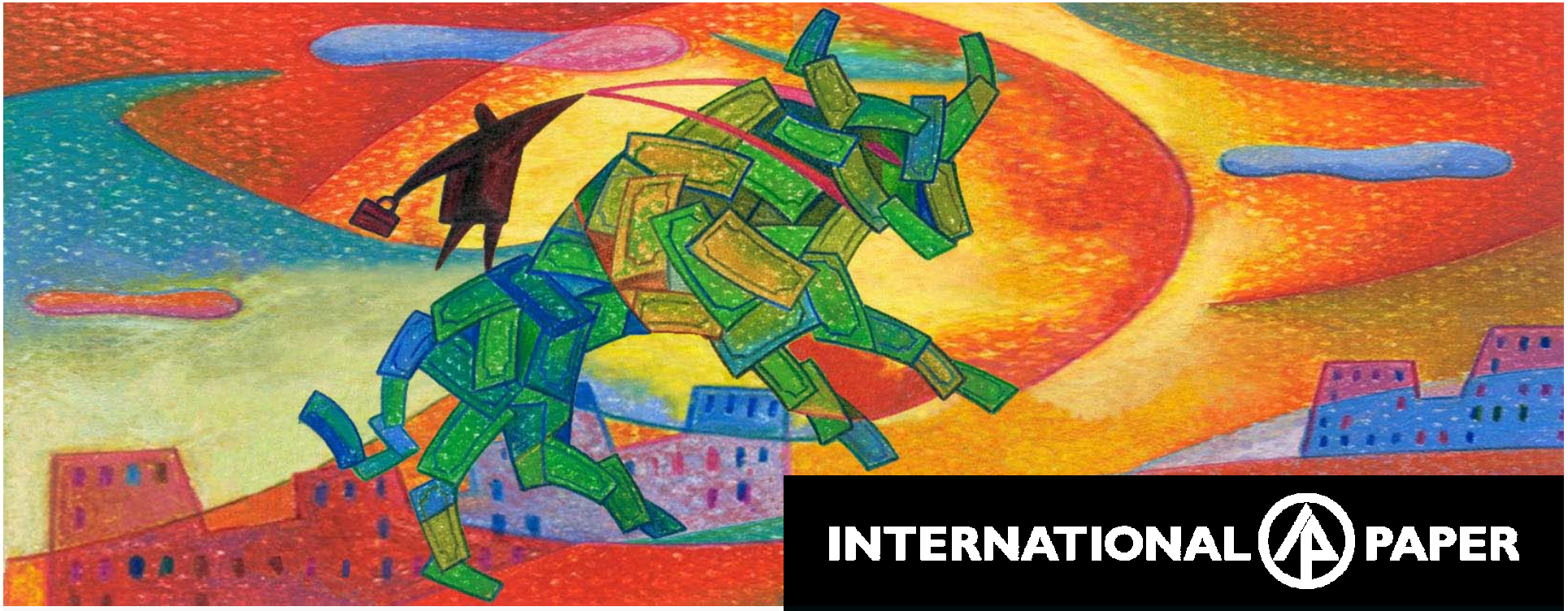


INTERNATIONAL PAPER

Europe

Mary Laschinger

IP Europe Operation

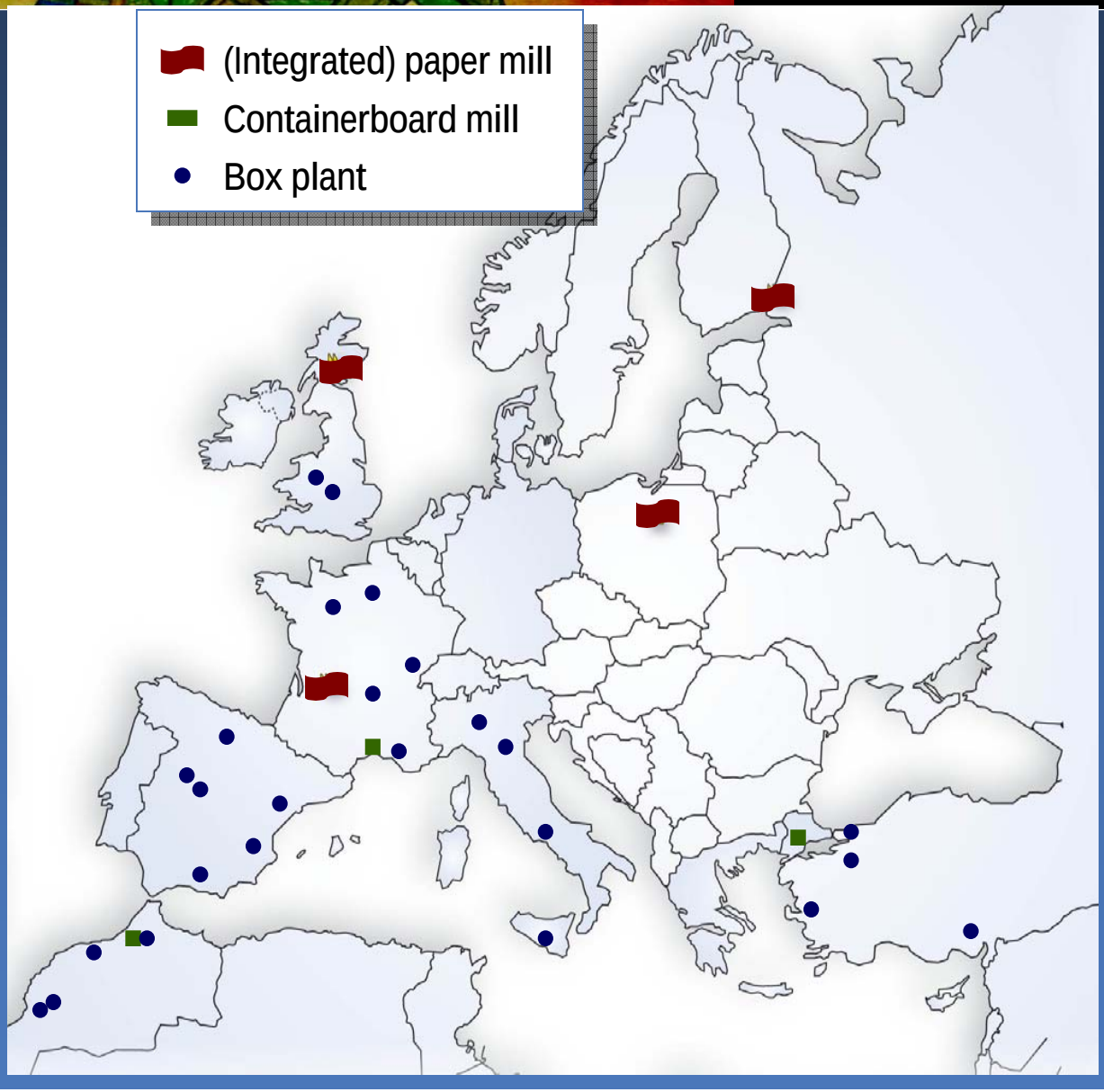
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Production *(metric tons)*
Paper: 1.2MM
Board: 0.3MM
Packaging: 1.6MM

Facilities
Uncoated paper mills: 4
Containerboard mills: 3
Box plants: 29

EBITDA margin: 15%

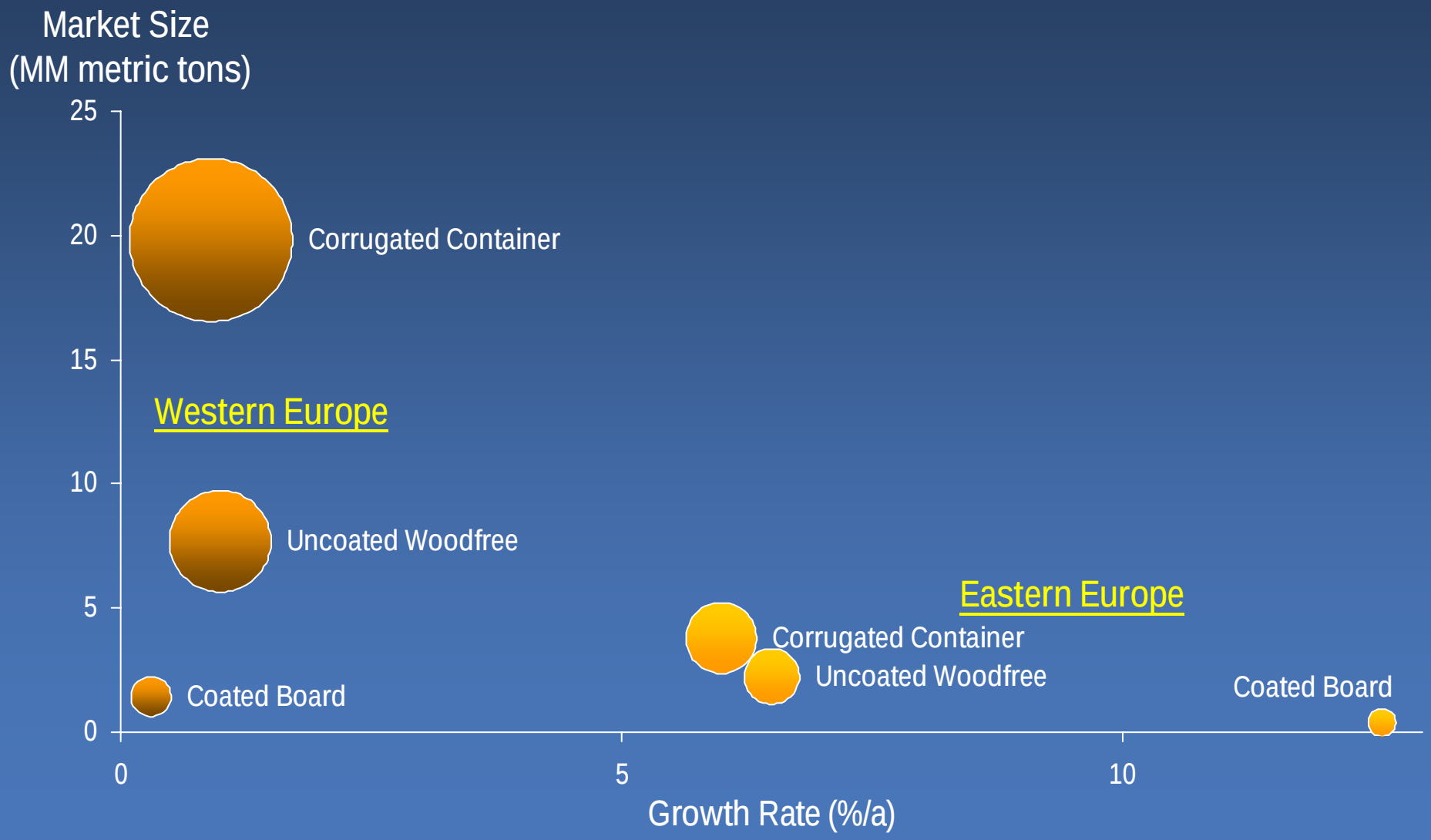
Employees: 14,000



IP Europe Returns

	Returns
Paper East	>10%
Paper West	<0%
Box Business	>7%

Europe is an Important Market Due to Size and Growth Potential



Source: Jaakko Poyry, RISI, Cepifine, Cepi Cartonboard, IP market intelligence

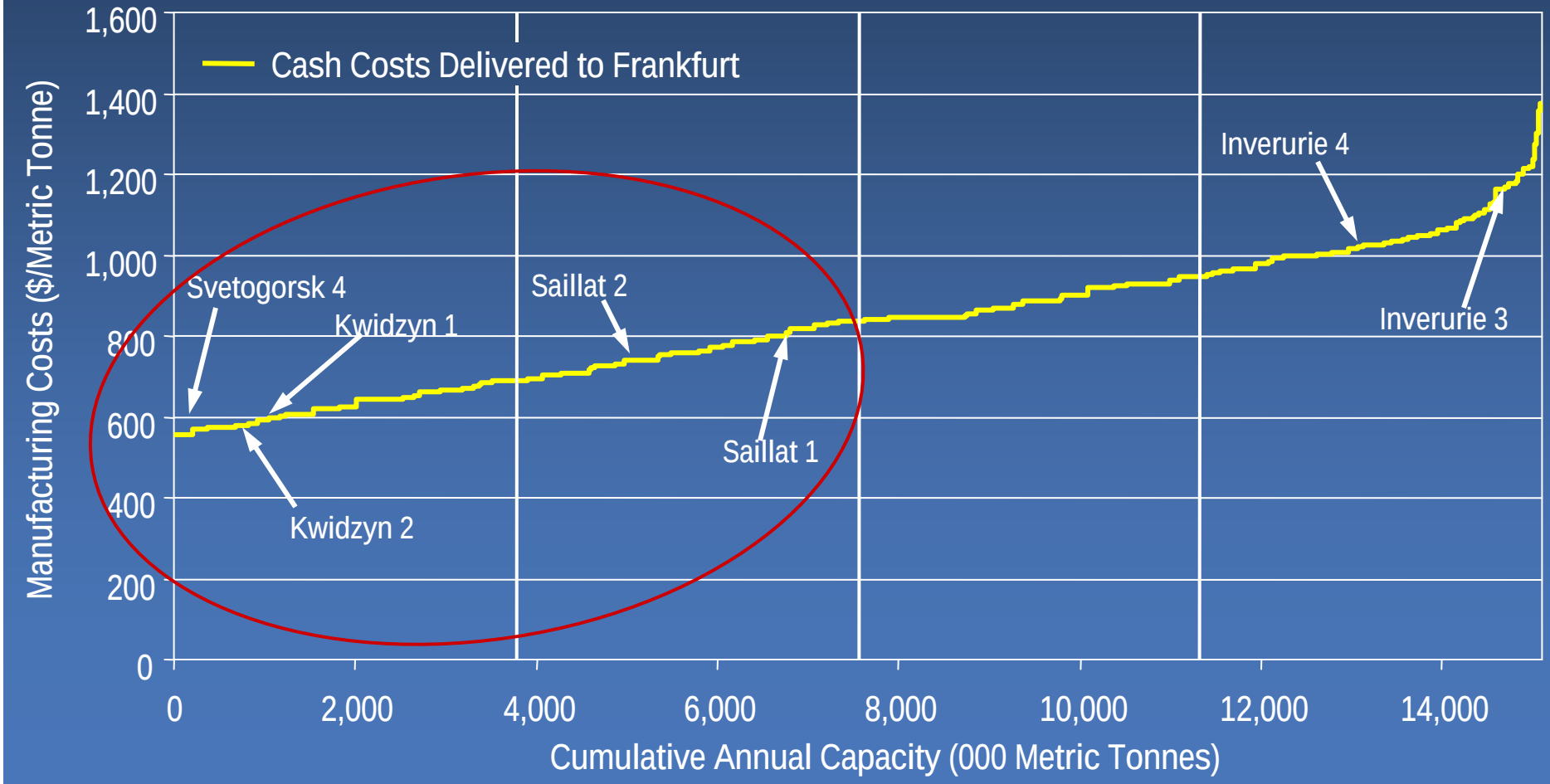
IP Europe is Positioned to Win

- Strong customer positions
- Well-known product brands, especially in Eastern Europe and in our box business
- Long successful history with customers, people, supply chain and assets
- Excellent cost position in Eastern Europe

IP European Cost Position is Very Good in Uncoated Papers

INTERNATIONAL PAPER

Global Uncoated Woodfree Sheets Manufacturing Costs + Delivery to Frankfurt, Germany

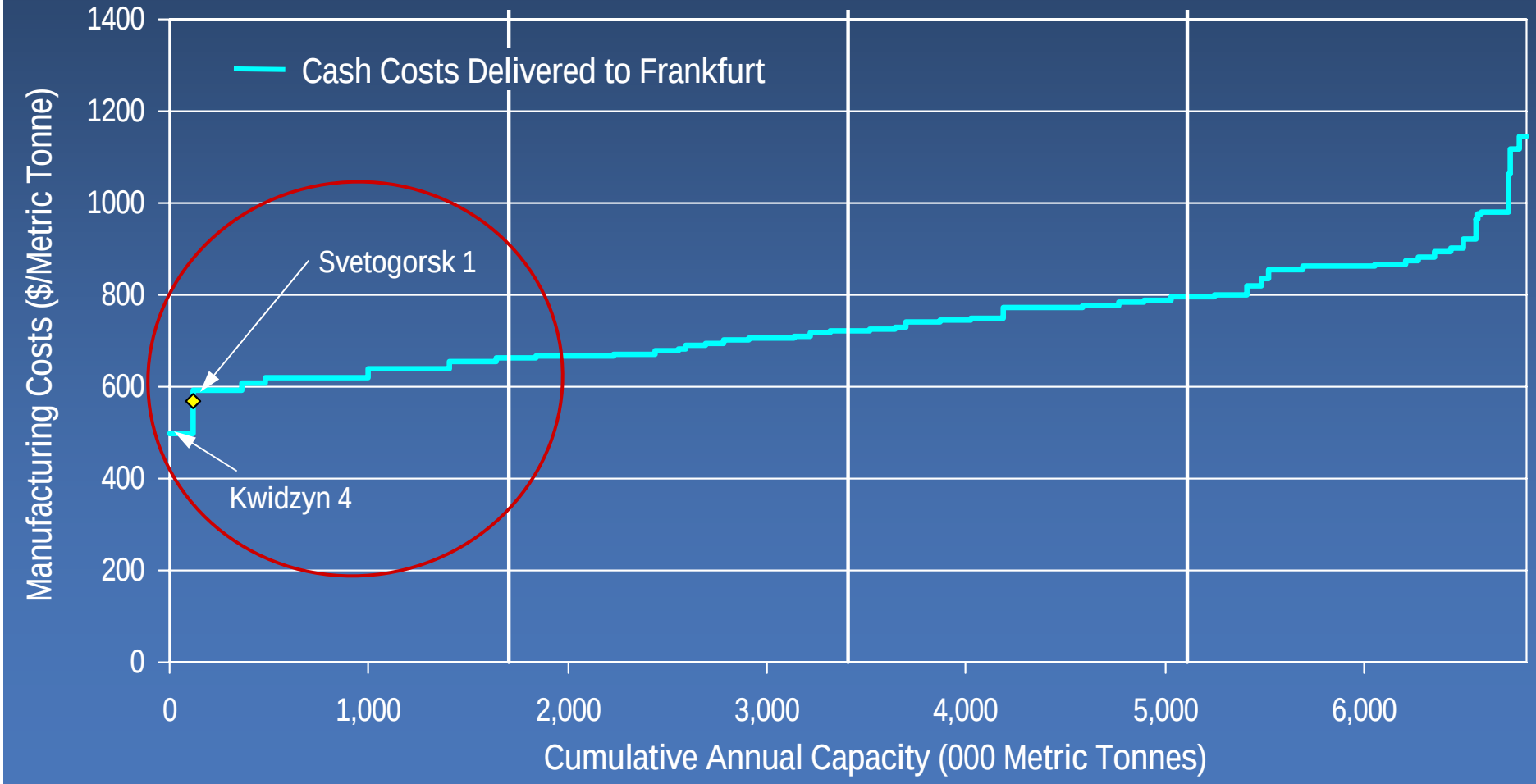


Source: Jaakko Poyry, Cost Track with Q2 '06 prices and exchange rates

IP Europe Has a Leading Cost Position in Coated Virgin Fiber Board

INTERNATIONAL PAPER

Global Coated Board Manufacturing Costs + Delivery to Frankfurt, Germany



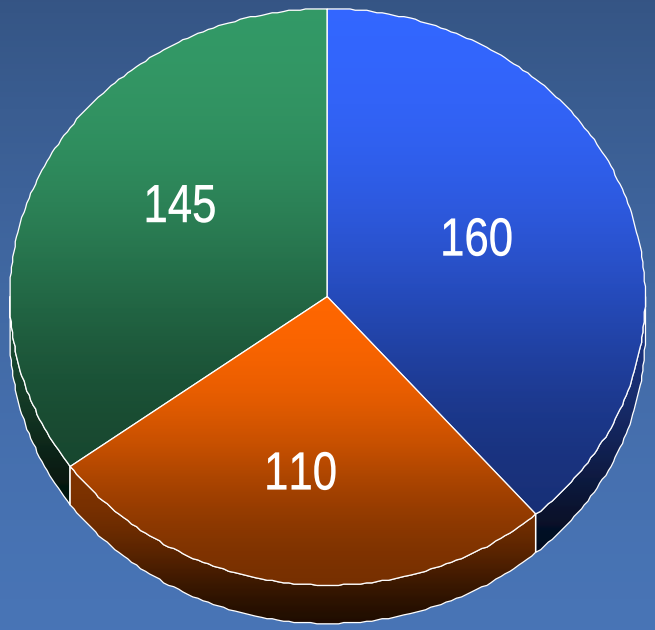
Source: Jaakko Poyry, Cost Track with Q2 '06 prices and exchange rates

IP Europe Strategy

- Grow in key platform businesses where we are earning greater than cost of capital and have long-term cost advantage

Total Investments: USD 415MM

Paper / board cost reduction
ROI >15%



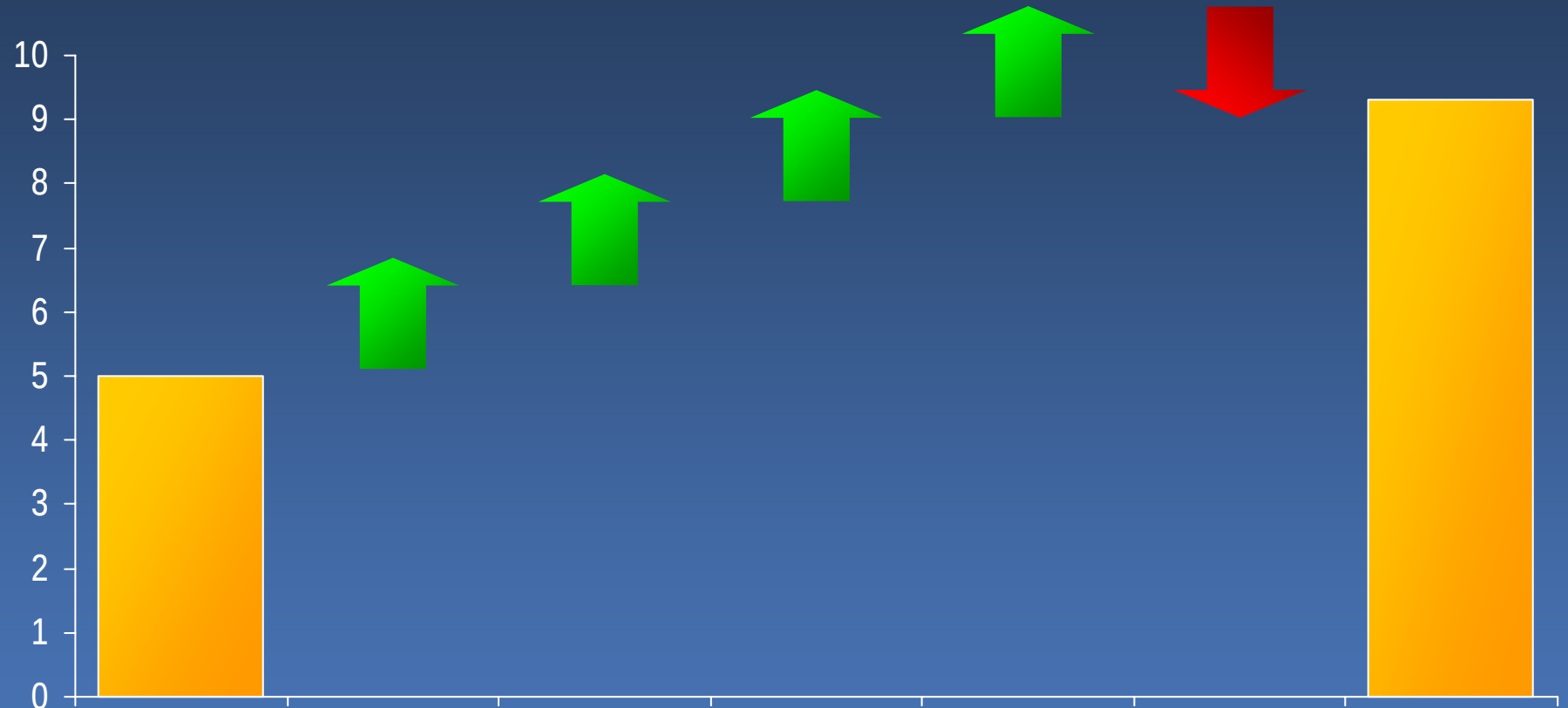
Eastern Europe paper / board capacity to support market growth
ROI >25%

Strategic Investment
Morocco
ROI >20%

Projected returns

Future Profitability Will Be Driven by Cost Reduction and Customer Initiatives

INTERNATIONAL PAPER



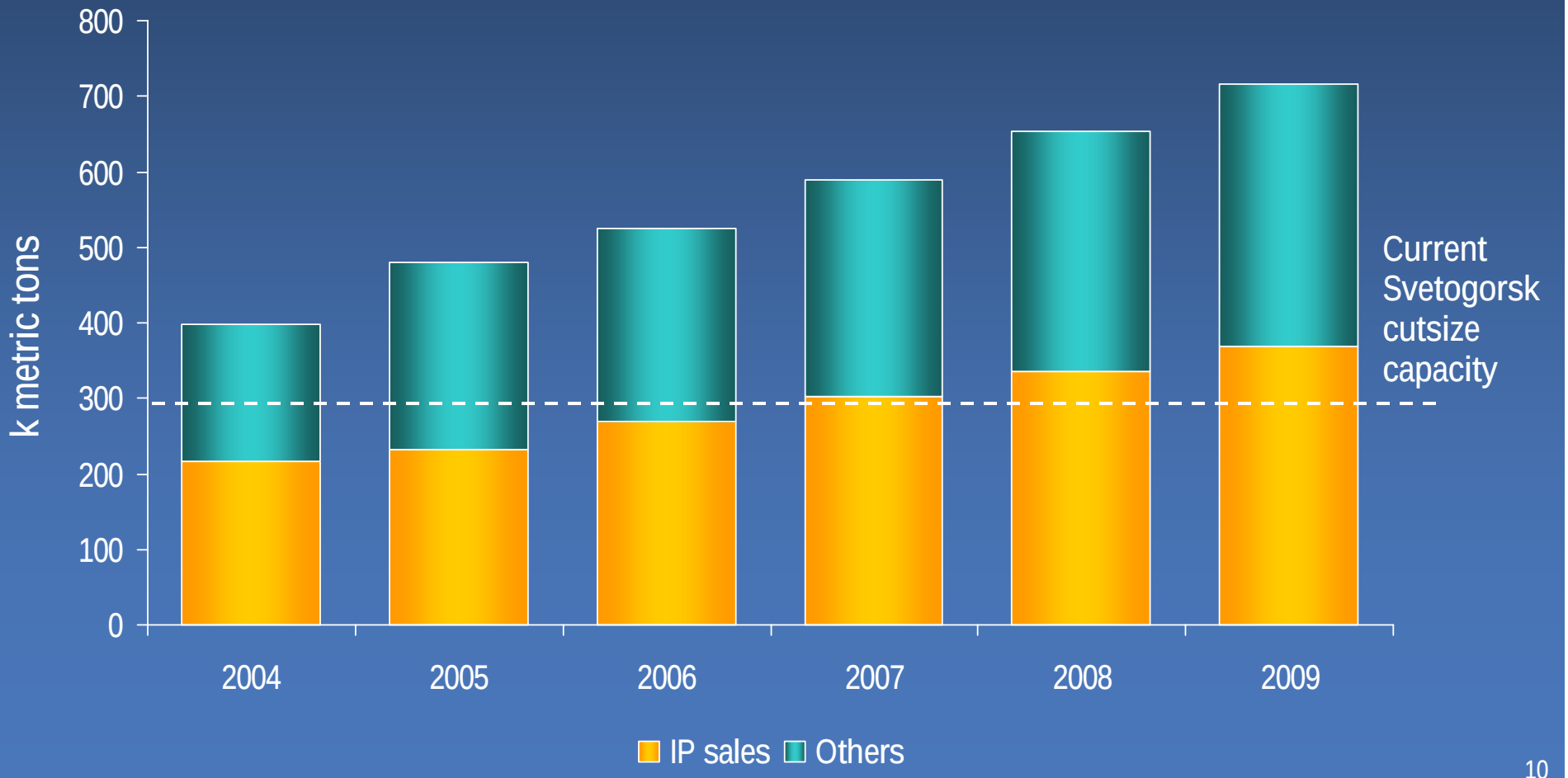
Sales	$2.5B						$2.9B
ROCE	5%						9%

* Component symbols used for illustrative purposes only, proportions not indicative of actual EBIT impact

Without Additional Capacity, IP Will Be Limited for Growth in Russia / CIS

INTERNATIONAL PAPER

IP's Russia / CIS / Ukraine Cutsize Sales Forecast based on Maintaining Market Share



Ilim Pulp Enterprise Profile & Strategic Fit

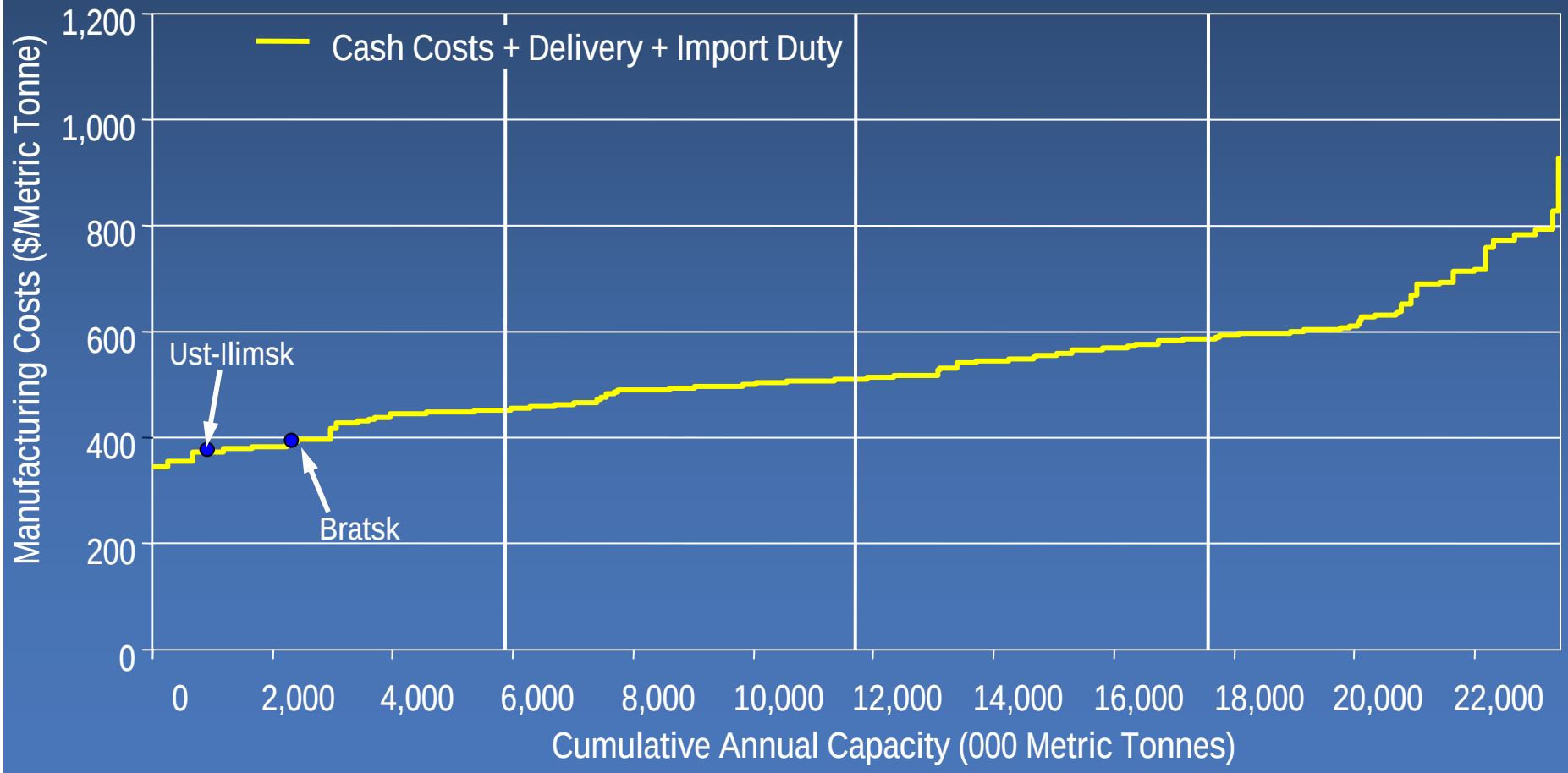
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- 14 years of successful operations in the Russian market with 27% of total pulp & paper capacity
- Access to channels and customers – Russia, CEE & Asia
- Low cost integrated manufacturing base with 4 facilities in Russia to support growth
- 3 year relationship with International Paper
- Growth platform for IP core segments – paper & packaging
  - Maintain leadership position in uncoated woodfree papers
  - Grow coated board and establish leadership position
  - Gain entry into Eastern European Containerboard business
  - Support IP Asia strategy with low-cost fiber

Ilim Pulp Facilities Have an Excellent Cost Position

INTERNATIONAL PAPER

Global Bleached Softwood Kraft Market Pulp Delivered and Duty Paid to Shanghai



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

Ilim Pulp Facilities Have an Excellent Cost Position

INTERNATIONAL PAPER

Global 42# Linerboard Delivered to Frankfurt

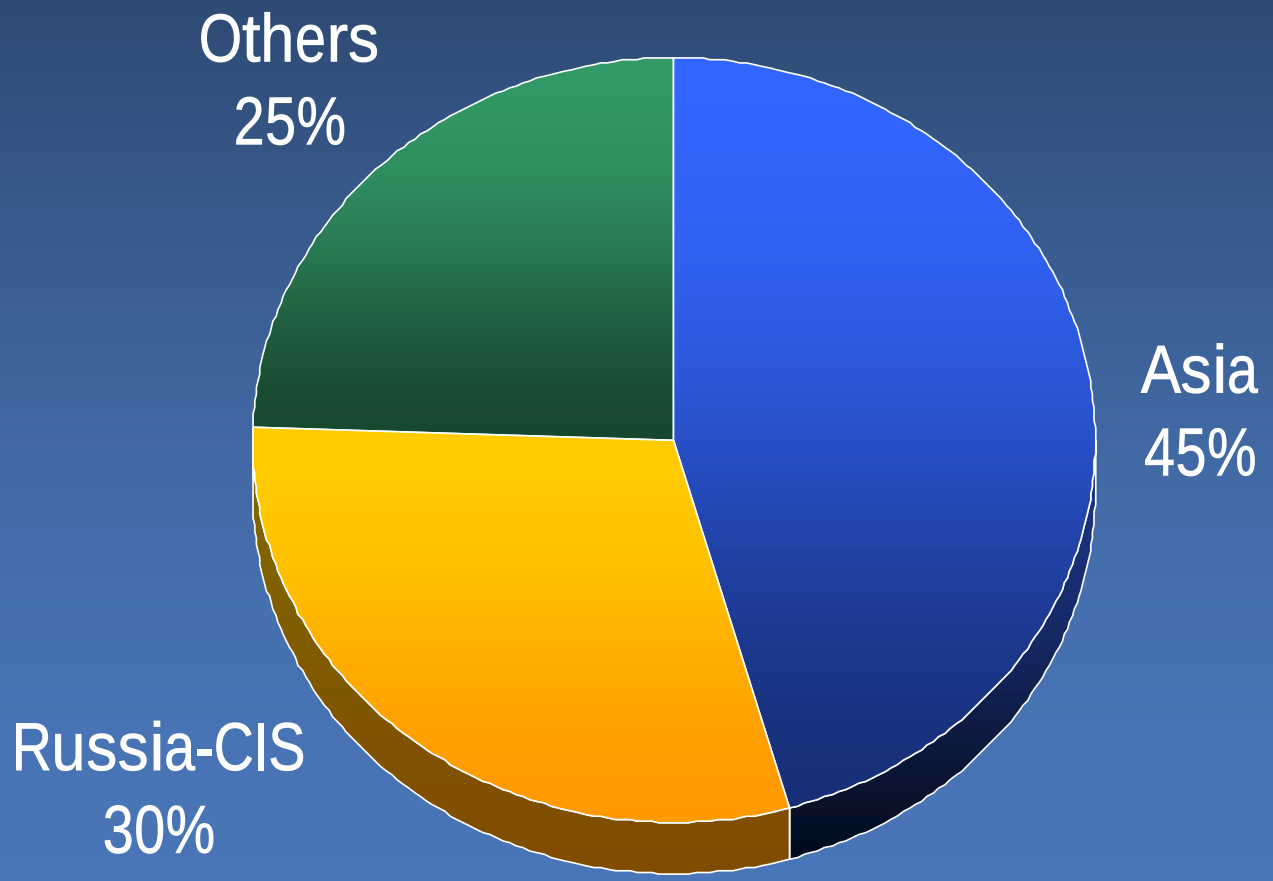


Source: Jaakko Poyry, Cost Track with Q2 '06 prices and exchange rates

Ilim Pulp Sales are Targeting the Asian and Russian Markets

INTERNATIONAL PAPER

Ilim Pulp Sales by Destination in 2006



Ilim Pulp Facilities in Russia

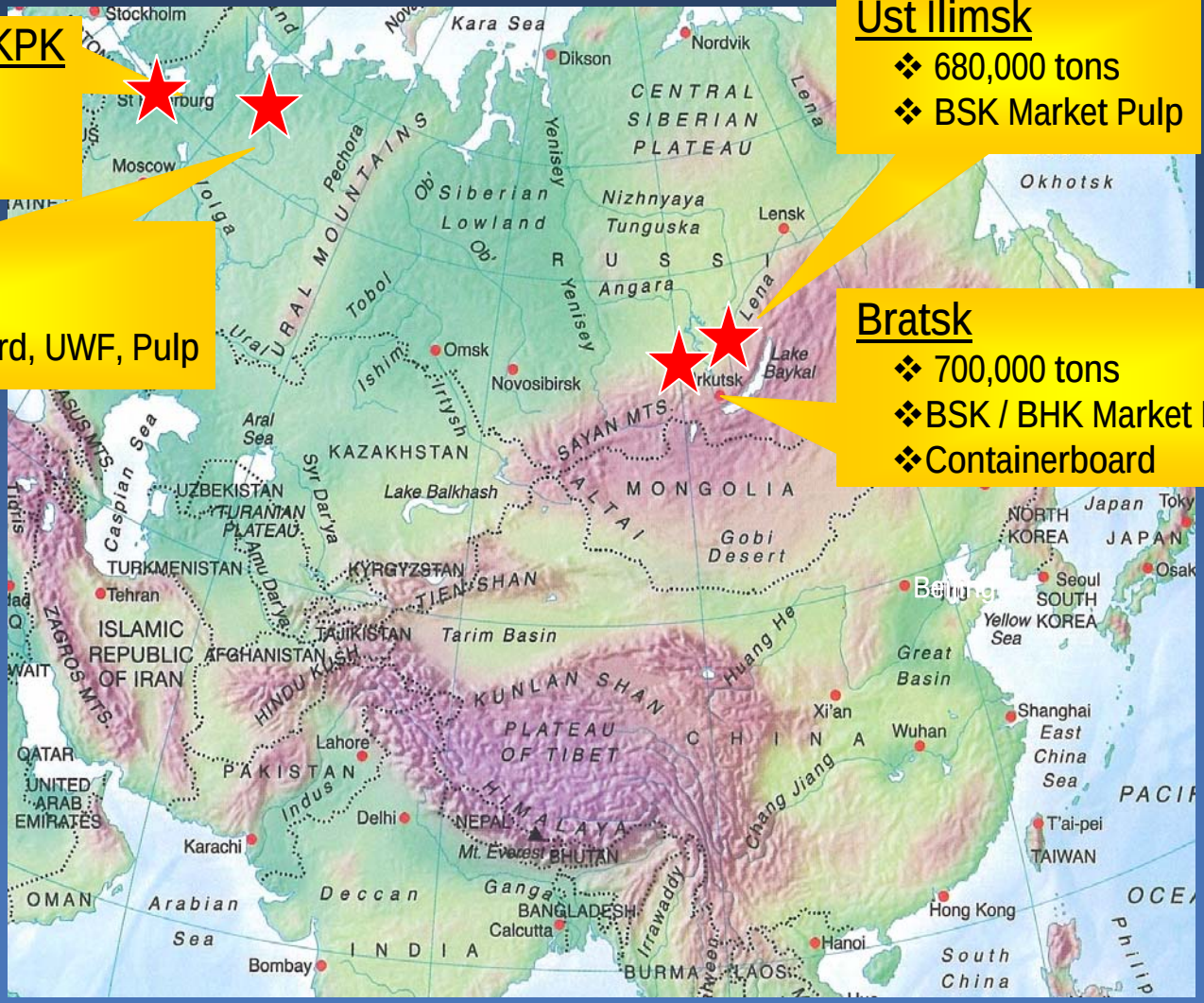
INTERNATIONAL PAPER

St. Petersburg KPK
- ❖ 220,000 tons
- ❖ Board

Kotlas PPM
- ❖ 900,000 tons
- ❖ Containerboard, UWF, Pulp

Ust Ilimsk
- ❖ 680,000 tons
- ❖ BSK Market Pulp

Bratsk
- ❖ 700,000 tons
- ❖ BSK / BHK Market Pulp
- ❖ Containerboard



ILIM Estimated EBITDA Waterfall (2007 – 2011)



IP Europe Moving Forward

2007 Priorities

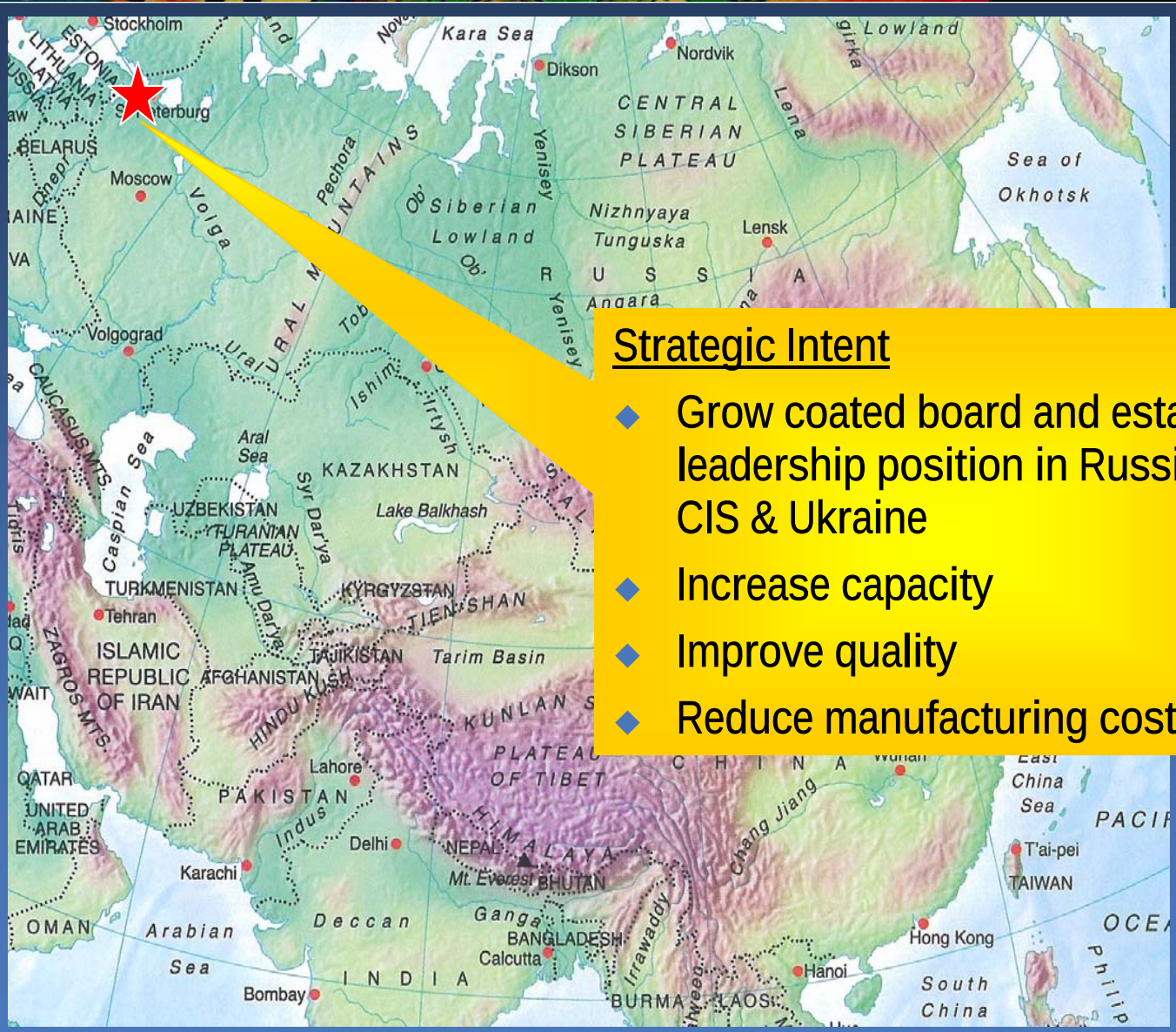
- Complete ramp-up of Eastern Europe capacity additions
- Successful start-up of BCTMP
- Complete Ilim due diligence

A Stronger, More Valuable IP



St. Petersburg KPK – Profile & Strategy

INTERNATIONAL PAPER

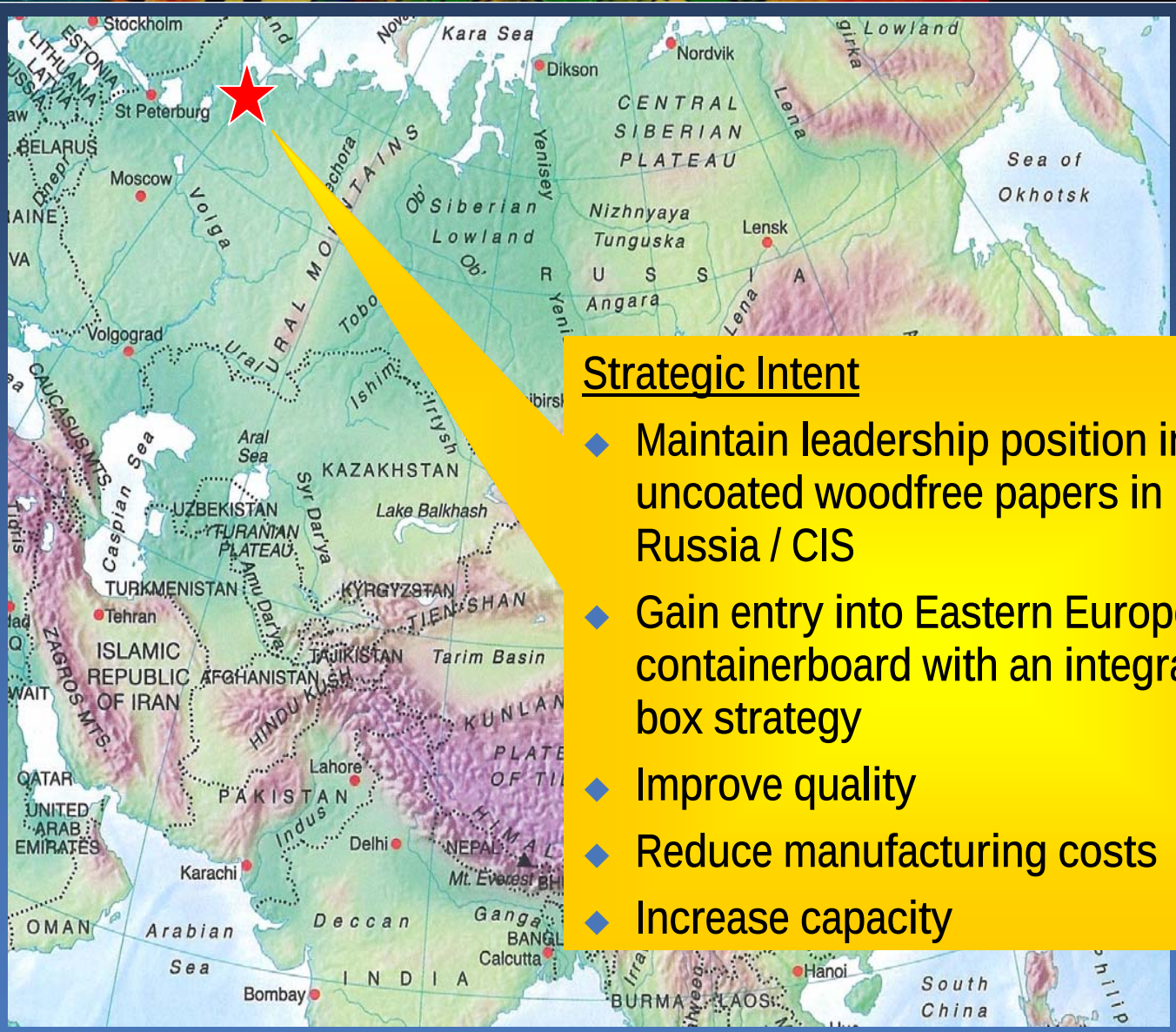


Strategic Intent

- Grow coated board and establish leadership position in Russia, CIS & Ukraine
- Increase capacity
- Improve quality
- Reduce manufacturing costs

Kotlas – Profile & Strategy

INTERNATIONAL PAPER



Strategic Intent

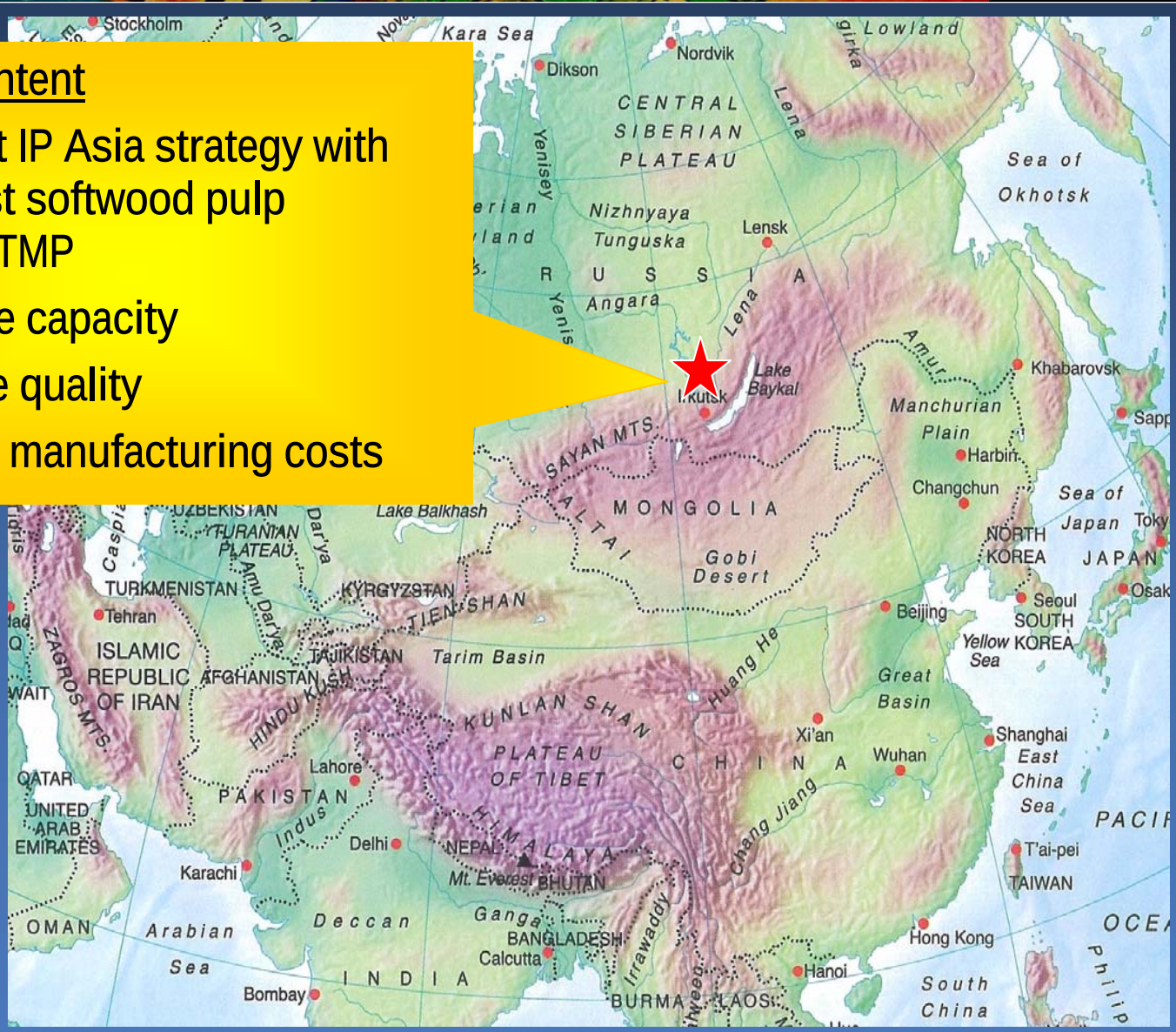
- Maintain leadership position in uncoated woodfree papers in Russia / CIS
- Gain entry into Eastern European containerboard with an integrated box strategy
- Improve quality
- Reduce manufacturing costs
- Increase capacity

Ust Ilimsk – Profile & Strategy

INTERNATIONAL PAPER

Strategic Intent

- Support IP Asia strategy with low-cost softwood pulp and BCTMP
- Increase capacity
- Improve quality
- Reduce manufacturing costs



Bratsk – Profile & Strategy

INTERNATIONAL PAPER

<u>Strategic Intent</u>

- Support IP Asia strategy with low-cost softwood pulp
- Increase capacity
- Improve quality
- Reduce manufacturing costs

