

INTERNATIONAL PAPER

Fourth Quarter 2006 Review

February 1, 2007

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Forward-Looking Statements

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 continue to successfully execute 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 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 thereunder; and (v) unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations and the uncertainty of the costs and other effects of potential 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.

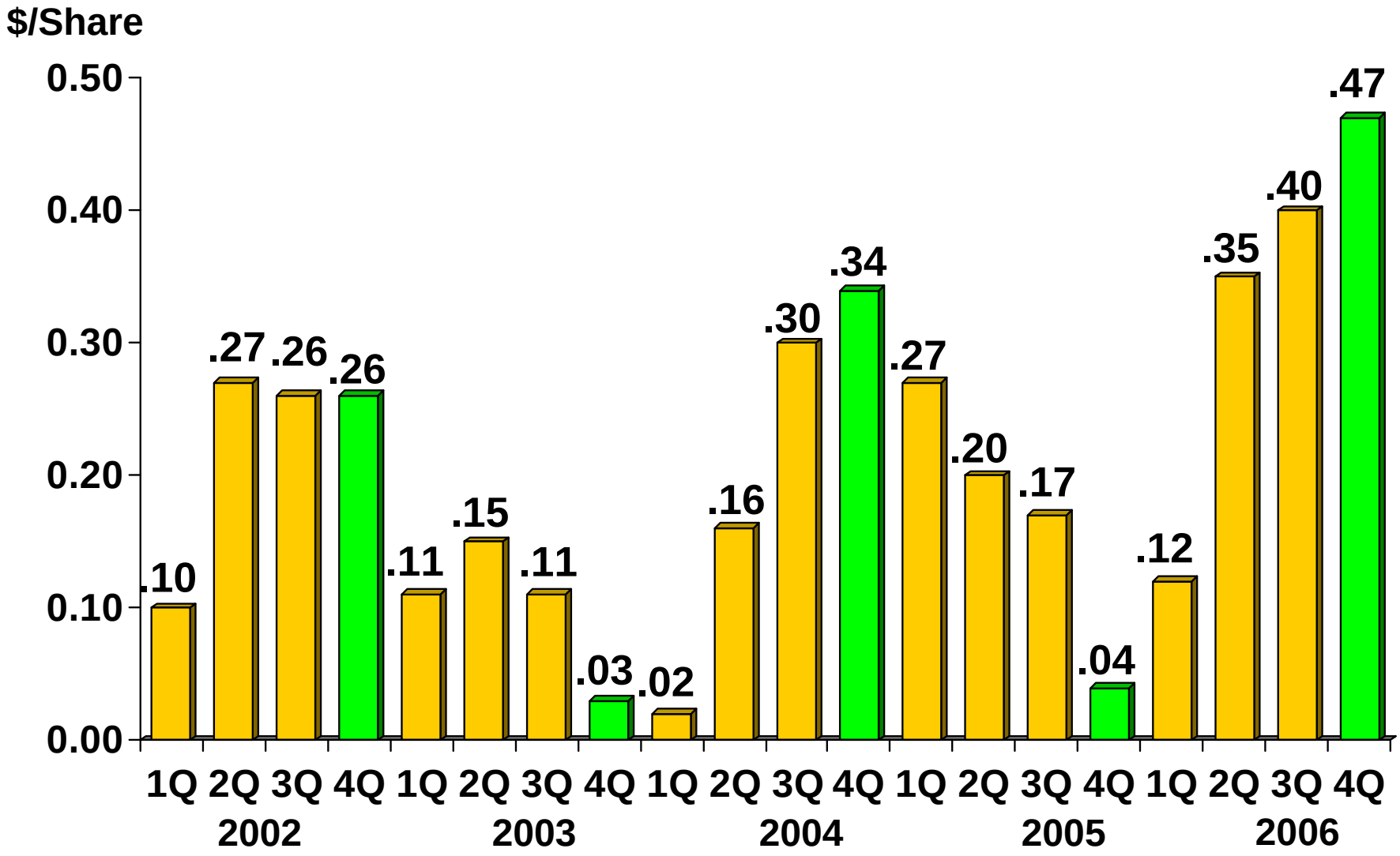
Agenda

- Fourth Quarter 2006 Review
- Transformation Plan Update
- First Quarter 2007 Outlook
- 2007 Priorities

Fourth Quarter 2006 Summary
Best Fourth Quarter Since 1999

- Volume
  - Seasonally slower in North America
  - Improved European and Brazilian volumes
- Pricing
  - Papers improve in North America, Europe, and Brazil
  - Packaging flat
- Manufacturing operations impacted by outages
- Higher Real Estate sales, but reduced harvest income
- Reduced corporate expense
- Lower net interest expense
- Reduced share count
- Beverage Packaging and Wood Products included in discontinued operations

Diluted EPS from Continuing Operations and Before Special Items

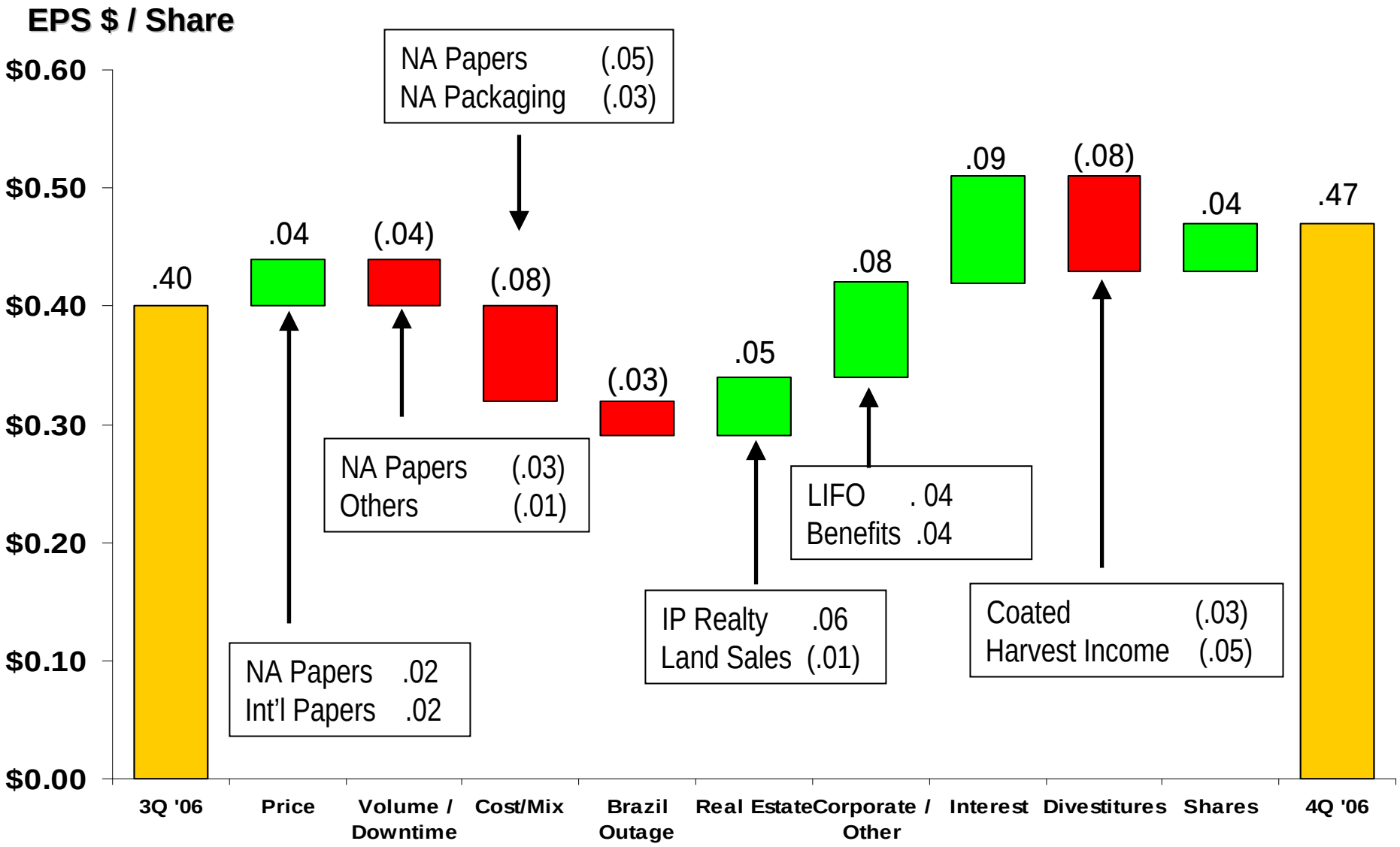


** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investors/Presentations*

4Q '06 vs. 3Q '06

EPS from cont. ops before special items

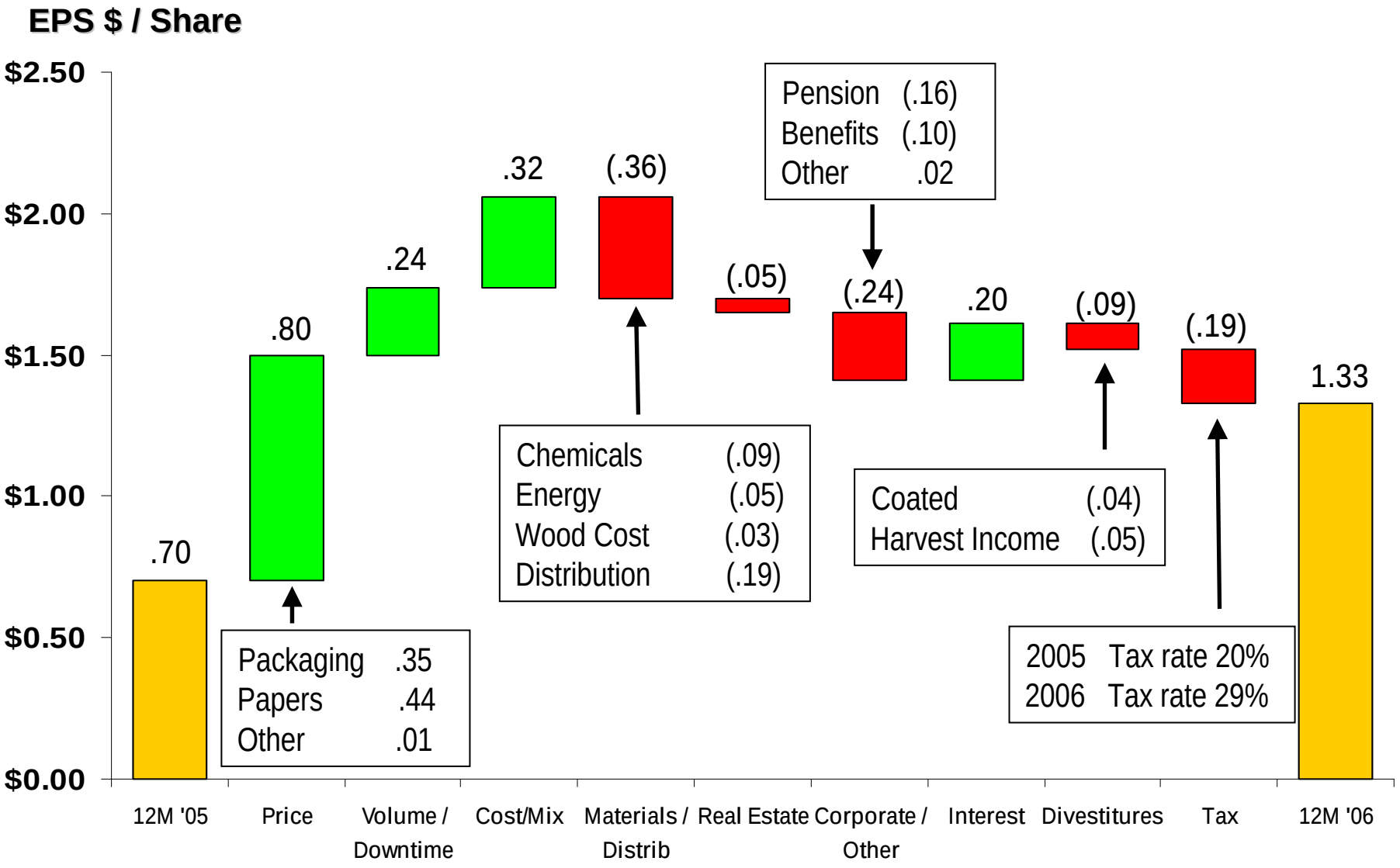
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12M '06 vs. 12M '05

EPS from cont. ops before special items

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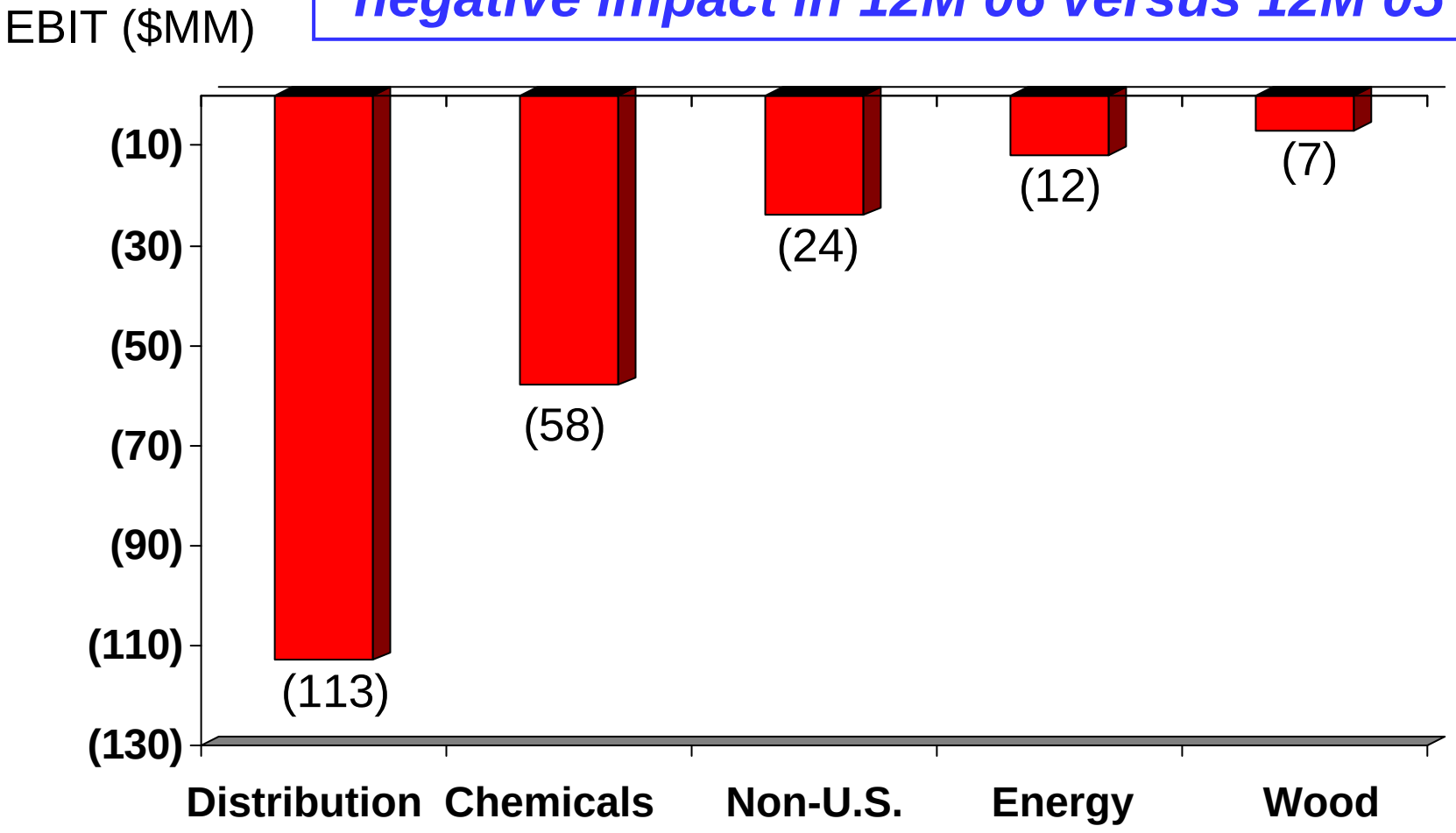


Raw Material & Distribution Costs

EBIT impact 12M'06 vs. 12M'05

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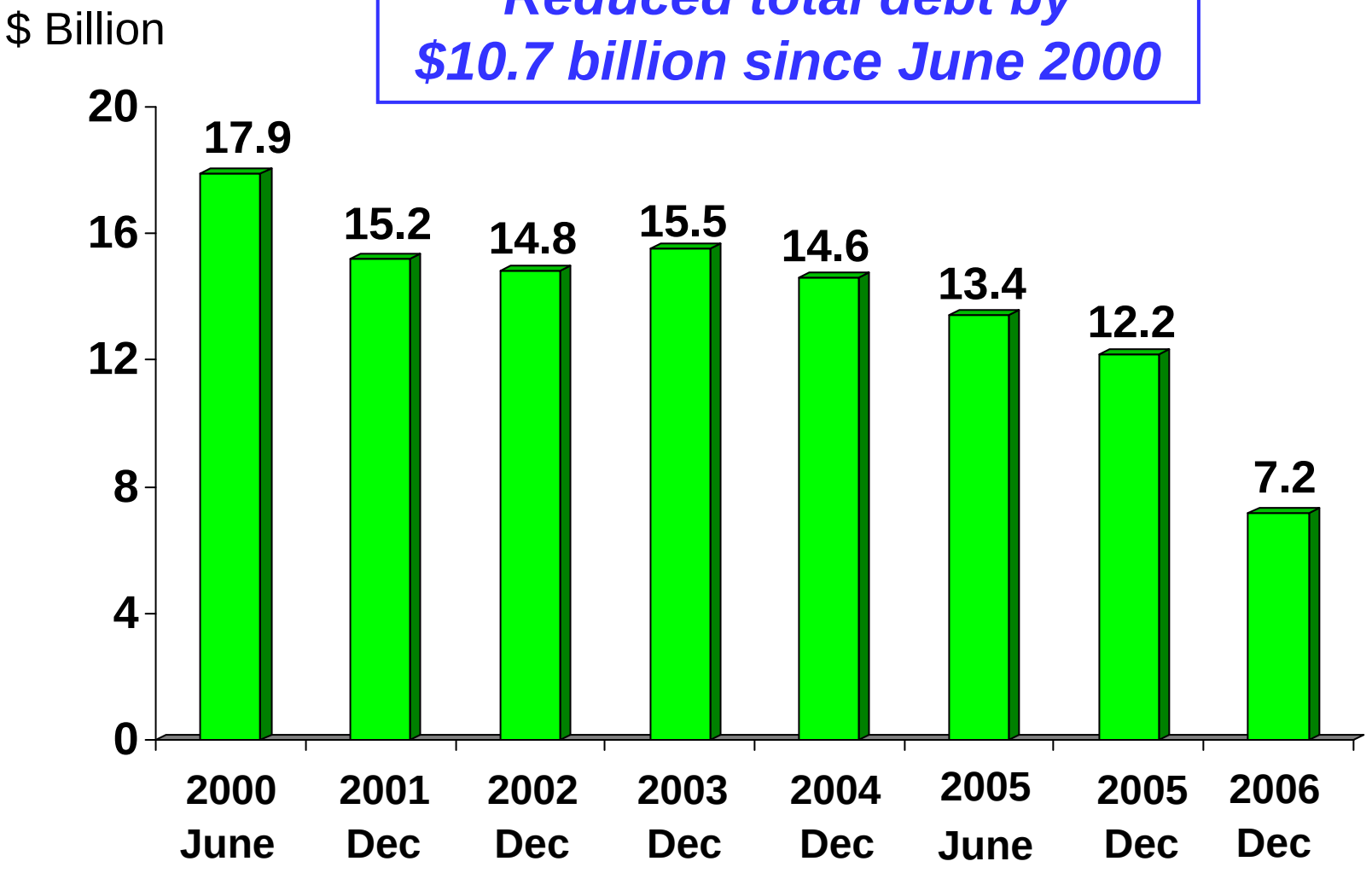
Total of $214 million or $0.36 per share negative impact in 12M'06 versus 12M'05



[1] All costs exclude coated papers and discontinued operations

Debt Reduction

Reduced total debt by $10.7 billion since June 2000



Except for December 2005 and January 2006, all periods include Carter Holt Harvey debt on IP's balance sheet

Printing Papers

$ Millions	*4Q'06*	*3Q'06*
Sales	$ 1,545	$ 1,670
Earnings	190*	249

4Q'06 Change vs 3Q'06:

	Volume	*Realizations/ton*
Uncoated	(5%)	$9
Pulp	(9%)	$21
Europe (uncoated)	8%	€16
Brazil (uncoated)	2%	R$20

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

* Excluding a $128MM special charge

Industrial Packaging

$ Millions	*4Q'06*	*3Q'06*
Sales	$ 1,265	$ 1,250
Earnings	122	125*

4Q'06 Change vs 3Q'06:

	Volume	*Realizations/ton*
Containerboard	(4%)	$7
U.S. Container	(1%)	($4)

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

* Excluding a $13MM special gain

Consumer Packaging

$ Millions	*4Q'06*	*3Q'06*
Sales	$ 665	$ 645
Earnings	28	48

4Q'06 Change vs 3Q'06:

	Volume	*Realizations/ton*
Coated Paperboard	(5%)	$8

	Sales Revenue
Converting Businesses	(4%)

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

Distribution

$ Millions	*4Q'06*	*3Q'06*
Sales	$ 1,715	$ 1,730
Earnings	31	34

- Record fourth quarter EBIT; up 20% compared to 2005
- Record Year

Forest Resources

$ Millions	*4Q'06*	*3Q'06*
Sales	$ 190	$ 135
Earnings	162	166

Special Items & Discontinued Operations – 4Q'06

Special Items (net of tax & minority interest)	$MM	$/Share
• Forestland Sale Gains	$2,740	
• Goodwill Impairments	(759)	
• Saillat Mill Asset Impairment	(84)	
• Restructuring / Corporate	(69)	
• Tax Adjustment	(4)	
• Other	7	
Total Special Items	$1,831	$4.06
Discontinued Operations (net of tax)		
• Beverage Packaging	$(3)	
• Wood Products	(94)	
• Weldwood Tariff Refund	22	
• Other Items	4	
Total Discontinued Operations	$(71)	$(0.16)

Reconciliation to 4Q'06 Diluted Earnings Per Share

	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$0.47
Special Items	4.06
Earnings from Continuing Operations	4.53
Discontinued Operations	(0.16)
Net Earnings	$4.37

Special Items & Discontinued Operations - 2006

Special Items (net of tax & minority interest)	$MM	$/Share
• Forestlands Sale Gains	$2,964	
• Coated Papers Sale	(1,302)	
• Other Divestitures	78	
• Goodwill Impairments	(759)	
• Asset Impairments	(121)	
• Restructuring / Corporate	(185)	
• Other	(28)	
Total Special Items	$647	$1.32
Discontinued Operations (net of tax)		
• Beverage Packaging	$(54)	
• Wood Products	(244)	
• Kraft Papers	(46)	
• Brazil Coated Papers	90	
• Other	22	
Total Discontinued Operations	$(232)	$(0.47)

Reconciliation to 2006 Diluted Earnings Per Share

	Diluted EPS
Earnings from Continuing Operations and Before Special Items	$1.33
Special Items	1.32
Earnings from Continuing Operations	2.65
Discontinued Operations	(0.47)
Net Earnings	$2.18

2006 Summary

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Solid Foundation for Continued Improvement

- Best year since 2000
- Strong price realizations
- EBIT margin improved by 160 basis points
- Continued improvement in our manufacturing operations
- Good cost control
- Our supply/demand in balance
- Significant progress in transforming International Paper

Transformation Plan Update

Fourth Quarter 2006

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Announced Divestitures Proceeds Totaling $11.3 Billion

Divestitures	$9.7 Billion Received
Improve Existing Businesses	$.330 Billion 12M06
Return Value to Shareholders	$1.4 Billion
Strengthen Balance Sheet	$6.2 B Debt Reduction $1.0 B Pension Contribution
Selective Reinvestment	$2.0 B Announced Average Returns ~ 12%

First Quarter 2007 Outlook

- Volume - seasonally stronger
- Prices
  - Implementing IP's previously announced containerboard and coated board price increases
  - Implementing IP's previously announced European and Brazilian paper price increases
- Continued progress in improving operations with fewer mill outages
- Input costs mixed and slightly higher
- Lower real estate sales
- First full quarter of IP/Sun Coated Paperboard JV
- Addition of Luiz Antonio operations in Brazil

2007 Priorities

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Building on a Solid 2006

- Improve Existing Businesses → $400 MM Target
- Deliver on earnings from Selective Reinvestments → $165 MM
  - Luiz Antonio
  - IP/Sun JV
- Return Value to Shareholders → Up to $1.6 B

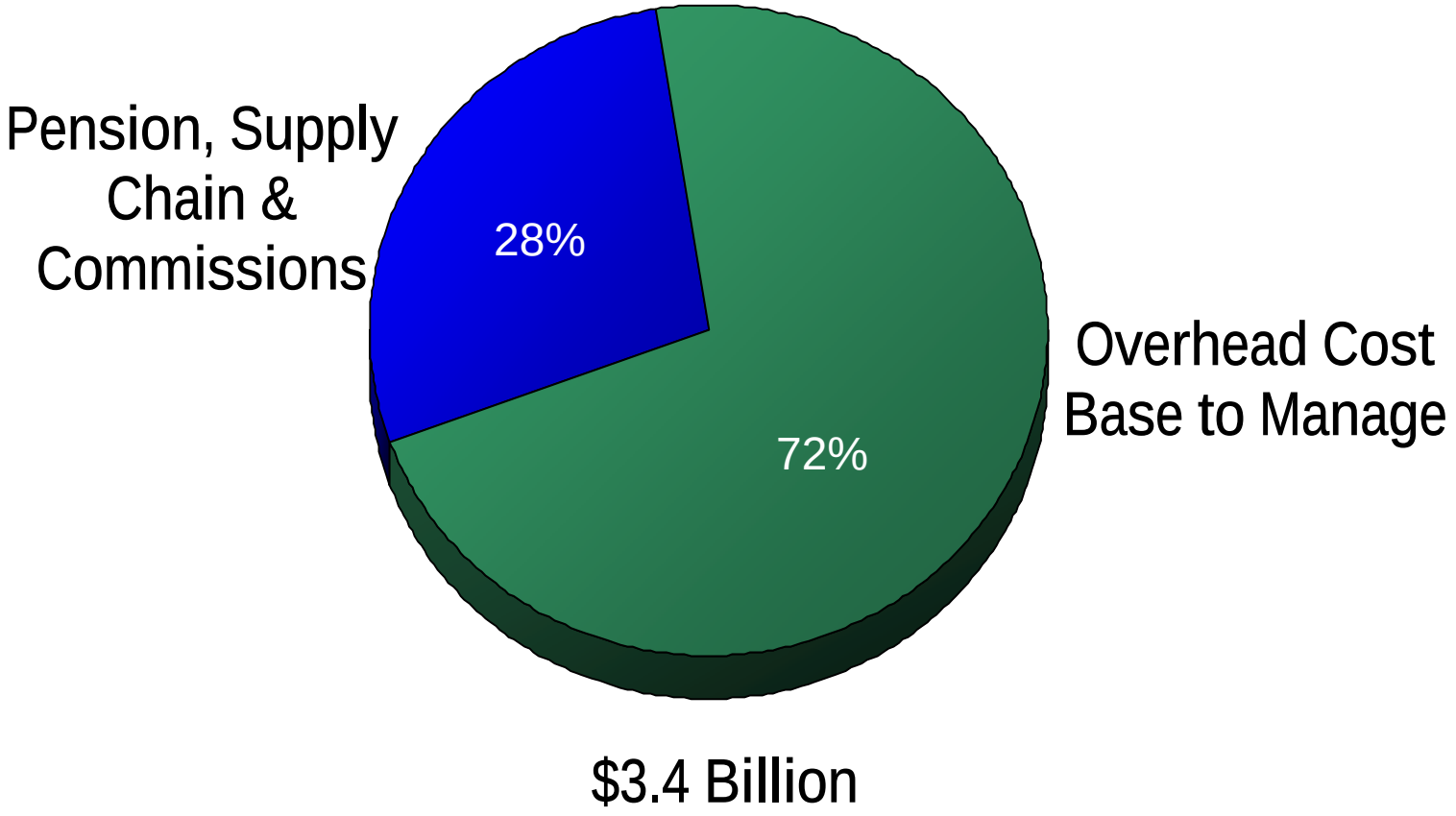
Q & A

Appendix

2006 Total Overhead Cost

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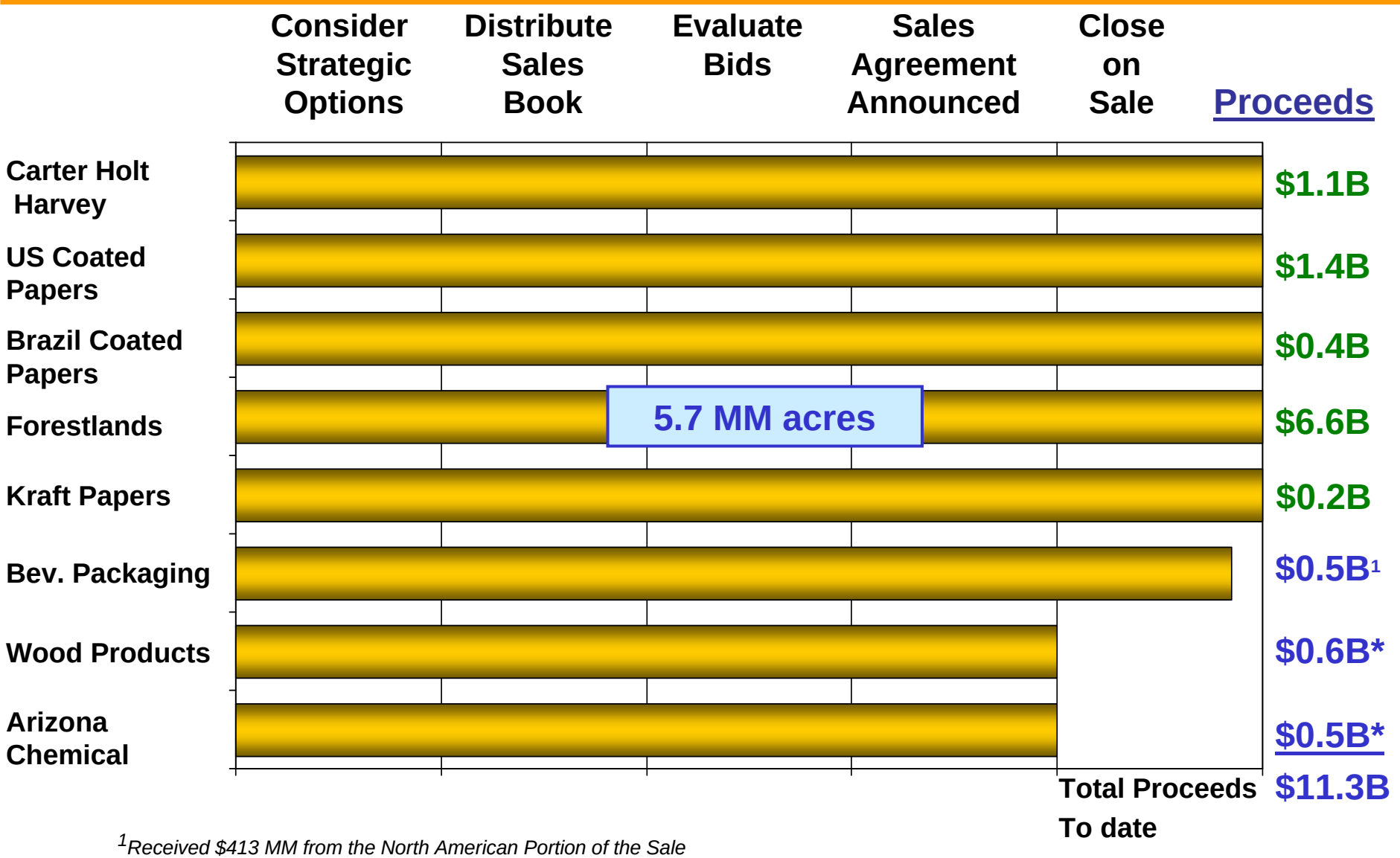
$100 Million or 4% Improvement Year-over-Year



Transformation Plan Update

Divestments status as of February 1, 2007

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[1]*Received $413 MM from the North American Portion of the Sale*

**Expected to close first half of 2007*

Transformation Plan Update

2006 Results for Businesses Sold or Sale Announced

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Business	Reporting Segment	Sales (MM)	Operating Profit (MM)
US & Brazil Coated Paper	Printing Papers	1,050	95
Beverage Pkg	Consumer Packaging	845	50
Kraft Papers	Discontinued Operations	235	40
Arizona Chemical	Other Businesses	770	60
Forest Harvests/ Recreation Income	Forest Products	220	125
Wood Products	Forest Products	1,340	(20)
Total		4,460	350

Operating profit represents 12M'06 YTD, except for US and Brazil coated papers which are July and August YTD respectively

Key Financial Statistics

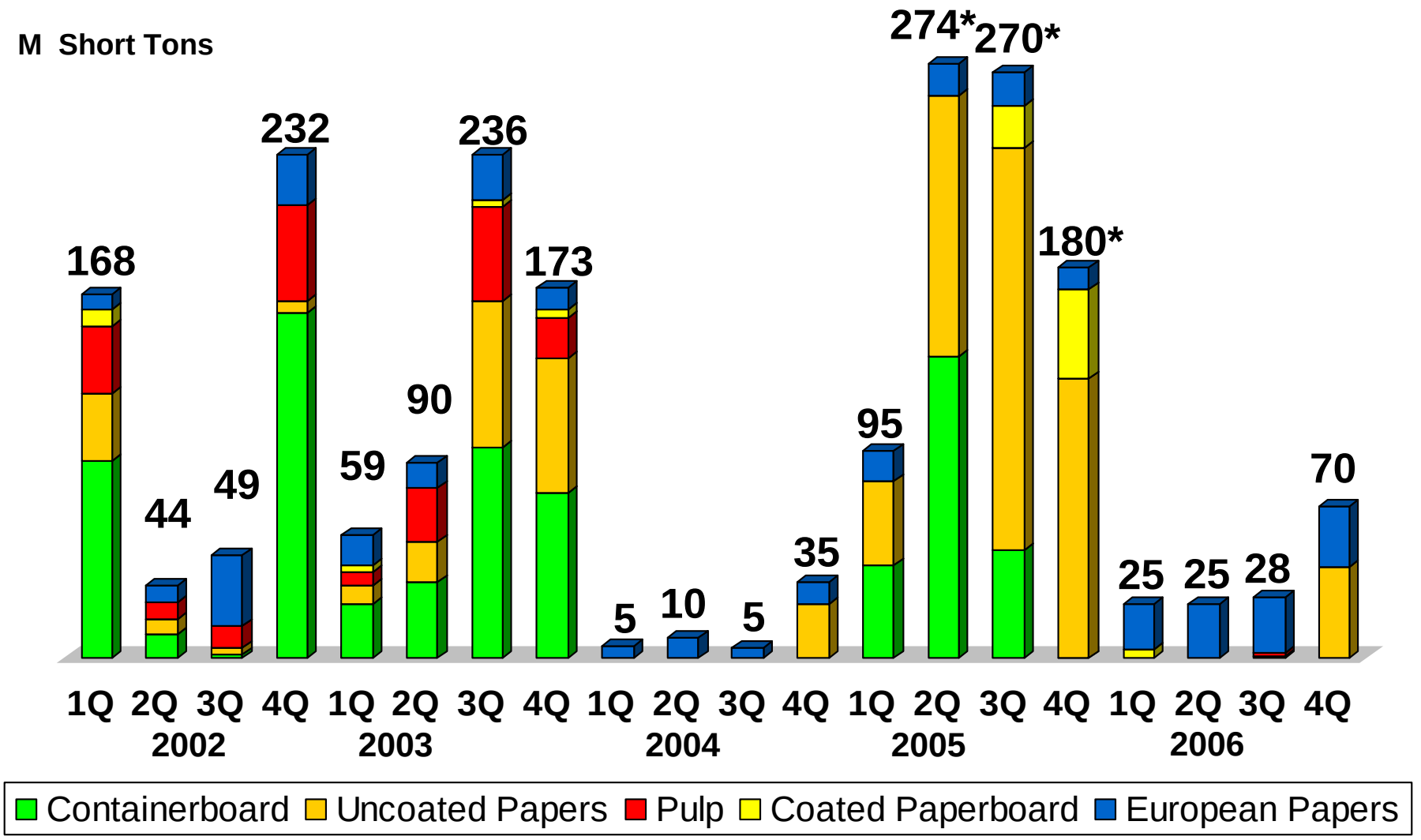
Updated as of February 1, 2007

	2005[1]	2006[1]	2007 Est.
Capital Spending	$1.1 B	$1.1 B	$1.1-1.2 B
Depreciation & Amort.	$1.2 B	$1.1 B	$1.1 -1.2 B
Net Interest Expense	$595 MM	$521 MM	$350-380 MM
Supply Chain Expense	$135 MM	$156 MM	$215 MM
Corporate Items	$607 MM	$ 746 MM	$675 – 750 MM
Effective Tax Rate[2]	20%	29%	30-32%

[1] Excludes discontinued operations result and Coated Papers

[2] 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.

Q1’07 Maintenance Outages

	Maintenance Outage (tons)	Q1’07 Period Impact vs. Full-Year 2007 Amortization $(MM)
Printing Papers	27,000	11
Industrial Packaging	74,000	(19)
Consumer Packaging	0	10
Total Impact	101,000	2

Maintenance outages and dollar impacts are estimated and are subject to change.

Earnings by Industry Segment

Before special items

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$ Millions

Earnings by Industry Segment	4Q'06	3Q'06	4Q'05	2006	2005
Printing Papers	$190	$249	$64	805	$499
Industrial Packaging	122	125	5	386	223
Consumer Packaging	28	48	29	131	122
Distribution	31	34	25	128	84
Forest Products	162	166	224	678	732
Other Businesses	13	22	(6)	61	17
Operating Profit	**546**	**644**	**341**	**2,189**	**1,677**
Interest Expense	(86)	(144)	(152)	(527)	(649)
Minority Interest	3	-	3	8	-
Corporate Items, net	(166)	(221)	(173)	(746)	(607)
Earnings from continuing operations before income taxes, minority interest & special items	$297	$279	$19	$924	$421

**Industry segment information has been reclassified to conform with minor changes in 2006 organizational structure as well as to reflect Kraft Paper, the Brazil Coated Papers business, Wood Products and Beverage Packaging 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	86	(22)	(5)	59	26%	486.3	0.12
Q2	262	(89)	(4)	169	34%	487.2	0.35
Q3	279	(78)	(5)	196	28%	484.9	0.40
Q4	297	(83)	(3)	211	28%	451.2	0.47
Full Year Total	924	(272)	(17)	635	29%	488.7	1.33
Special Items							
Q1	(1,308)	38	-	(1,270)	3%	486.3	(2.61)
Q2	(128)	45	-	(83)	35%	487.2	(0.17)
Q3	286	(117)	-	169	41%	484.9	0.35
Q4	3,414	(1,583)	-	1,831	46%	451.2	4.06
Full Year Total	2,264	(1,617)	-	647	71%	488.7	1.32
Earnings from Continuing Operations							
Q1	(1,222)	16	(5)	(1,211)	1%	486.3	(2.49)
Q2	134	(44)	(4)	86	33%	487.2	0.18
Q3	565	(195)	(5)	365	35%	484.9	0.75
Q4	3,711	(1,666)	(3)	2,042	45%	451.2	4.53
Full Year Total	3,188	(1,889)	(17)	1,282	59%	488.7	2.65

MI – Minority Interest; Net – Net Income; ETR – Effective Tax Rate; EPS – Earnings per Share

[1] *A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investor Information and the presentation tab*

[2] *Assuming dilution*

2005 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	151	(18)	(2)	131	12%	488.9	0.27
Q2	133	(32)	(2)	99	24%	487.4	0.20
Q3	118	(34)	(3)	81	29%	507.1	0.17
Q4	19	1	(2)	18	(5%)	486.0	0.04
Full Year Total	421	(83)	(9)	329	20%	507.0	0.70
Special Items							
Q1	(103)	36	-	(67)	35%	488.9	(0.14)
Q2	37	(96)	-	(59)	259%	487.4	(0.12)
Q3	162	443	-	605	(273%)	507.1	1.19
Q4	(231)	107	-	(124)	46%	486.0	(0.26)
Full Year Total	(135)	490	-	355	363	507.0	0.70
Earnings from Continuing Operations							
Q1	48	18	(2)	64	(38%)	488.9	0.13
Q2	170	(128)	(2)	40	75%	487.4	0.08
Q3	280	409	(3)	686	(146%)	507.1	1.36
Q4	(212)	108	(2)	(106)	51%	486.0	(0.22)
Full Year Total	286	407	(9)	684	(142%)	507.0	1.40

MI – Minority Interest; Net – Net Income; ETR – Effective Tax Rate; EPS – Earnings per Share

[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***	**Dec 06**	**Dec 05**	**4Q'06**	**3Q'06**	**4Q'05**	**2006**	**2005**	**2004**
Printing Papers	Uncoated	889	791	897	887	793	862	799	695
$/ton	Pulp	564	474	566	546	481	533	489	458
Packaging	Containerboard	512	425	509	502	402	483	426	419
$/ton	Corrugated boxes	790	688	787	790	688	763	713	685

*** U.S. only.**

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

Forest Resources

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$ Millions

	4Q'06	3Q'06	4Q'05
▸ Earnings Sources – Gross Margin			
• Sales of Forestlands	$118	$125	$139
• Harvest & Recreational Income	26	63	75
▸ Forestland Expenses	(27)	(27)	(30)
▸ Land Utilization (real estate), Net of Expenses	45	5	40
Total EBIT	$162	$166	$224

Forest Resources

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$ Millions

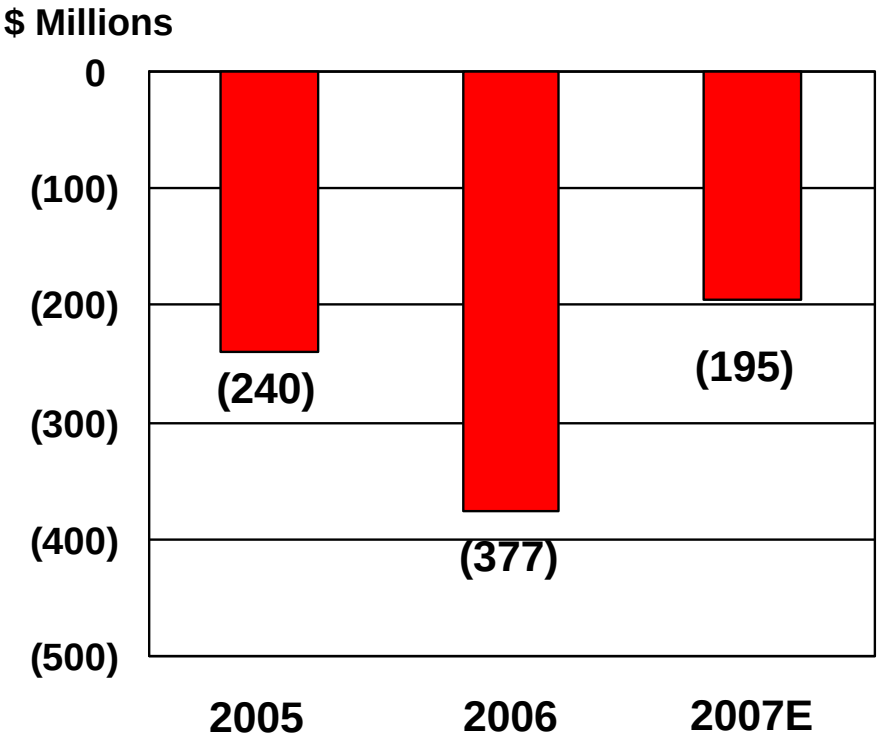
	2006	2005	2004
▸ Earnings Sources – Gross Margin			
• Sales of Forestlands	$447	$400	$315
• Harvest & Recreational Income	222	269	281
▸ Forestland Expenses	(114)	(146)	(178)
▸ Land Utilization (real estate), Net of Expenses	124	198	124
Total EBIT	$679	$721	$542

Pension Returns

- **Average annualized returns**
  - 2006 14.9%
  - Past 5 years 11.5%
  - Past 10 years 10.0%
  - **Portfolio asset allocation** (at 12/31/06)
  - 62% Equity
  - 29% Debt
  - 9% Real estate & other

Pension Expense

*Annual Pension Expense**



Key Variables

	2005	2006	2007E
Rate of Return (%)	8.50	8.50	8.50
Discount Rate (%)	5.75	5.50	5.75

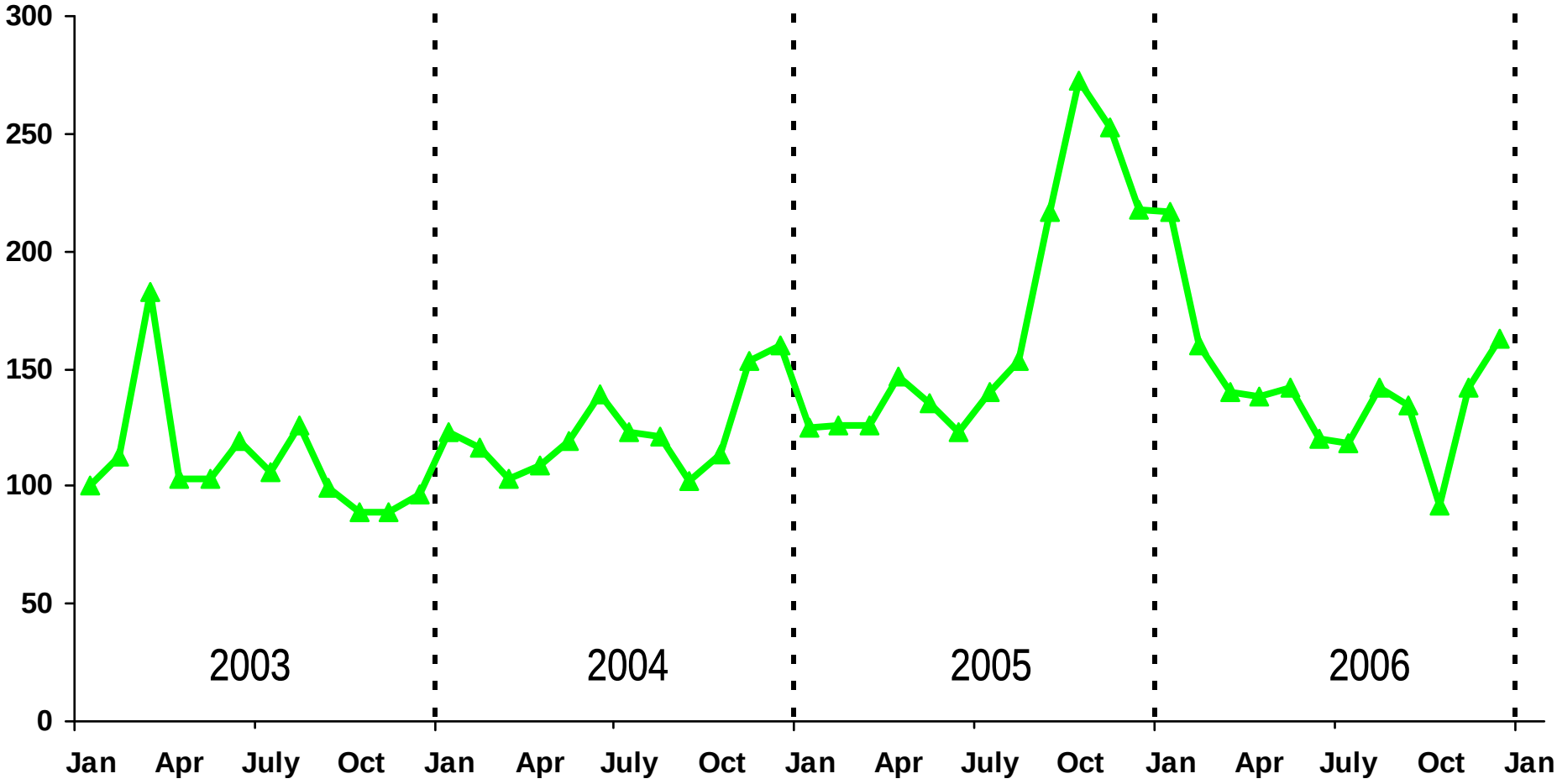
*U.S. plans only. Pension expense reflects service cost, interest cost, amortization of actuarial losses and expected return on plan assets

Natural Gas Costs

Trended higher in 4Q'06

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Index: Jan 2003 Natural Gas Costs = 100



* NYMEX Natural Gas closing prices

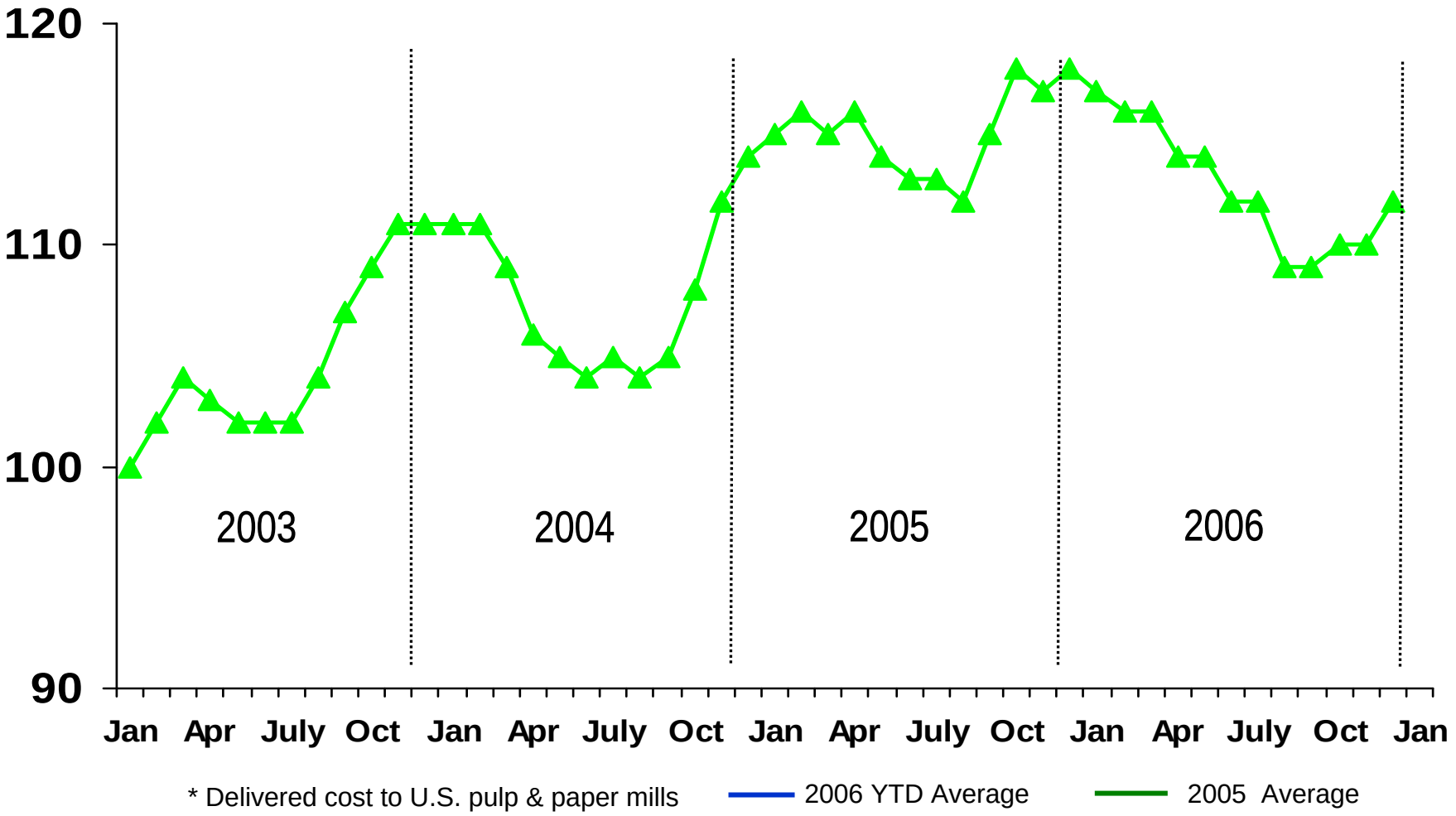
2006 YTD Average

2005 Average

U.S. Mill Wood Costs

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Index: Jan 2003 Wood Costs = 100

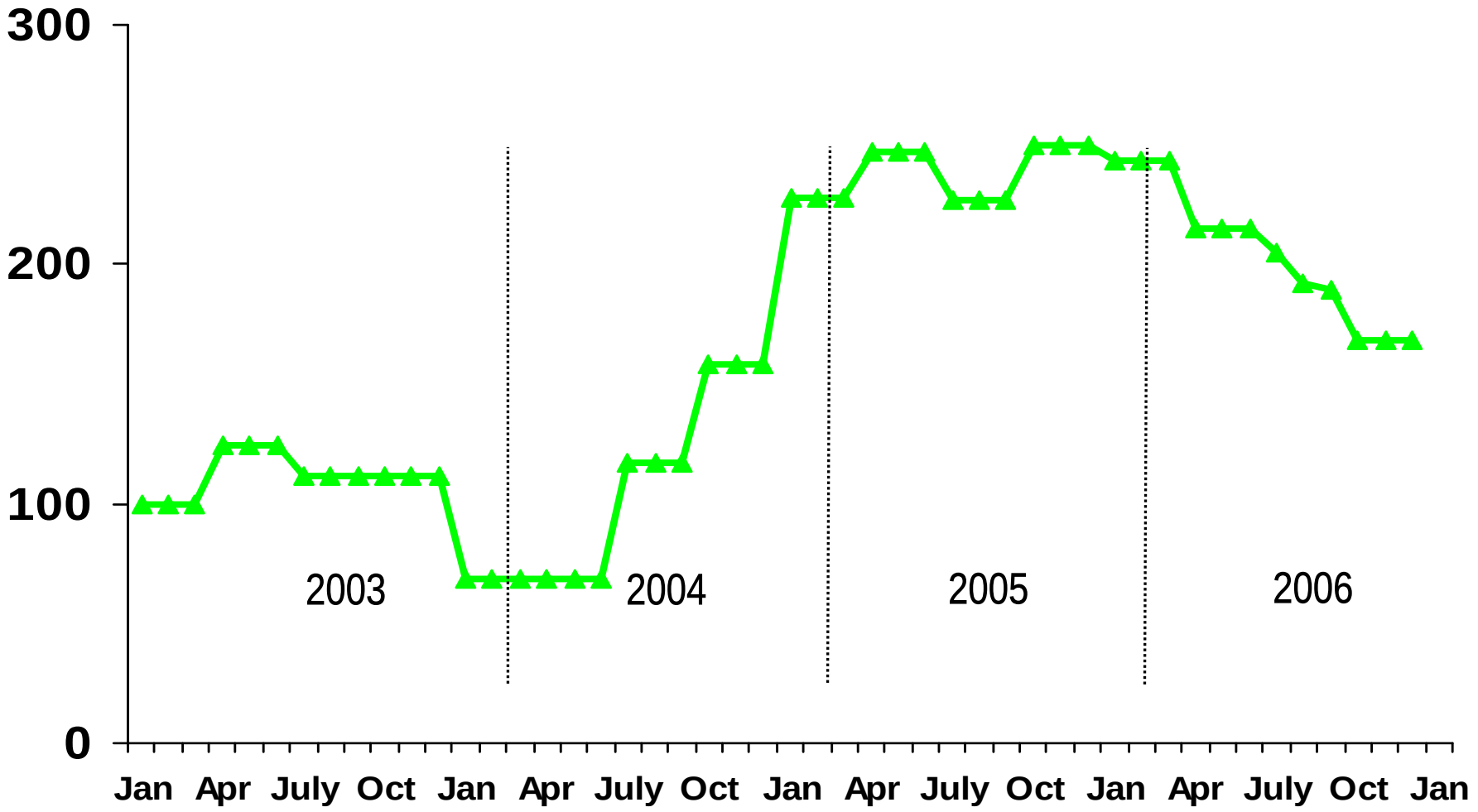


Caustic Soda Costs

Trended lower in 4Q'06

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Index: Jan 2003 Caustic Soda Costs = 100



Global Consumption

Key input indicative annual purchase levels[1]

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Energy	***Units***	***U.S.[2]***	***Non- U.S.***
Natural Gas	MMbtu	28,000,000	14,000,000
# 6 Fuel Oil	BBL	4,100,000	400,000
Coal	Tons	1,300,000	230,000
Fiber			
Wood	Tons	40,000,000	8,200,000
OCC[3]	Tons	600,000	313,000
Chemicals			
Caustic Soda	Tons	340,000	55,000
Sodium Chlorate	Tons	215,000	49,000
LD Polyethylene	Tons	40,000	-
Latex	Tons	24,000	4,000

[1] 2006 Run Rate estimates [2] Excludes discontinued operations, Arizona Chemical and US Coated Paper business


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