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# *First Quarter 2007 Review*

***May 3, 2007***


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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 and China, 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 ability to realize anticipated profit improvement from the transformation plan and the ability to invest proceeds with attractive financial returns and (iv) 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

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**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.**

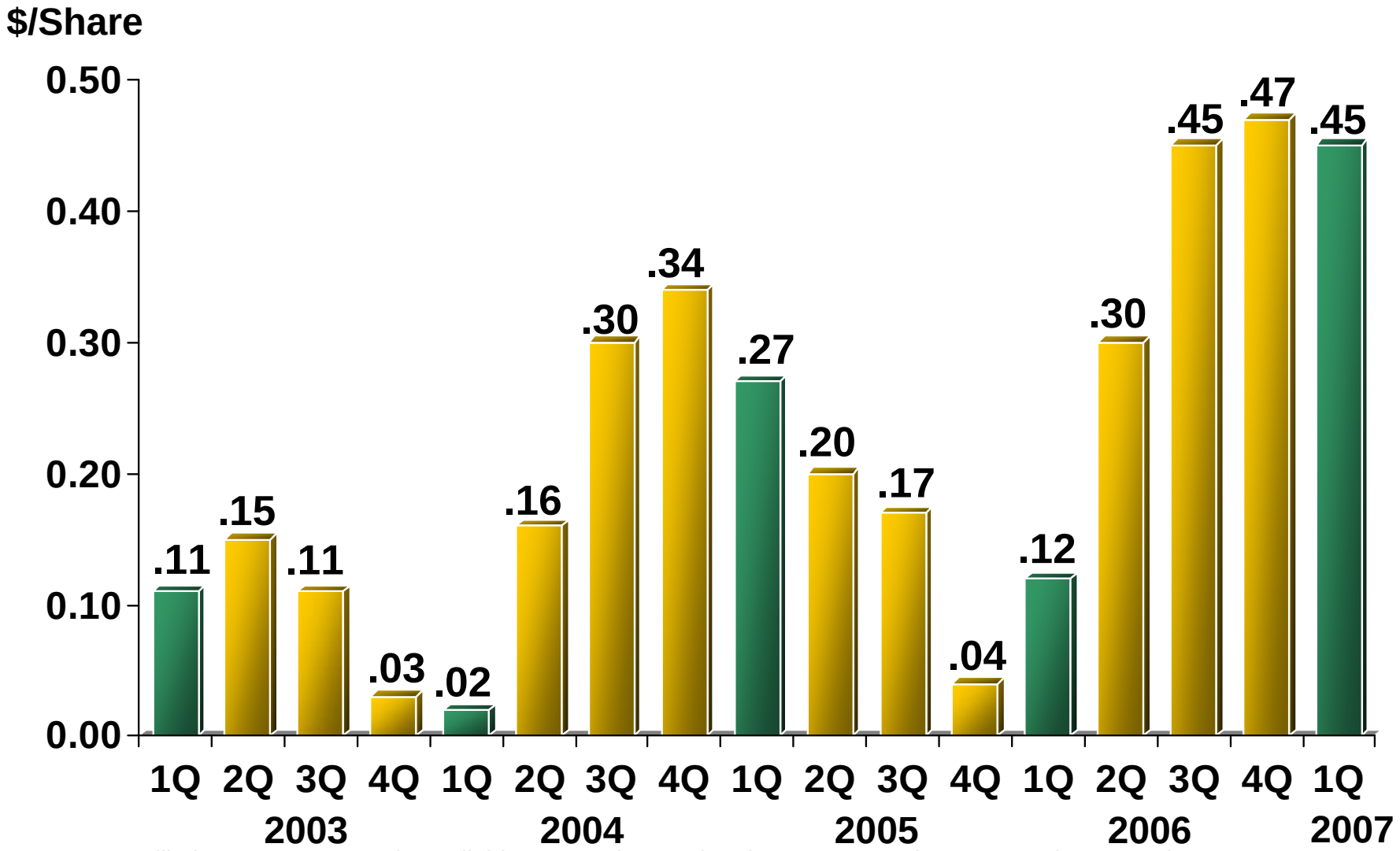
# Agenda

- First Quarter 2007 Review
- Second Quarter 2007 Outlook
- 2007 Priorities

# First Quarter 2007 Summary

- Best first quarter since year 2000
- Pricing momentum maintained
- Volumes flat
- Manufacturing operations performed well
- Higher raw material and distribution costs
- Lower land sales and higher tax rate
- Lower interest expense and share count
- Earnings from selective reinvestment

# Diluted EPS from Continuing Operations and Before Special Items



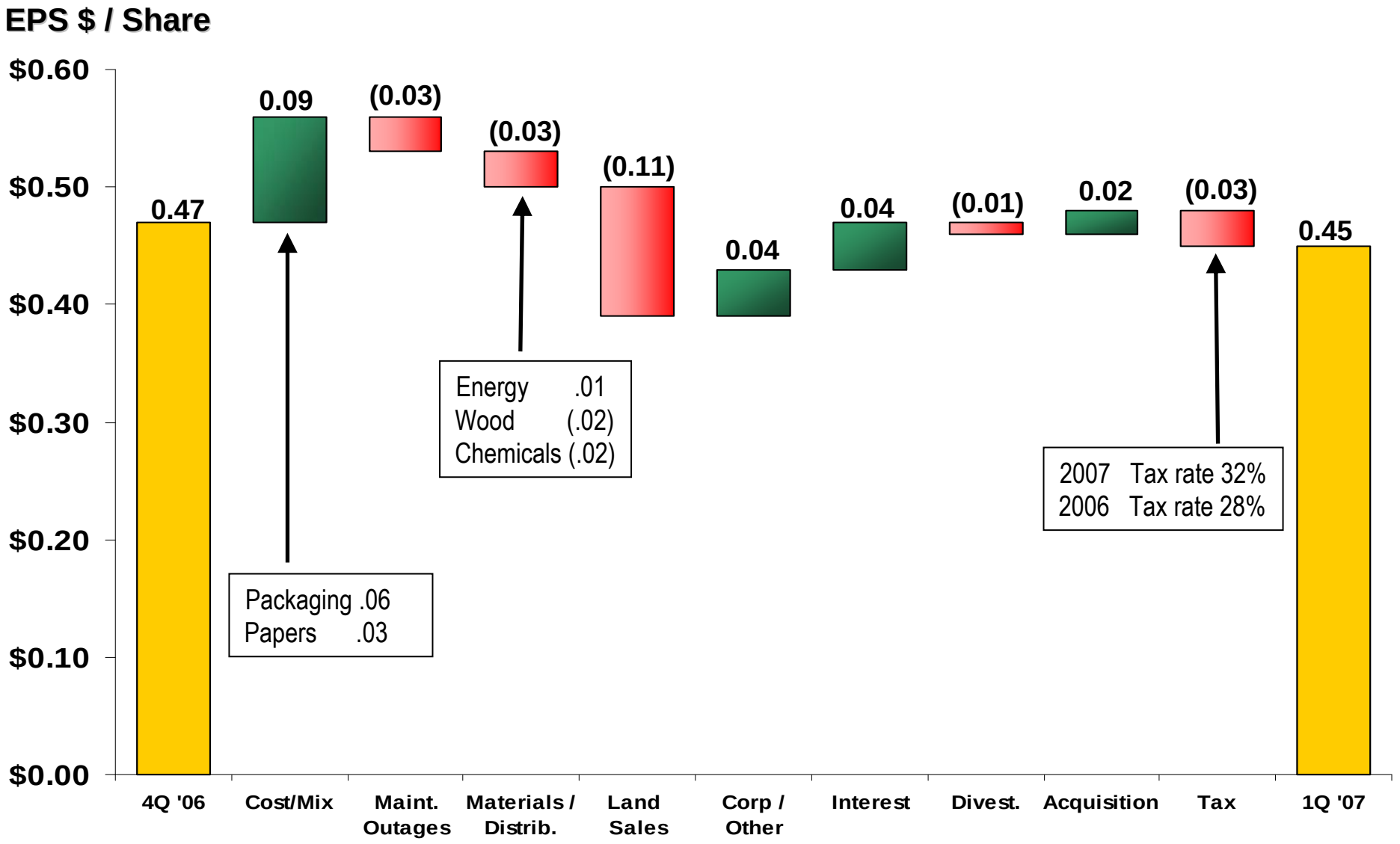

** A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investors/Presentations*

** 2006 EPS restated to reflect new accounting guidelines for planned maintenance outages*

# 1Q '07 vs. 4Q '06

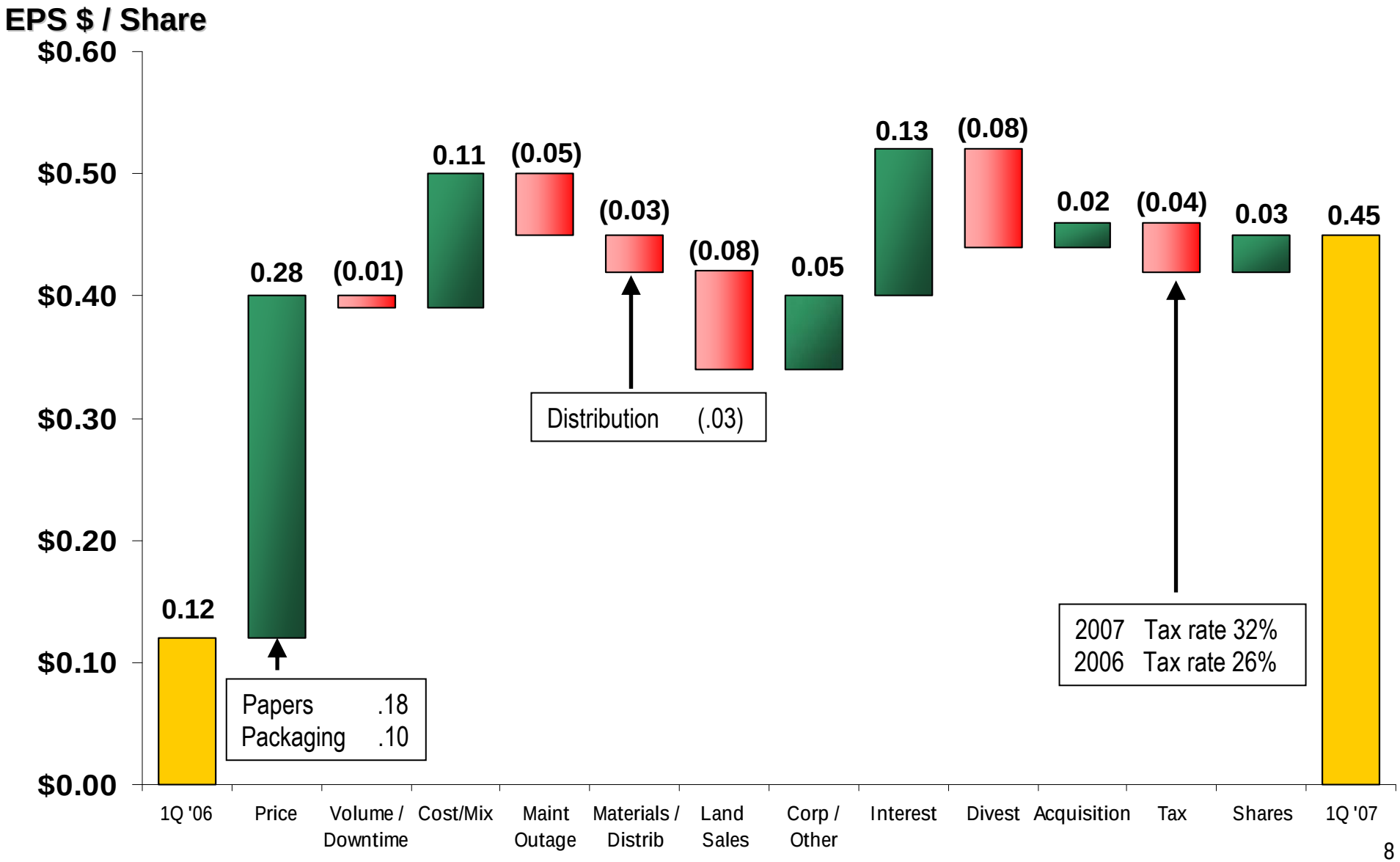
## EPS from cont. ops before special items

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# 1Q '07 vs. 1Q '06
## EPS from cont. ops before special items

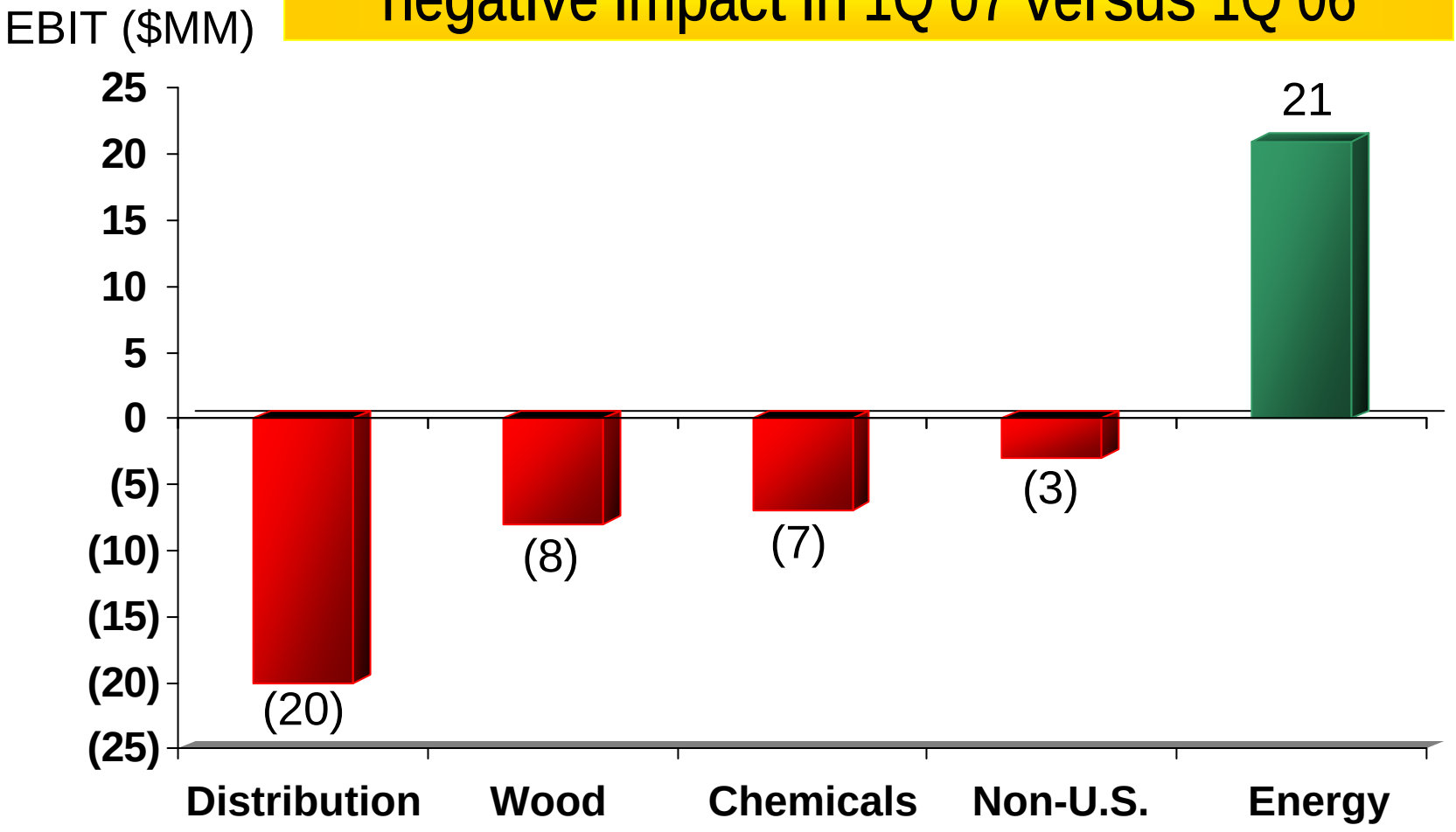
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# Raw Material & Distribution Costs
# EBIT impact 1Q'07 vs. 1Q'06

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**Total of $17 million or $0.03 per share negative impact in 1Q'07 versus 1Q'06**




All costs exclude coated papers and discontinued operations

# Printing Papers

| *$ Millions* | *1Q'07* | *4Q'06* |
|---|---|---|
| Sales | $ 1,540 | $ 1,475 |
| Earnings | 231 | 191* |

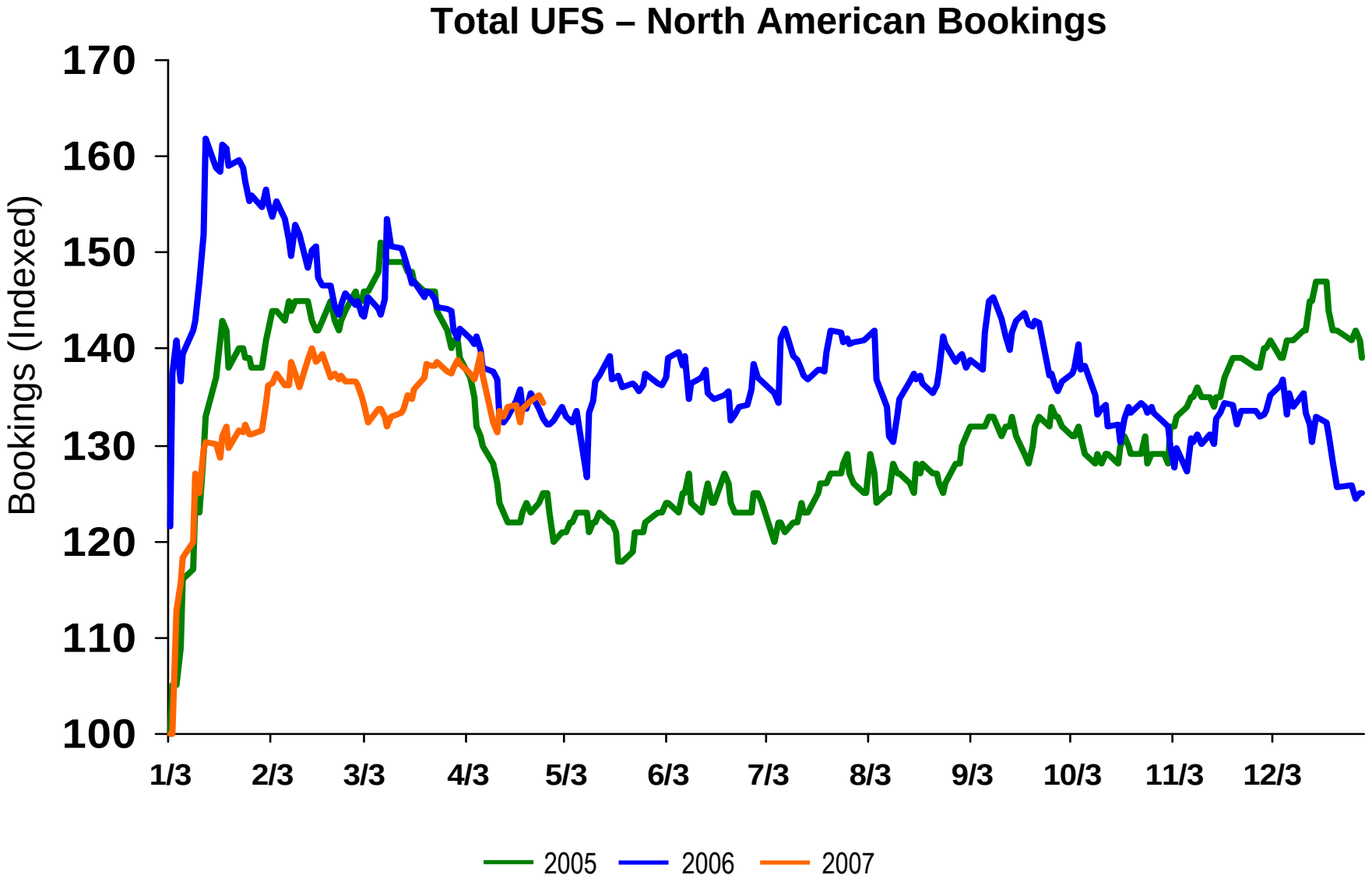
**1Q'07 Change vs 4Q'06:**

| | *Volume* | *Realizations/ton* |
|---|---|---|
| Uncoated | 3% | ($10) |
| Pulp | 23% | $11 |
| Europe (uncoated) | (3%) | €29 |
| Brazil (cutsize) | 10% | $9 |

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

* Excluding a $128MM special charge

# IP UFS Backlogs



# Industrial Packaging

| *$ Millions* | *1Q'07* | *4Q'06* |
|---|---|---|
| Sales | $ 1,235 | $ 1,265 |
| Earnings | 103 | 130 |

***1Q'07 Change vs 4Q'06:***

| | *Volume* | *Realizations/ton* |
|---|---|---|
| Containerboard | (9%) | $3 |
| U.S. Container | (2%) | $12 |

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

# Consumer Packaging

| *$ Millions* | *1Q'07* | *4Q'06* |
|---|---|---|
| Sales | $ 750 | $ 735 |
| Earnings | 61 | 27 |

***1Q'07 Change vs 4Q'06:***

| | *Volume* | *Realizations/ton* |
|---|---|---|
| Coated Paperboard | 3% | $3 |

| | *Sales Revenue* |
|---|---|
| Converting Businesses | (7%) |

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

# Distribution

| *$ Millions* | *1Q'07* | *4Q'06* |
|---|---|---|
| Sales | $ 1,675 | $ 1,715 |
| Earnings | 29 | 31 |

- Record first quarter EBIT; up 6% compared to 2006

# Forest Resources

| *$ Millions* | *1Q'07* | *4Q'06* |
|---|---|---|
| Sales | $ 85 | $ 190 |
| Earnings | 100 | 162 |

# Special Items & Discontinued Operations – 1Q'07

| | $MM | $/Share |
|---|---|---|
| Special Items (net of tax & minority interest) | | |
| – Brazil Asset Exchange | $164 | |
| – Divestitures | 100 | |
| – Restructuring / Corporate | (10) | |
| Total Special Items | $254 | $0.57 |
| Discontinued Operations (net of tax) | | |
| – Beverage Packaging | $(29) | |
| – Wood Products | (4) | |
| – Kraft | 4 | |
| – Weldwood Tariff Refund | 6 | |
| Total Discontinued Operations | $(23) | $(0.05) |

# Reconciliation to 1Q'07 Diluted Earnings Per Share

| | Diluted EPS |
|---|---|
| Earnings from Continuing Operations and Before Special Items | $0.45 |
| Special Items | 0.57 |
| Earnings from Continuing Operations | 1.02 |
| Discontinued Operations | (0.05) |
| Net Earnings | $0.97 |

# Highlights
# First Quarter 2007

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- Operating margins up nearly 300 basis points compared to first quarter 2006
- Record first quarter profit for Europe and xpedx
- Riegelwood mill improvement on track
- Brazil Asset Swap completed
- Divestitures completed
- Strength of global footprint

# Second Quarter 2007 Outlook

- Volume - seasonally stronger in addition to a full quarter of Luiz Antonio
- Prices - Implementing IP's previously announced
  - North American, European and Brazilian paper price increases
  - Global containerboard and box price increases
- Continued progress in improving operations
- Input costs remain high
- Maintenance outage expense slightly higher than first quarter 2007
- Forest Resources earnings slightly down from first quarter 2007

# 2007 Priorities

## Building on a Solid First Quarter 2007

- Improve Existing Businesses → G
- Deliver on earnings from Selective Reinvestments → G
  - Luiz Antonio
  - IP/Sun JV
- Return Value to Shareholders → G
  - Dutch Tender $1.4 Billion
  - Open market $817 Million




# Q & A

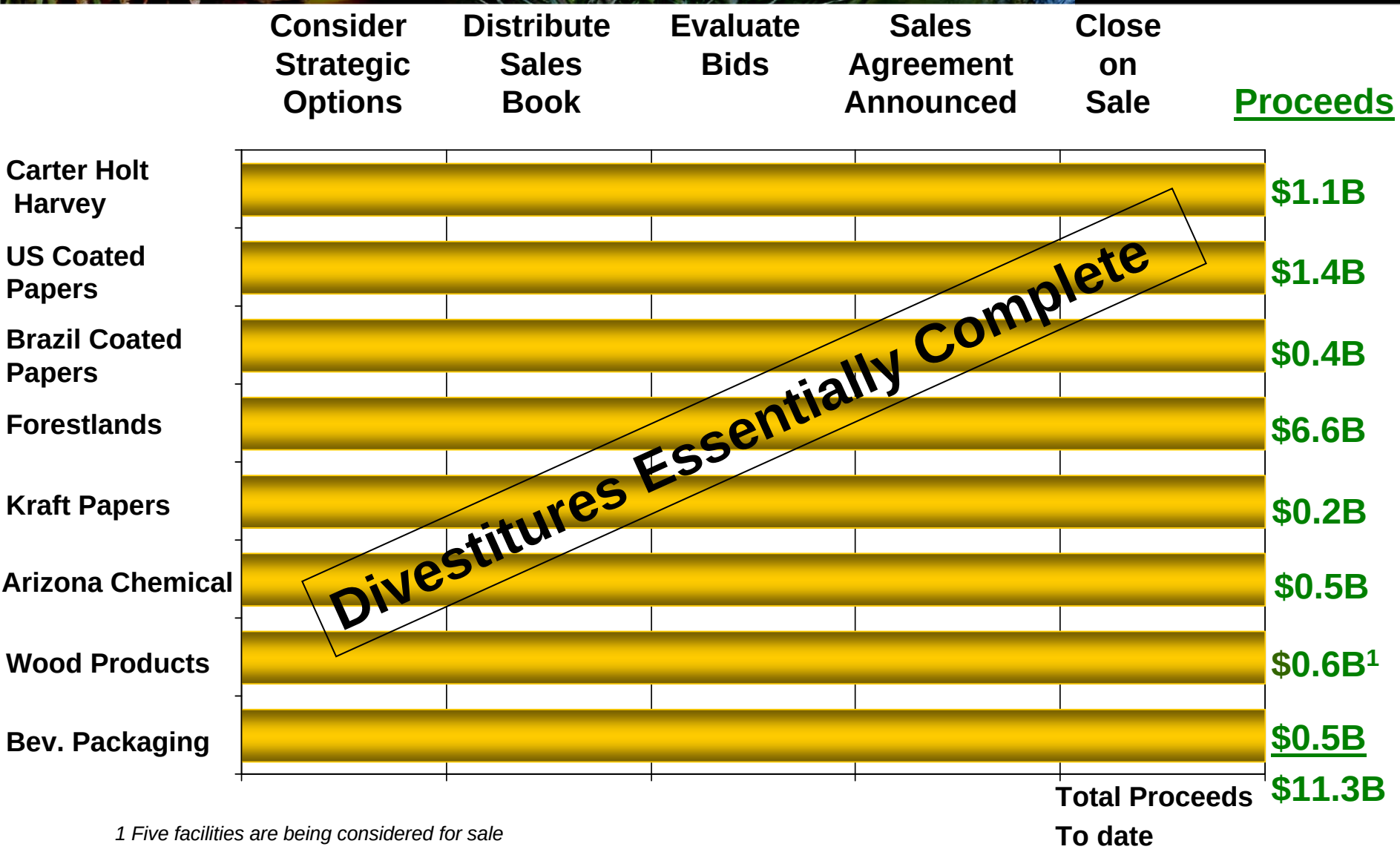



# Appendix

# Transformation Plan Update

## Divestitures Essentially Complete – May 3, 2007

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*1 Five facilities are being considered for sale*

# Key Financial Statistics

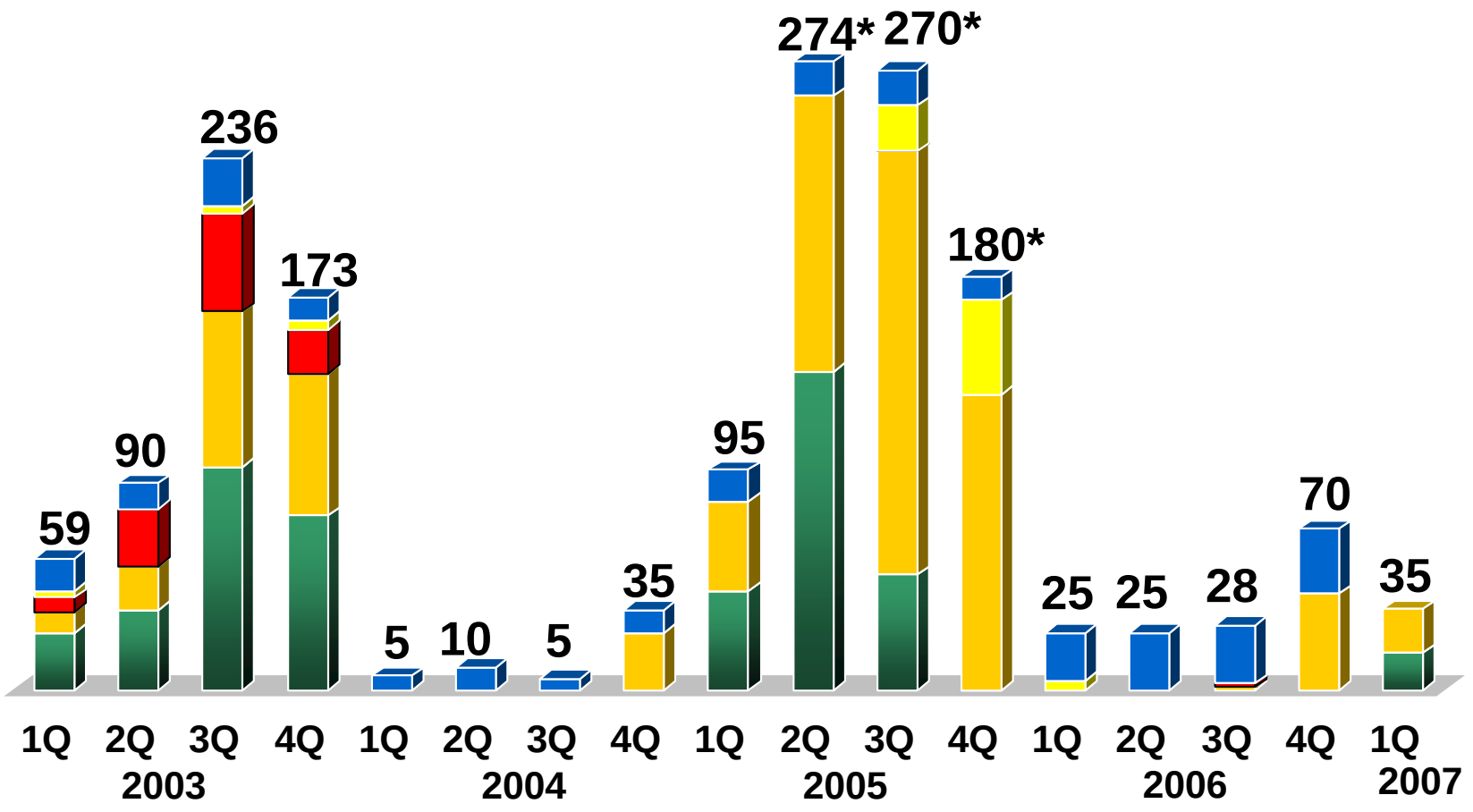
Updated as of May 3, 2007

| | 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 | $330 MM |
| Supply Chain Expense | $135 MM | $156 MM | $210 MM |
| Corporate Items | $607 MM | $746 MM | $675–725 MM |
| Effective Tax Rate[2] | 20% | 29% | 30-32% |

*[1] Excludes discontinued operations results and Coated Papers*

*[2] Before special items*

# Lack of Order Downtime

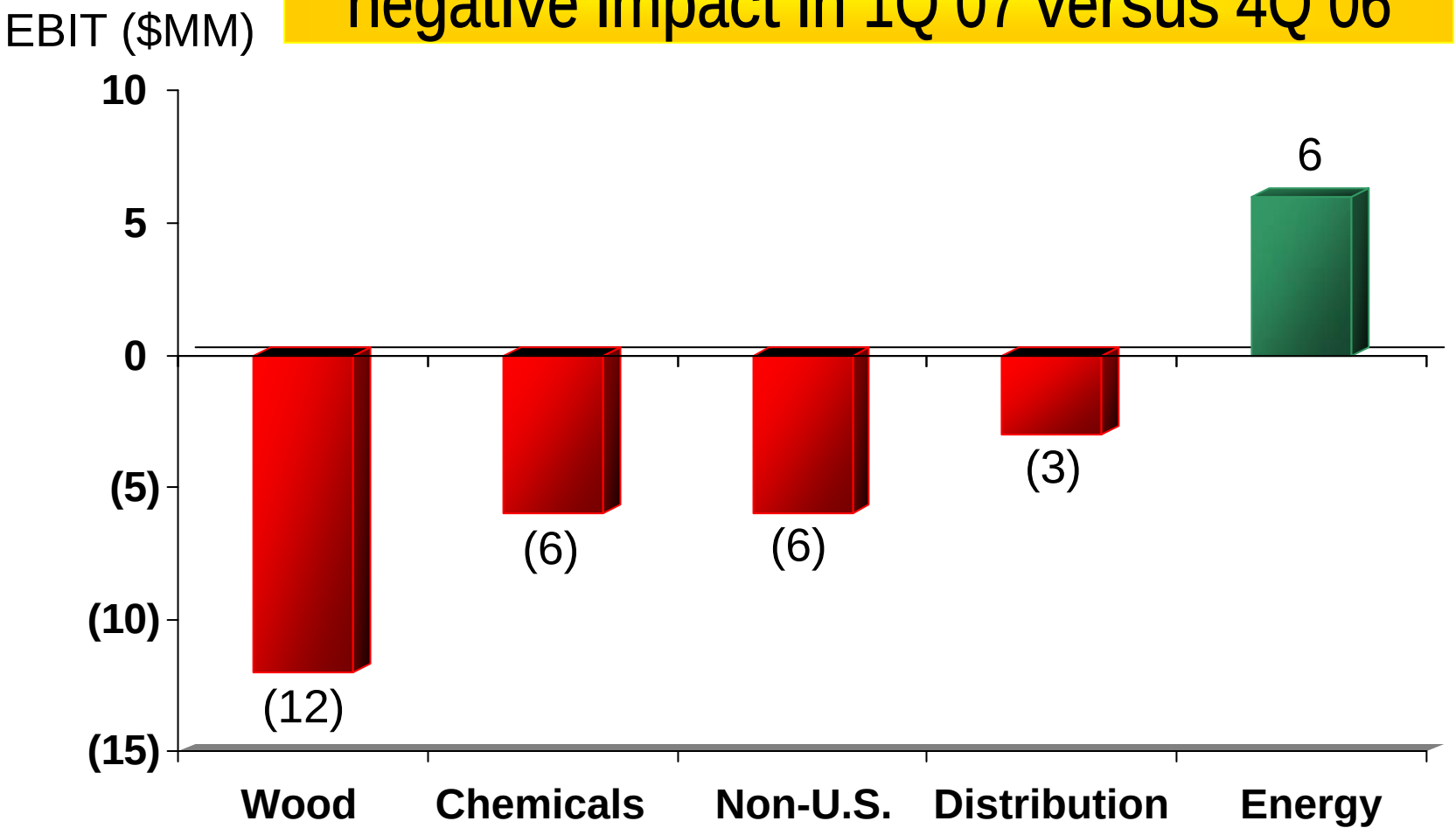



*Includes indefinitely closed uncoated papers capacity at Pensacola, FL, Bastrop, LA and Jay, ME in 2Q05 (72,000 tons), 3Q05 (108,000 tons) and 4Q'05 (108,000 tons). Permanently closed at end of 4Q'05.

# Raw Material & Distribution Costs
# EBIT impact 1Q'07 vs. 4Q'06

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**Total of $21 million or $0.03 per share negative impact in 1Q'07 versus 4Q'06**




All costs exclude discontinued operations

# Q2'07 Maintenance Outages

| | Maintenance Outage (tons) | 2Q'07 Forecast vs. 1Q'07 Actual $(MM) |
|---|---|---|
| Printing Papers | 55,000 | (22) |
| Industrial Packaging | 30,000 | 29 |
| Consumer Packaging | 10,000 | (15) |
| Total Impact | 95,000 | (8) |

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

# Earnings by Industry Segment

## Before special items

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*$ Millions*

| | 1Q'07 | 4Q'06 | 1Q'06 |
|---|---|---|---|
| Earnings by Industry Segment | | | |
| Printing Papers | $231 | $191 | $105 |
| Industrial Packaging | 103 | 130 | 29 |
| Consumer Packaging | 61 | 27 | 47 |
| Distribution | 29 | 31 | 27 |
| Forest Products | 100 | 162 | 190 |
| Other Businesses | 6 | 12 | 13 |
| Operating Profit | 530 | 553 | 411 |
| Interest Expense, net | (63) | (86) | (149) |
| Minority Interest | 5 | 3 | 3 |
| Corporate Items, net | (164) | (166) | (180) |
| Earnings from continuing operations before income taxes, minority interest & special items | $308 | $304 | $85 |

**Industry segment information has been reclassified to conform with minor changes in 2006 organizational structure.*

# 2007 Earnings from Continuing Operations

| | Pre-Tax | Tax | MI | Net | ETR | Average Shares[1] | Diluted EPS[2] |
|---|---|---|---|---|---|---|---|
| | *$ MM* | *$ MM* | *$ MM* | *$ MM* | | *MM Shares* | *$/Share* |
| Before Special Items | | | | | | | |
| Q1 | 308 | (99) | (6) | 203 | 32% | 448.4 | 0.45 |
| Special Items | | | | | | | |
| Q1 | 298 | (44) | 0 | 254 | 15% | 448.4 | 0.57 |
| Earnings from Continuing Operations | | | | | | | |
| Q1 | 606 | (143) | (6) | 457 | 24% | 448.4 | 1.02 |

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

[1] *Assuming dilution*

[2] *A reconciliation to GAAP EPS is available at www.internationalpaper.com under Investor Information*

# Average Sales Realizations

| Segments* | Grades ($/ton) | Average Sales Realizations Mar 07 | Mar 06 | 1Q'07 | 4Q'06 | 1Q'06 |
|---|---|---|---|---|---|---|
| *Printing Papers* | | | | | | |
| | **Uncoated** | **891** | **817** | **888** | **898** | **803** |
| | **Pulp** | **581** | **510** | **577** | **566** | **499** |
| | **Containerboard** | **501** | **454** | **511** | **509** | **437** |
| *Packaging* | | | | | | |
| | **Corrugated boxes** | **798** | **735** | **799** | **787** | **721** |

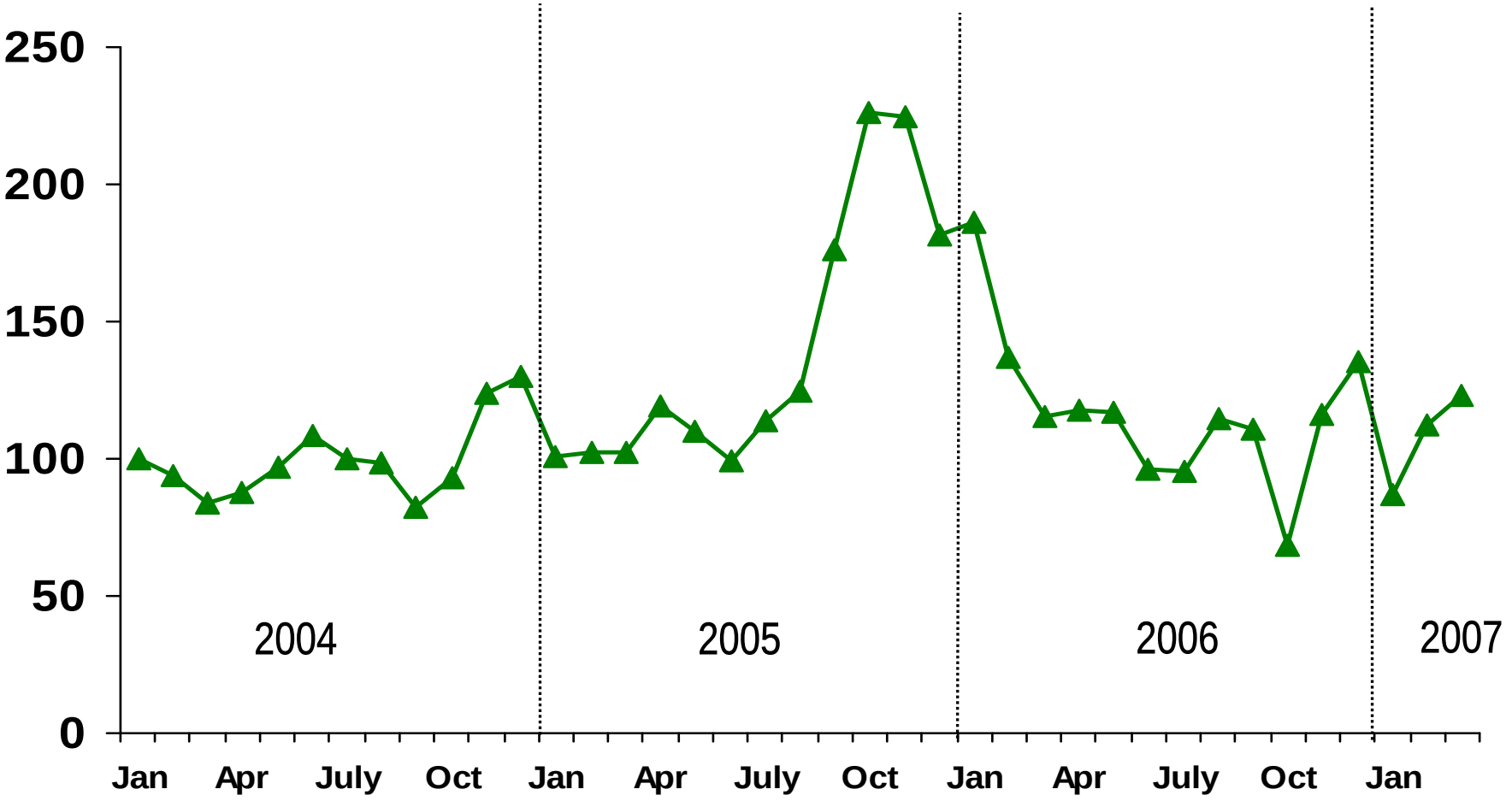
* U.S. only

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

# Natural Gas Costs

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Index: Jan 2004 Natural Gas Costs = 100

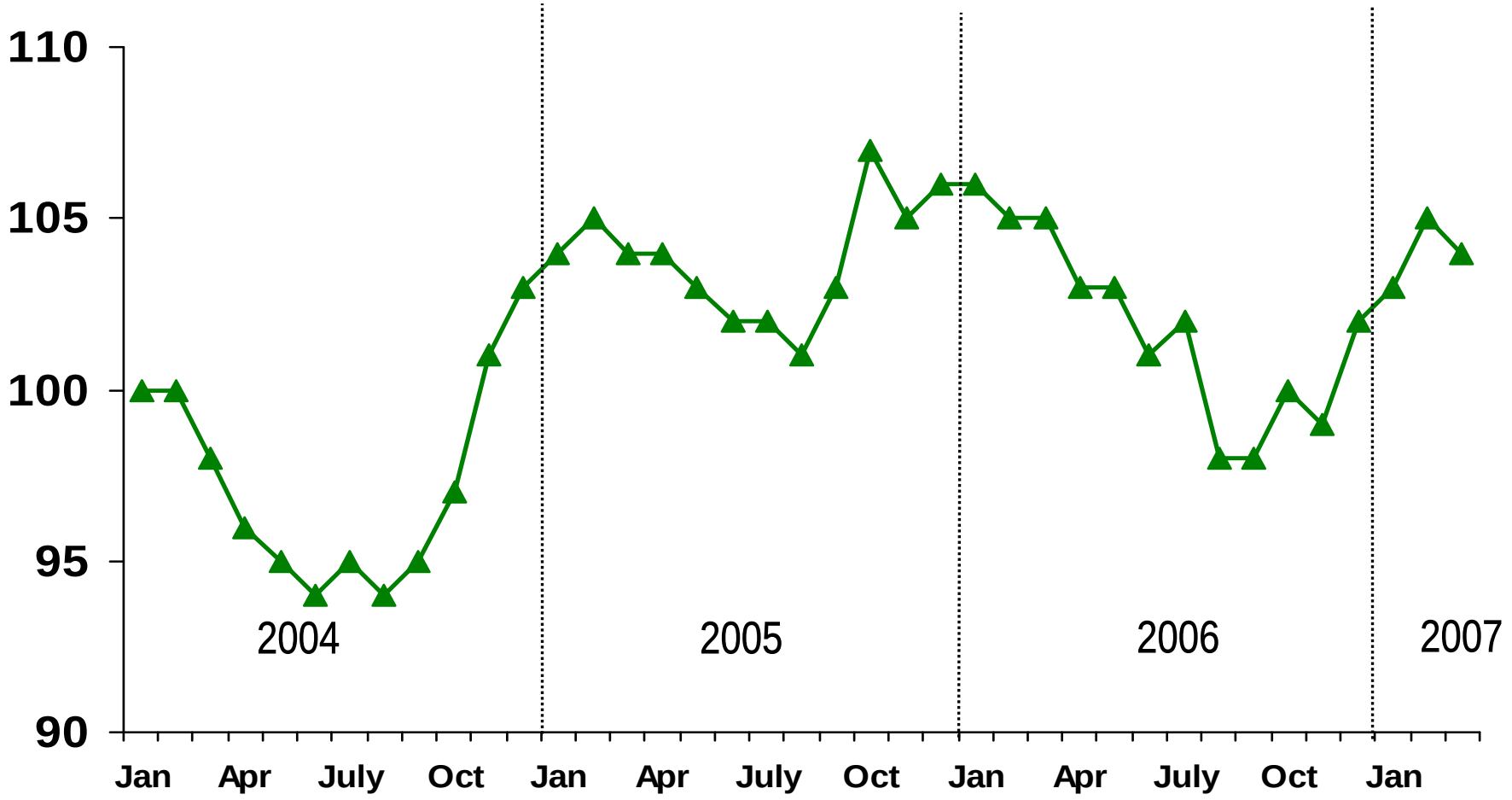



* NYMEX Natural Gas closing prices

# U.S. Mill Wood Costs

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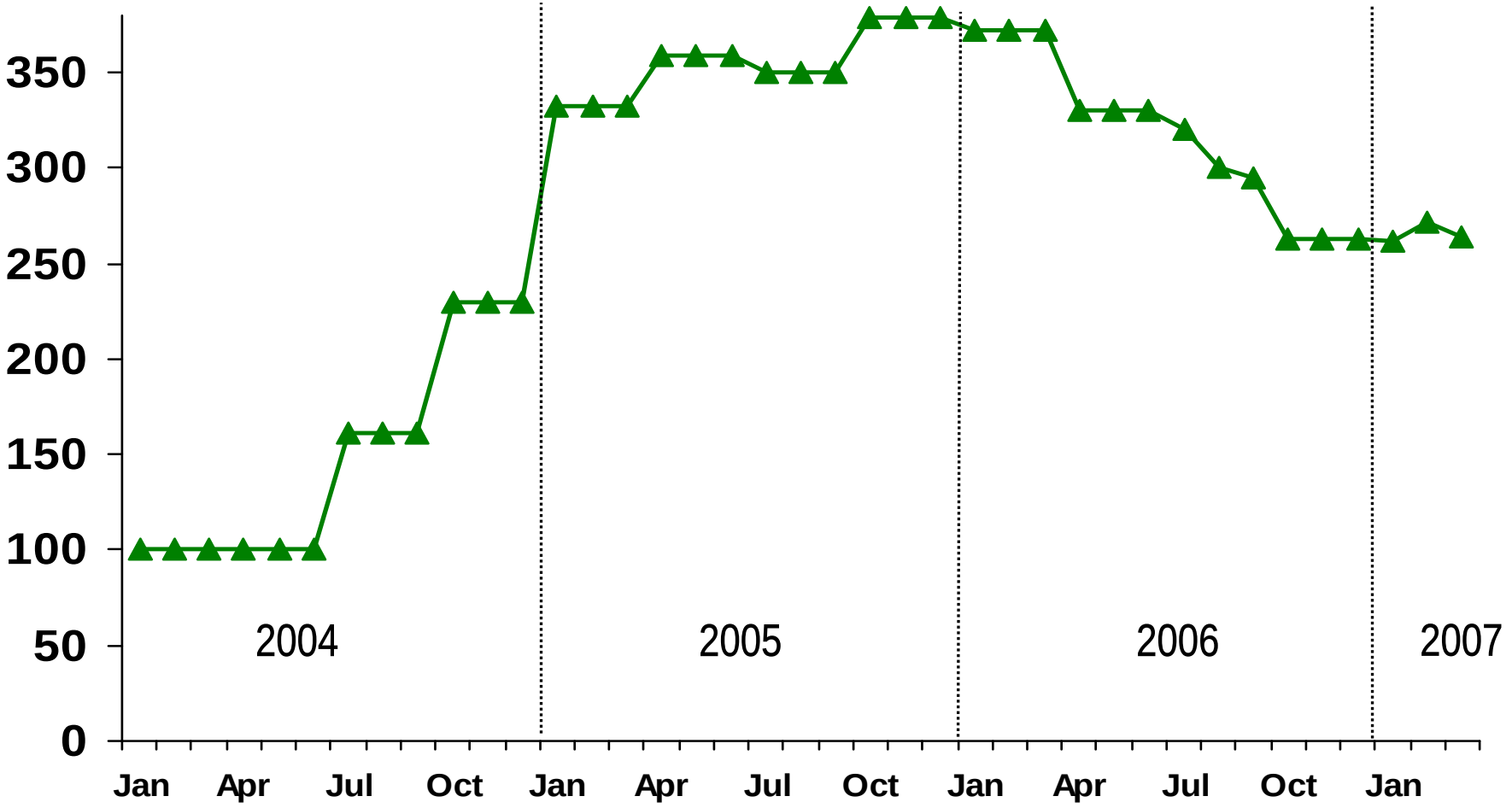
Index: Jan 2004 Wood Costs = 100




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

# Caustic Soda Costs

Index: Jan 2004 Caustic Soda Costs = 100




* Delivered cost to U.S. facilities

# Global Consumption

## Key input indicative annual purchase levels[1]

| ***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

[3] Old corrugated containers




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