




**John V. Faraci**
**Chairman &**
**Chief Executive Officer**



**Tim S. Nicholls**
**Senior Vice President &**
**Chief Financial Officer**

# Second Quarter 2008 Review

# July 31, 2008

# 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) the company's ability to realize anticipated profit improvement from its transformation plan, including our ability to realize the expected benefits of our acquisition of the assets of Weyerhaeuser Company’s containerboard, packaging and recycling business in light of integration difficulties and other challenges; (ii) increases in interest rates and our ability to meet our debt service obligations; (iii) industry conditions, including but not limited to changes in the cost or availability of raw materials and energy, transportation costs, competition we face, the company's product mix, demand and pricing for its products; (iv) global economic conditions and political changes, including but not limited to changes in currency exchange rates, credit availability, the company's credit ratings issued by recognized credit rating organizations and pension and health care costs; (v) unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations and to actual or potential litigation; and (vi) whether we experience a material disruption at one of our manufacturing facilities. 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.

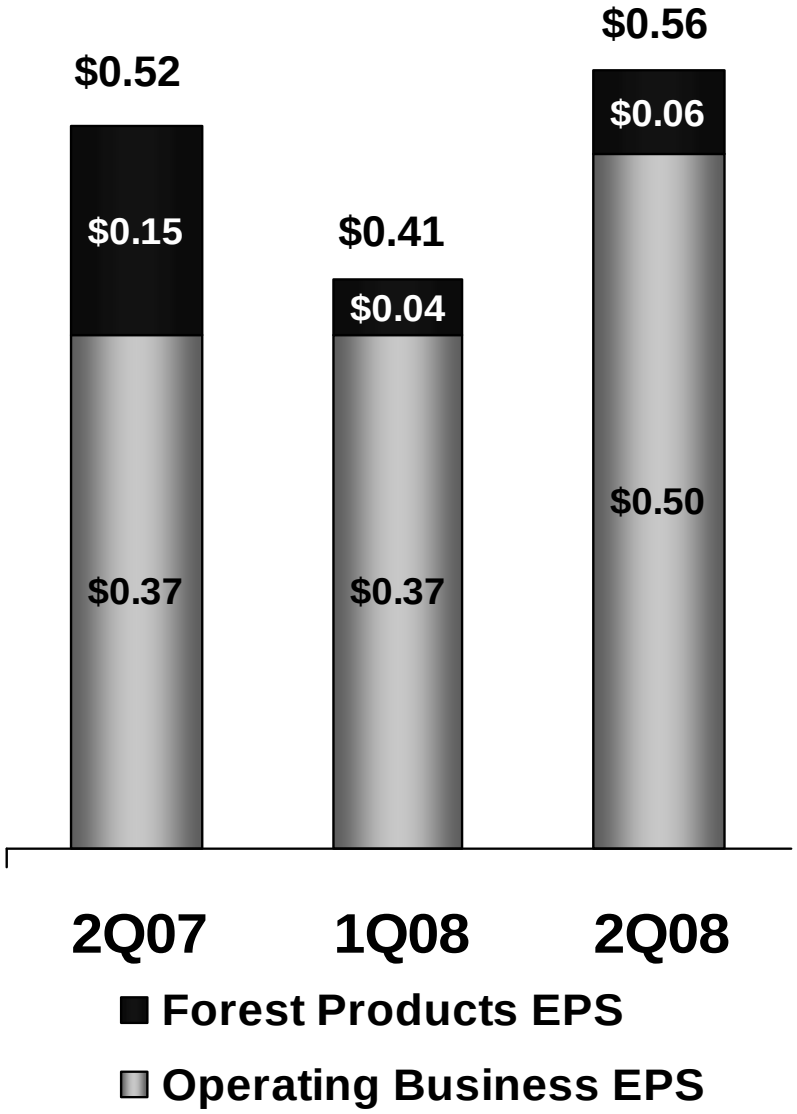
# Statements Relating to Non-GAAP Financial Measures

**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 internationalpaper.com under Investors.**

# Second Quarter 2008 Results Summary
## *EPS up 8% vs. 2Q07*

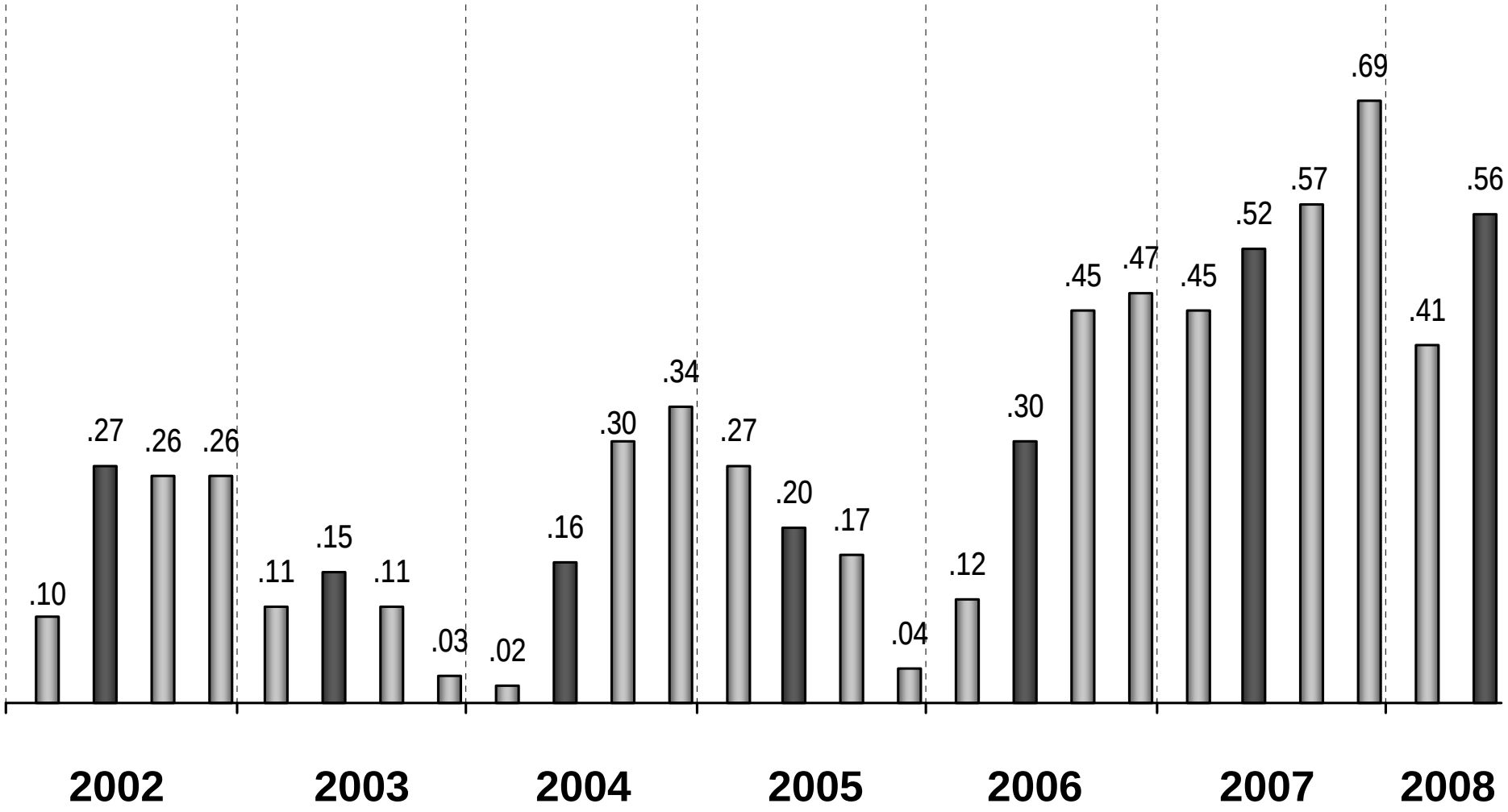
- **Input costs escalated**
- **EPS excluding land sales up 35% vs. 2Q07**
- **Prices improved**
- **Reduced mill operating costs**
- **Benefited from global balance**




Earnings from continuing operations before special items

# Diluted EPS *from Continuing Operations before Special Items*

## *Best 2nd-Quarter Results since 2000*

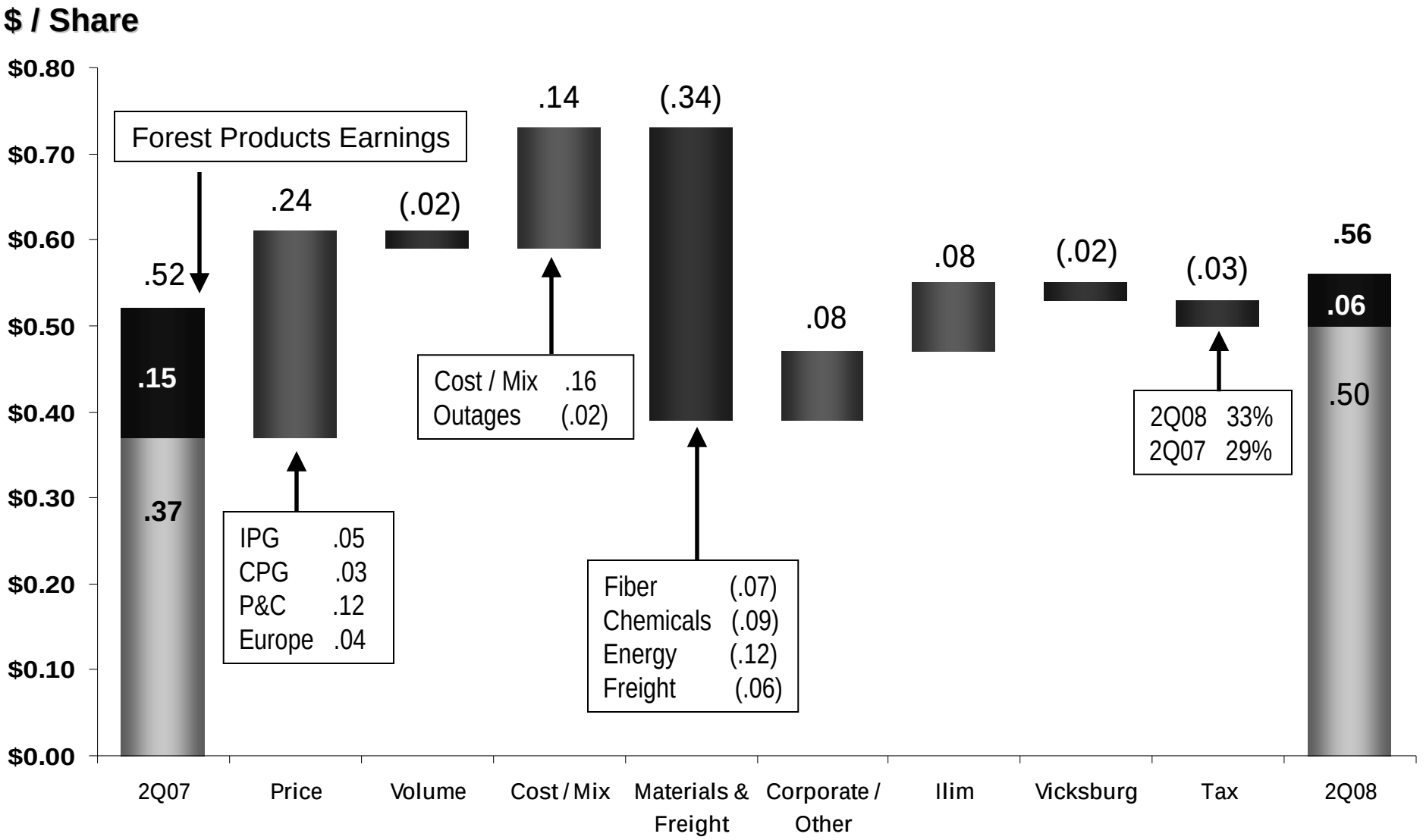



A reconciliation to GAAP EPS is available at www.internationalpaper.com under the Investors tab at presentations

# 2Q08 vs. 2Q07 EPS

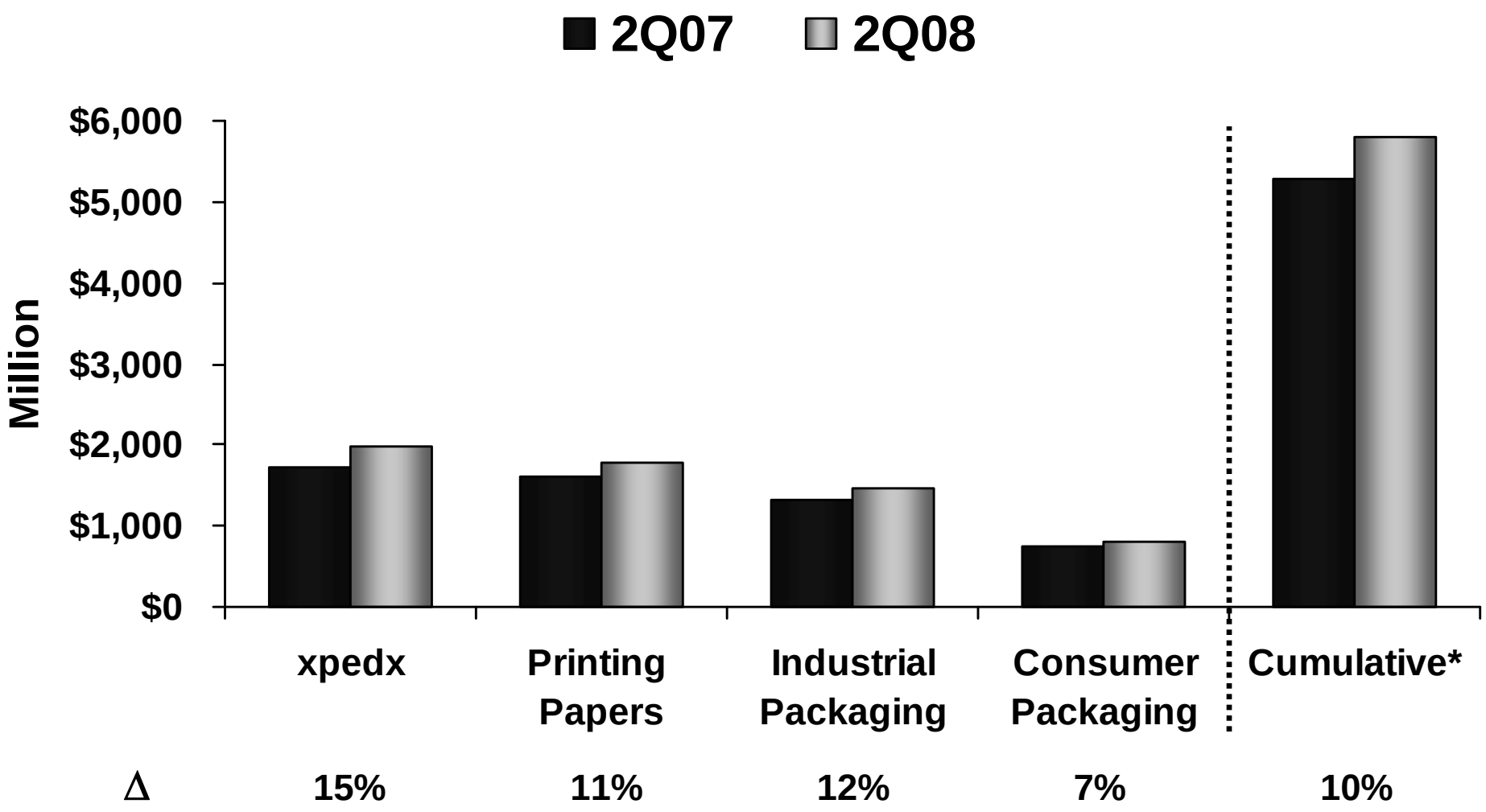
***Higher Costs, Higher Prices, Lower Forest Products Earnings***

INTERNATIONAL PAPER




Earnings from continuing operations before special items

# Global Sales Revenues
## *2Q08 vs. 2Q07*

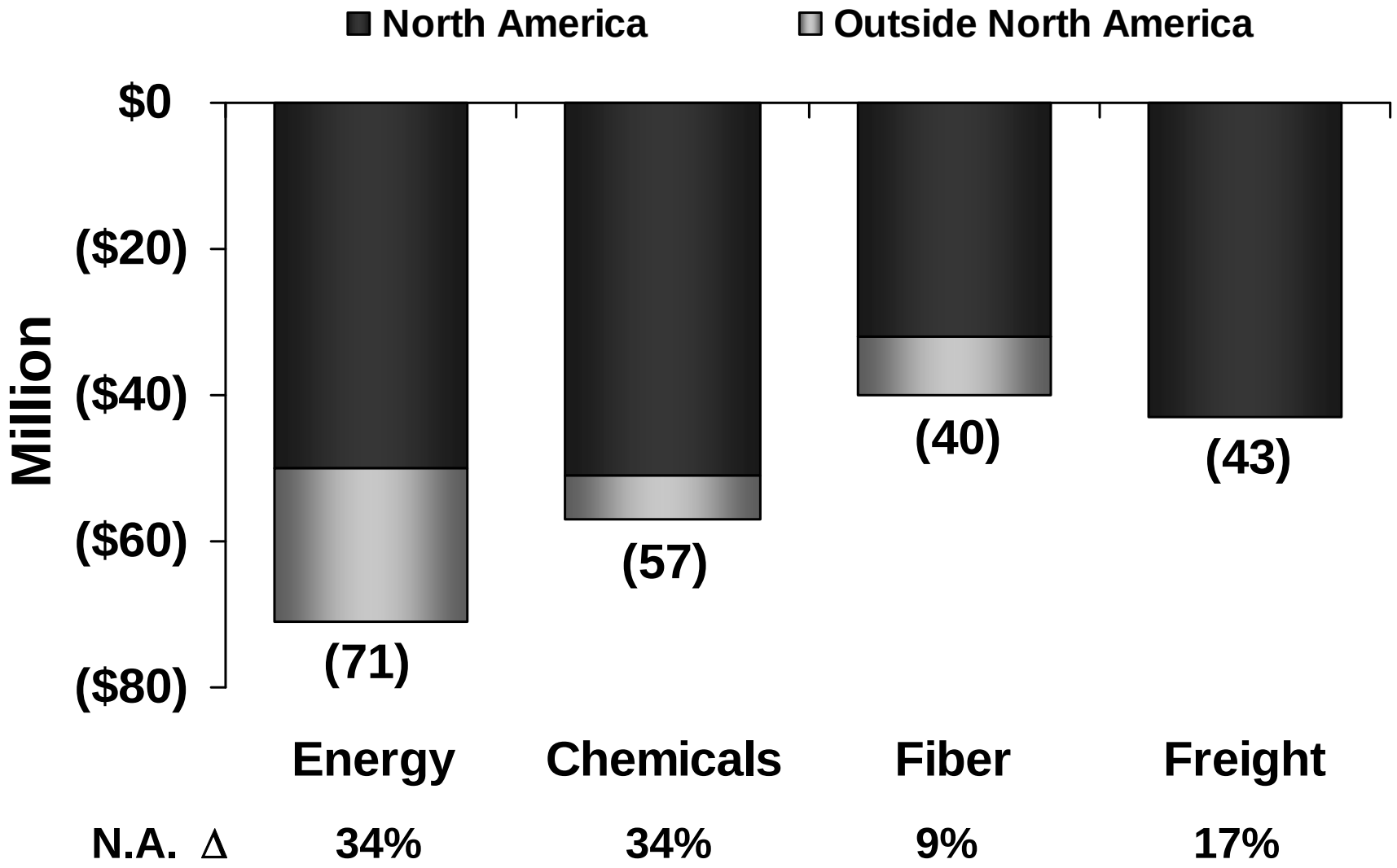



xpedx includes the addition of Central Lewmar revenues in 2Q08
*Includes Forest Products and inter-segment sales eliminations

# Increasing Global Input & Freight Costs

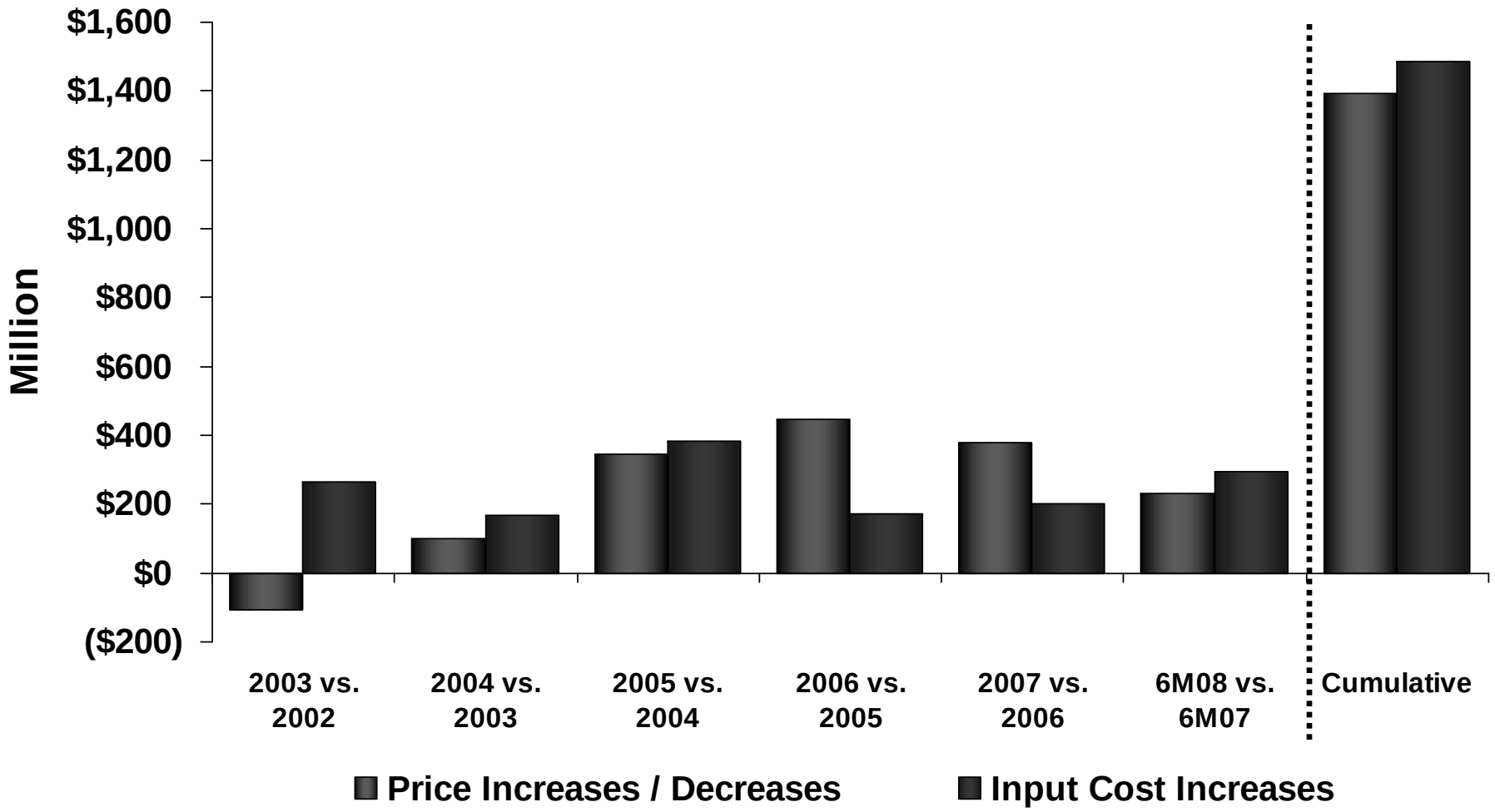
## *$211MM, or $0.34/Share Impact vs. 2Q07*

INTERNATIONAL PAPER

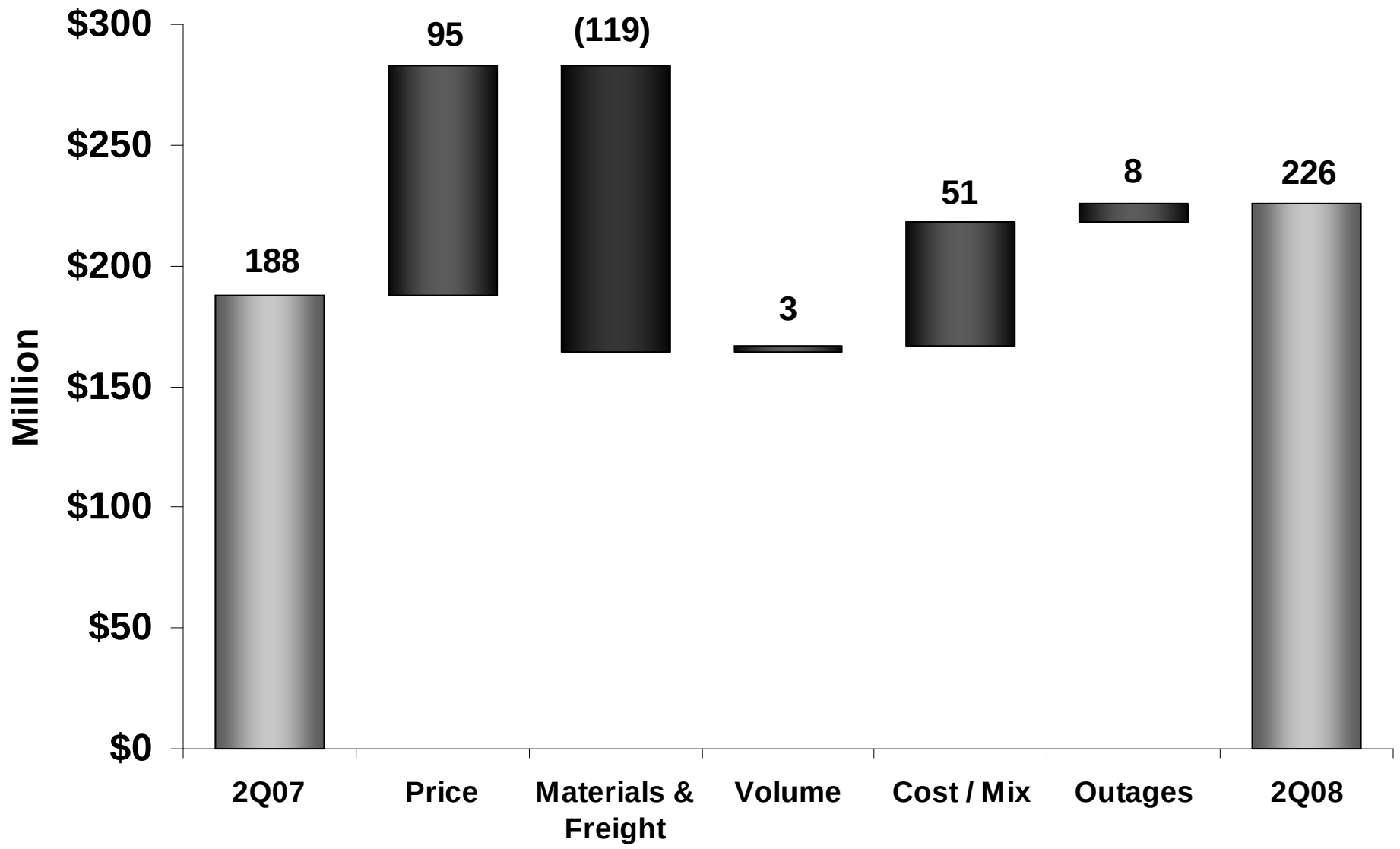



Input costs for continuing businesses
Percentage change reflects estimated North American input cost increases

# North American Input Cost Escalation
## *Increasing Prices to Recover Costs*



# Printing Papers Earnings
## *$38 Million Increase*



# Printing Papers
## *Margin Expansion*

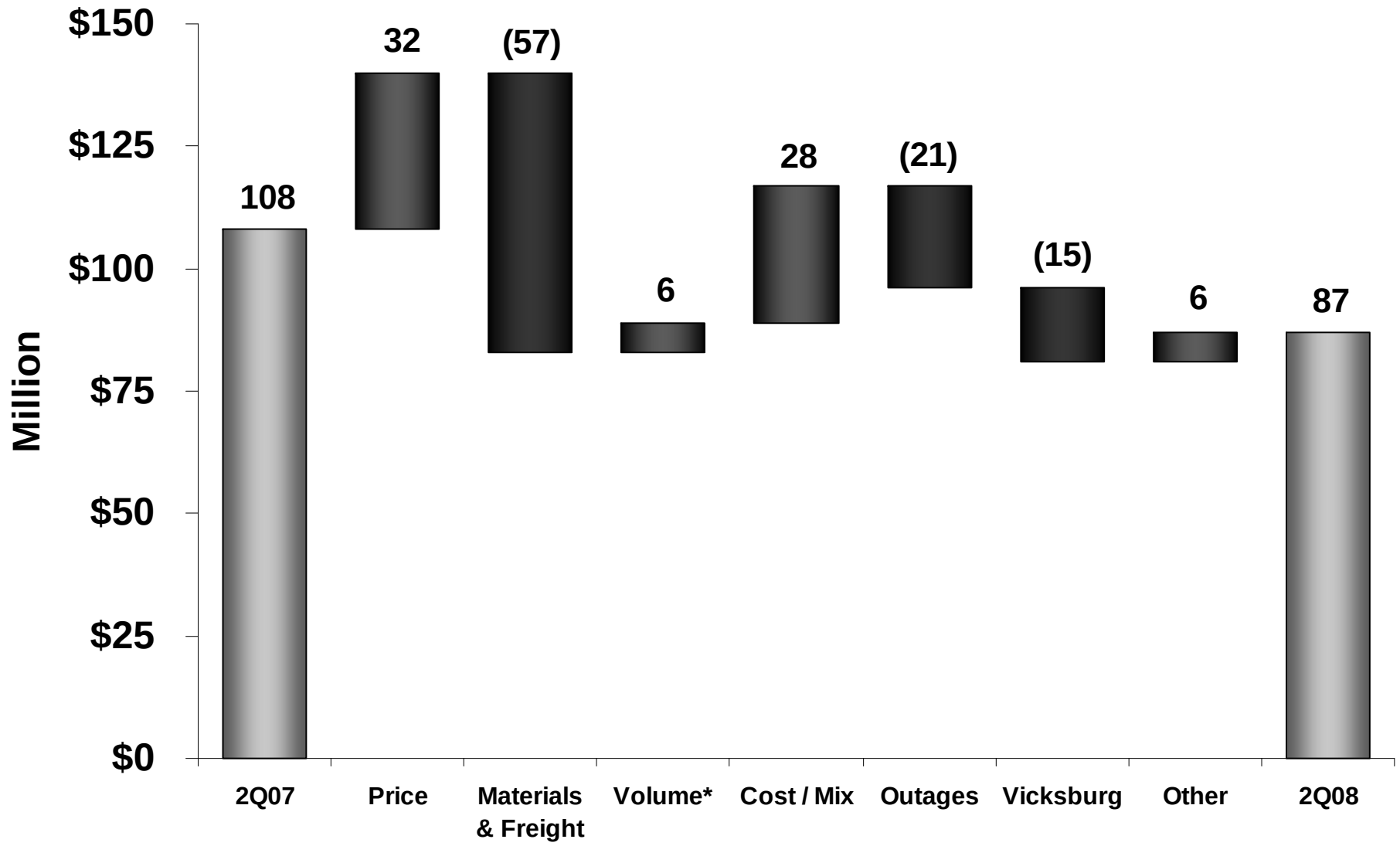
INTERNATIONAL PAPER

| $ Million | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| Sales | $1,610 | $1,715 | $1,790 |
| Earnings | $188 | $185 | $226 |

| | 2Q08 vs. 2Q07 | | 2Q08 vs. 1Q08 | |
|---|---|---|---|---|
| Business | Volume | Price/ton | Volume | Price/ton |
| N.A. Uncoated Papers | (8%) | $84 | (4%) | $38 |
| U.S. Pulp | 18% | $65 | 22% | $5 |
| European Uncoated Papers | 5% | €18 | 0% | €3 |
| Brazilian Uncoated Papers | 6% | $22 | 0% | $10 |

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

# Industrial Packaging Earnings
## *Cost Inflation Exceeded Price Increases*




*Excludes trade volume

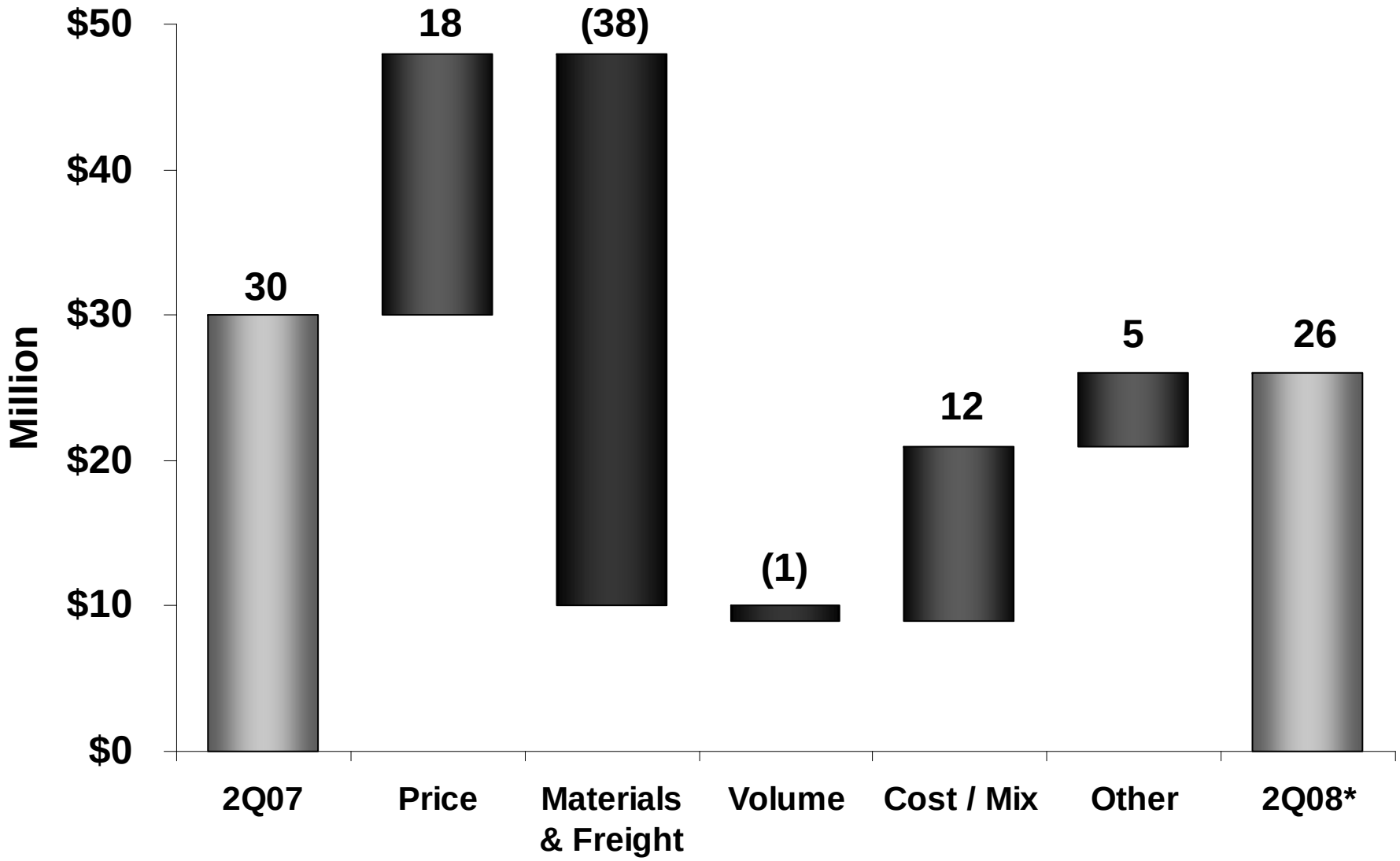
# Industrial Packaging
## *U.S. Margins Under Pressure*

| $ Million | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| Sales | $1,315 | $1,445 | $1,470 |
| Earnings | $108 | $97 | $87 |

| | 2Q08 vs. 2Q07 | | 2Q08 vs. 1Q08 | |
|---|---|---|---|---|
| Business | Volume | Price / Ton | Volume | Price / Ton |
| N.A. Containerboard | 8% | $43 | (2%) | $2 |
| N.A. Container | (1%) | $60 | 2% | $5 |
| European Container | (3%) | €48 | (3%) | €5 |

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

# Consumer Packaging Earnings
## *Cost Inflation Exceeded Price Increases*




*Excludes a special item of ($13) million related to the reorganization of Shorewood's Canadian operations

# Consumer Packaging
## *Margins Under Pressure*

INTERNATIONAL PAPER

| $ Million | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| Sales | $745 | $770 | $795 |
| Earnings | $30 | $14[1] | $26[1] |

| | 2Q08 vs. 2Q07 | | 2Q08 vs. 1Q08 | |
|---|---|---|---|---|
| Business | Volume | Price/Ton | Volume | Price/Ton |
| U.S. Coated Paperboard | 1% | $44 | 0% | $15 |
| Business | Revenue | Price | Revenue | Price |
| Converting Businesses | 2% | NA | 7% | NA |

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

[1] Excludes a special item of ($5) and ($13) million in 1Q08 and 2Q08, respectively, related to the reorganization of Shorewood's Canadian operations

# *xpedx*
## *Focus on Cost Reduction*

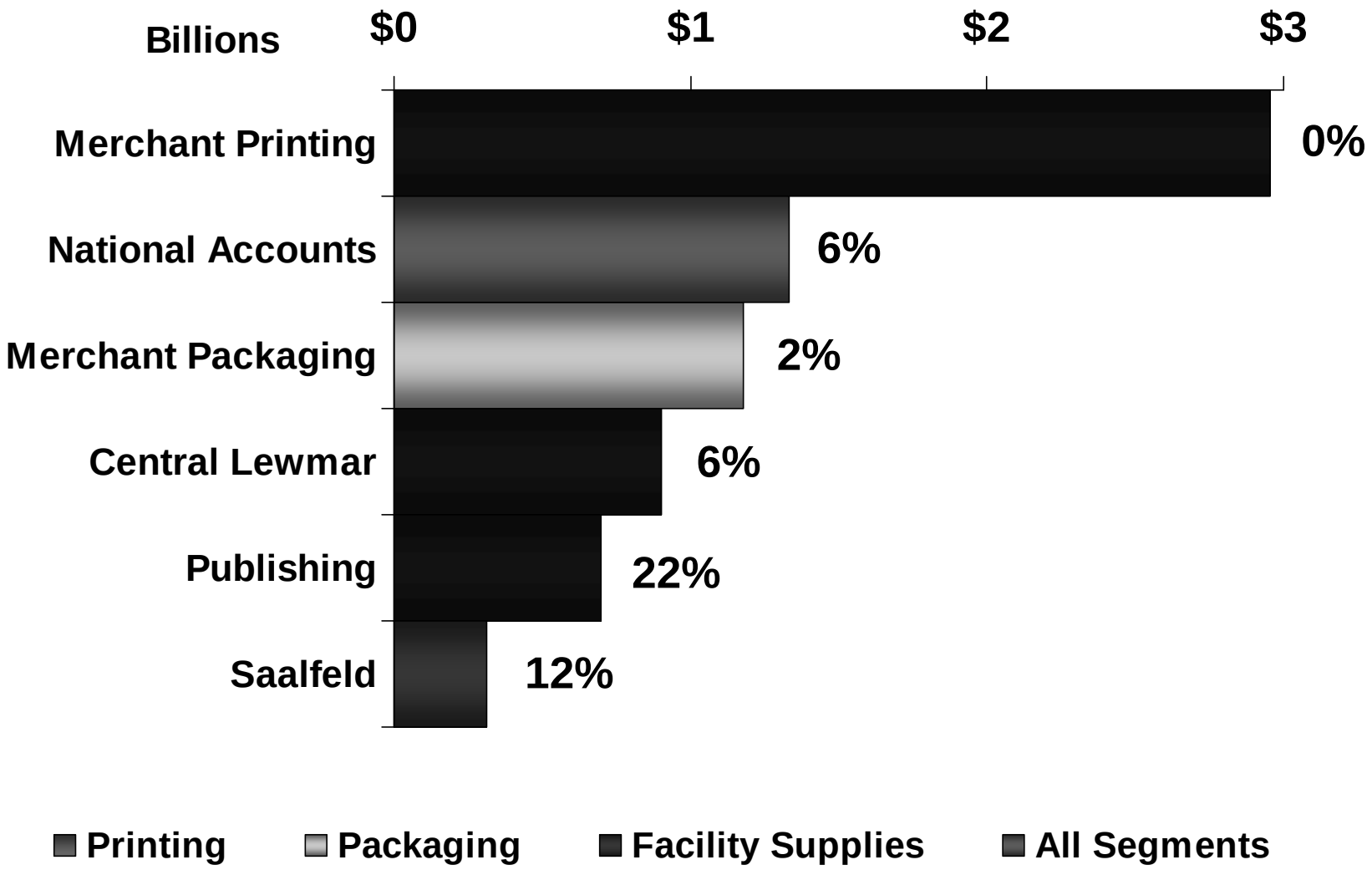
INTERNATIONAL PAPER

| $ Million | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| Sales | $1,720 | $1,985 | $1,970 |
| Earnings | $30 | $16 | $26 |
| Fuel & Freight | $15 | $19 | $21 |

- Weak demand for commercial printing and packaging
- Growth from price increases and national accounts
- Benefiting from cost reductions
- Offset by fuel costs despite fewer miles & deliveries

# xpedx

## Product Diversity Overcoming Market Conditions




Revenue dollars and growth percentages are based on 6M08 vs. 6M07 results

# Forest Products
## *Focusing on Maximizing Value*

INTERNATIONAL PAPER

| | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| **Sales ($ Million)** | **$90** | **$25** | **$55** |
| **Earnings ($ Million)** | **$94** | **$25** | **$41** |
| **Acres Sold** | **37,000** | **13,000** | **30,000** |
| **Price / Acre** | **$2,144** | **$1,871** | **$1,872** |

# Asia
## *Building New Capabilities*

INTERNATIONAL PAPER

| $ Million | 6M07 | 6M08 |
|---|---|---|
| Sales | $315 | $415 |
| Earnings | $10 | $15 |

- **Strong sales and earnings growth**
- **High demand growth for board and boxes**
- **Focus on domestic consumption**

This slide includes the Asian business segments in Printing Papers, Industrial Packaging, and Consumer Packaging as well as Asian sales and operating profits reported in Foodservice and Shorewood results

# Asia
## World-Class Assets, Low Capital Costs

INTERNATIONAL PAPER




Forming Section

- **Start-up of 420,000-ton Sun joint venture coated board machine**
- **Chinese cartonboard demand growing at 7% annually**
- **Box plant and folding carton plant start ups**




Film Size Press




Heated Belt Calender




Folio Sheeter

# Ilim Joint Venture 1Q08 Results

## *IP's After-Tax Share: $32MM or $0.08 EPS*

INTERNATIONAL PAPER

| $ Million | 4Q07 | 1Q08 |
|---|---|---|
| Sales (100%) | $529 | $555 |
| Earnings (IP Share) | $17 | $32 |

| | 1Q08 vs. 4Q07 | |
|---|---|---|
| Business | Volume (000 Metric Tons) | Price / Ton |
| Pulp | 0% | $42 |
| Containerboard | 2% | $13 |

IP's share of Ilim's 1Q08 earnings include a $14 million after-tax foreign exchange gain and a $3 million after-tax charge to write off a share repurchase option

# Ilim Joint Venture
## *Sale of KPK Mill*

INTERNATIONAL PAPER

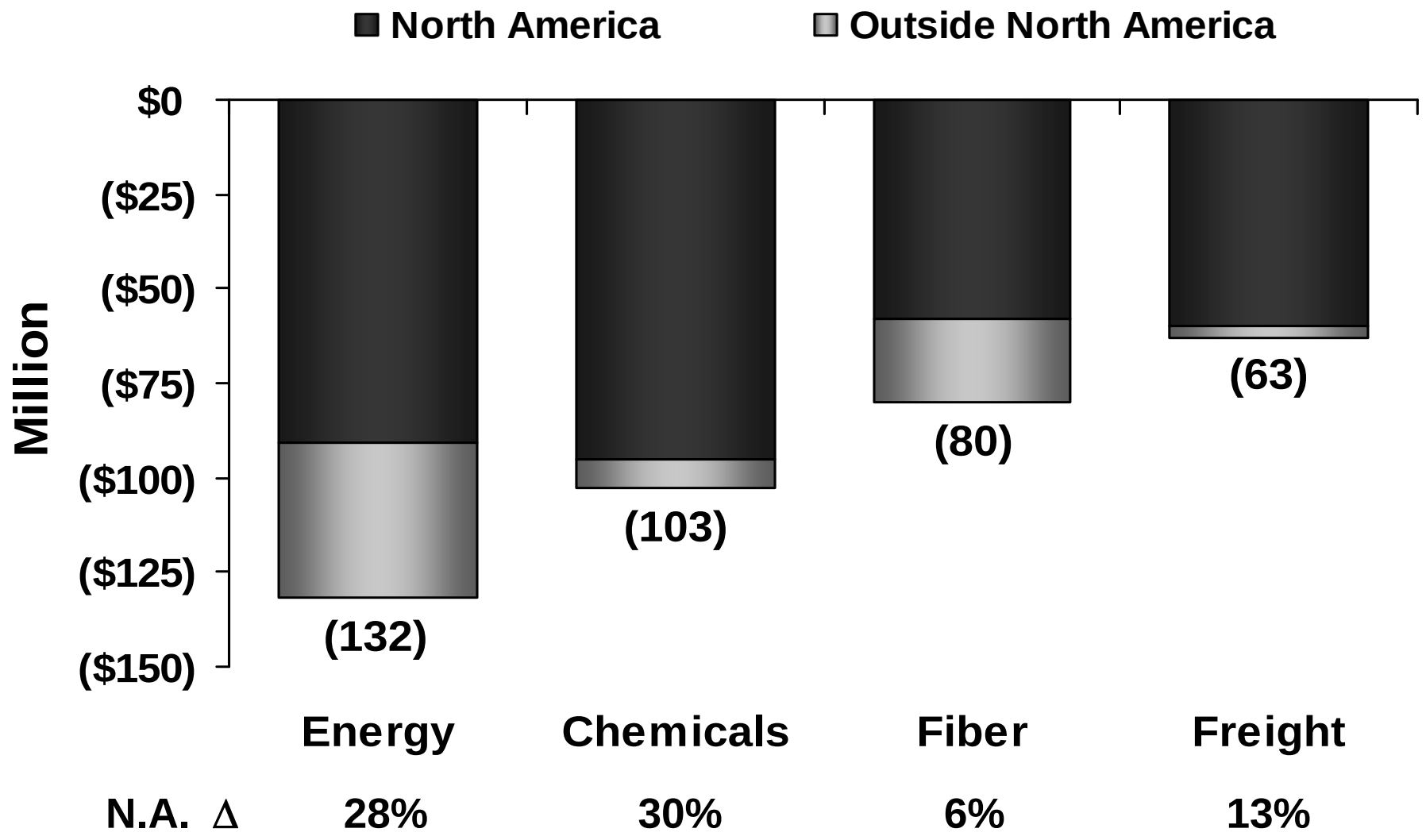
- **Ilim Holding S. A. signed an agreement to sell its 56% interest in the KPK recycled paperboard mill to Knauf, its joint venture partner in this mill**
- **After the transaction has been completed, Knauf will own the 220,000-TPY mill**
- **The transaction is expected to close in 3Q08**
- **After the divestiture, Ilim will continue to focus on its market pulp, industrial packaging, and paper businesses**

# Free Cash Flow Improvement

| Free Cash Flow ($ Million) | 2Q07 | 1Q08 | 2Q08 | 6M08 |
|---|---|---|---|---|
| Cash Provided by Continuing Operations | $392 | $434 | $576 | $1,010 |
| Less Capital Investment | ($299) | ($215) | ($267) | ($482) |
| Free Cash Flow | $93 | $219 | $309 | $528 |

# Increasing Global Input & Freight Costs

## *$378MM, or $0.60/Share Impact vs. 6M07*

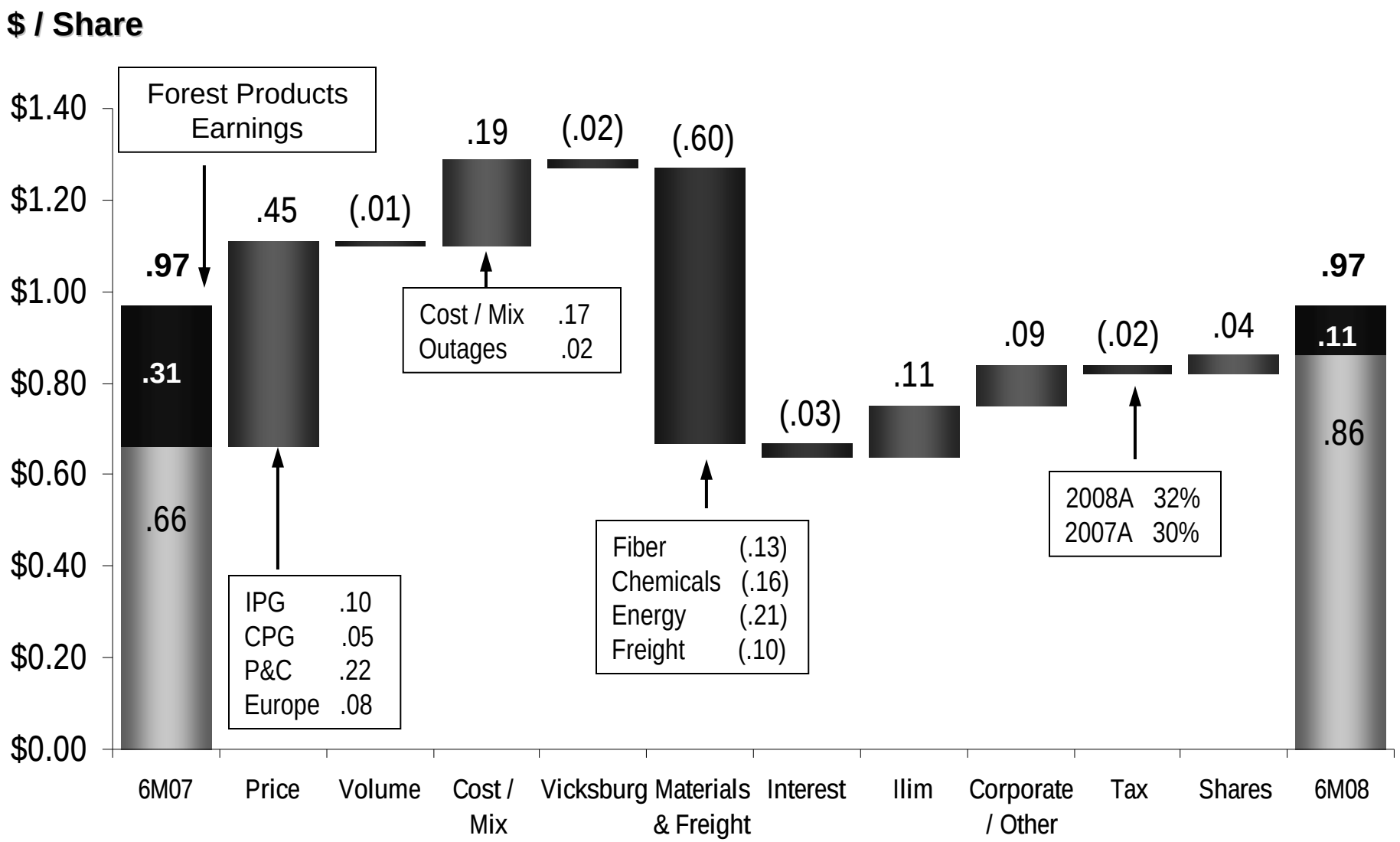



Input costs for continuing businesses
Percentage change reflects North American input costs

# 6M08 vs. 6M07 EPS

***Higher Costs, Higher Prices, Lower Forest Products Earnings***

INTERNATIONAL PAPER




Earnings from continuing operations before special items

# Weyerhaeuser CBPR Acquisition Update

INTERNATIONAL PAPER

- **On schedule for August close**
- **Management team in place**
- **Expecting more merger benefits at faster pace**
- **Expect acquisition to be cash positive in 2008**

# Weyerhaeuser CBPR Acquisition Update
## *Financing in Place*

INTERNATIONAL PAPER

**Original Financing Plan**

| | |
|---|---|
| **5-Year Term Loan** | **$2 Billion** |
| **18-Month Bridge Loan** | **$4 Billion** |

**Current Financing**

| | |
|---|---|
| **5-Year Term Loan** | **$2.5 Billion** |
| **Bond Offering** | **$3.0 Billion** |
| **Cash & Short-Term Debt** | **$0.5 Billion** |

# Weyerhaeuser CBPR Acquisition
## *Key Financial Statistics*

INTERNATIONAL PAPER

- **$50 million in 2008 merger benefits**
- **$80 million one-time costs in 2008**
  - **Establish data center and IT systems**
  - **Severance and relocation expenses**
  - **Transition costs**
- **$35 million one-time, non-cash charge in 3Q08 due to the write up of inventory in connection with the asset purchase**
- **$160 - $180 million in 2008 incremental interest expense**
- **Also targeting $150 - $200 million in incremental IP overhead reduction by 2010**

# 3Q08 Outlook
## *Changes from 2Q08*

INTERNATIONAL PAPER

| | | North America | Ex-North America |
|---|---|---|---|
| Input & Freight Costs | | Increase | Increase |
| Pricing | Paper | Improving | Improving |
| | Packaging | Improving | Under Pressure |
| Volume | Paper | Flat | Slight Increase |
| | Packaging | Flat | Flat |
| Maintenance Outages | | Decrease | Slight Increase |
| Operations | | Steady | Steady |

# 2008 Forest Products Earnings

- **Signed agreement to sell mineral rights in northwest Louisiana for $263 million**
- **Expect transaction to close in 3Q08**
- **At end of 2Q08, portfolio includes 270,000 acres of land and mineral rights with an NPV of $675 million to $775 million**
- **Expect 2008 Forest Products earnings of $350 million to $400 million**

# Summary

## *2Q08 Solid Results in Tough Market Conditions*

INTERNATIONAL PAPER

- **8% year-over-year earnings increase**
- **$0.34 per share of increased input costs**
- **Announced price increases to recover costs**
- **Reduced mill operating costs**
- **Benefit of global operations**

# Questions & Answers

INTERNATIONAL PAPER

## Investor Relations Contacts

| | |
|---|---|
| Thomas A. Cleves | 901-419-7566 |
| Ann-Marie Donaldson | 901-419-4967 |
| Emily Nix | 901-419-4987 |

## Media Contact

| | |
|---|---|
| Patty Neuhoff | 901-419-4052 |

# Appendix

# Special Items & Discontinued Operations
## *2Q08*

INTERNATIONAL PAPER

| | $ Million | Earnings per Share |
|---|---|---|
| Earnings from Continuing Operations & Before Special Items | $235 | $0.56 |
| Special Items | | |
| Shorewood Canadian Reorganization | ($9) | |
| Adjustment to Gain on Sale of Forestlands | $2 | |
| **Total Special Items** | **($7)** | **($0.02)** |
| Earnings from Continuing Operations | $228 | $0.54 |
| **Total Discontinued Operations** | **($1)** | **$0.00** |
| Net Earnings | $227 | $0.54 |

# Planned Maintenance Outages

| $ Millions | 1Q08 | 2Q08 | 3Q08E | 4Q08E |
|---|---|---|---|---|
| North America | $28 | $41 | $28 | $19 |
| Europe | $0 | $9 | $24 | $0 |
| **Printing Papers Total** | **$28** | **$50** | **$52** | **$19** |
| **Industrial Packaging** | **$24** | **$40** | **$3** | **$11** |
| **Consumer Packaging** | **$1** | **$13** | **$8** | **$13** |
| **Total Impact** | **$53** | **$103** | **$63** | **$43** |

Dollar impact of planned maintenance outages are estimates and subject to change

# Operating Profits by Industry Segment

***from Continuing Operations before Special Items***

INTERNATIONAL PAPER

| $ Million | 2Q07 | 1Q08 | 2Q08 |
|---|---|---|---|
| **Printing Papers** | $188 | $185 | $226 |
| **Industrial Packaging** | $108 | $97 | $87 |
| **Consumer Packaging** | $30 | $14 | $26 |
| **Distribution** | $30 | $16 | $26 |
| **Forest Products** | $94 | $25 | $41 |
| **Other Businesses** | $0 | $0 | $0 |
| **Operating Profit** | **$450** | **$337** | **$406** |
| **Net Interest Expense** | ($80) | ($81) | ($81) |
| **Minority Interest / Equity Earnings Adjustment** | $6 | $4 | $8 |
| **Corporate Items** | ($57) | ($21) | ($21) |
| **Special Items** | ($25) | ($41) | ($10) |
| **Earnings from continuing operations before income taxes, equity earnings & minority interest** | **$294** | **$198** | **$302** |
| **Equity Earnings, net of taxes - Ilim** | **$0** | **$17** | **$32** |

# Geographic Business Segment Operating Results

***from Continuing Operations before Special Items***

INTERNATIONAL PAPER

| $ Million | Sales | | | Operating Profit | | |
|---|---|---|---|---|---|---|
| | 2Q07 | 1Q08 | 2Q08 | 2Q07 | 1Q08 | 2Q08 |
| **Printing Papers** | | | | | | |
| **North American** | $875 | $885 | $880 | $85 | $106 | $125 |
| **European** | $370 | $435 | $445 | $44 | $42 | $39 |
| **Brazilian** | $205 | $225 | $255 | $41 | $33 | $51 |
| **U.S. Market Pulp** | $155 | $165 | $205 | $18 | $4 | $11 |
| **Asian** | $5 | $5 | $5 | $0 | $0 | $0 |
| **Industrial Packaging** | | | | | | |
| **North American** | $975 | $1,050 | $1,060 | $84 | $79 | $65 |
| **European** | $270 | $315 | $315 | $23 | $18 | $20 |
| **Asian** | $70 | $80 | $95 | $1 | $0 | $2 |
| **Consumer Packaging** | | | | | | |
| **North American** | $595 | $600 | $625 | $21 | $2 | $13 |
| **European** | $65 | $75 | $75 | $6 | $9 | $8 |
| **Asian** | $85 | $95 | $95 | $3 | $3 | $5 |
| | | | | | | |
| **Distribution** | $1,720 | $1,985 | $1,970 | $30 | $16 | $26 |

Excludes Forest Products

# 2008 Earnings from Continuing Operations

| | Pre-Tax $MM | Tax $MM | Minority Interest $MM | Equity Earnings | Net Income $MM | Estimated Tax Rate | Average Shares[1] MM | Diluted EPS[2] |
|---|---|---|---|---|---|---|---|---|
| **Before Special Items** | | | | | | | | |
| **1Q08** | $239 | ($75) | ($5) | $16 | $175 | 31.5% | 423 | $0.41 |
| **2Q08** | $312 | ($100) | ($7) | $30 | $235 | 32.5% | 423 | $0.56 |
| **Special Items** | | | | | | | | |
| **1Q08** | ($41) | $16 | $0 | $0 | ($25) | 39% | 423 | ($0.06) |
| **2Q08** | ($10) | $3 | $0 | $0 | ($7) | 30% | 423 | ($0.02) |
| **Earnings from Continuing Operations** | | | | | | | | |
| **1Q08** | $198 | ($59) | ($5) | $16 | $150 | 30% | 423 | $0.35 |
| **2Q08** | $302 | ($97) | ($7) | $30 | $228 | 32% | 423 | $0.54 |

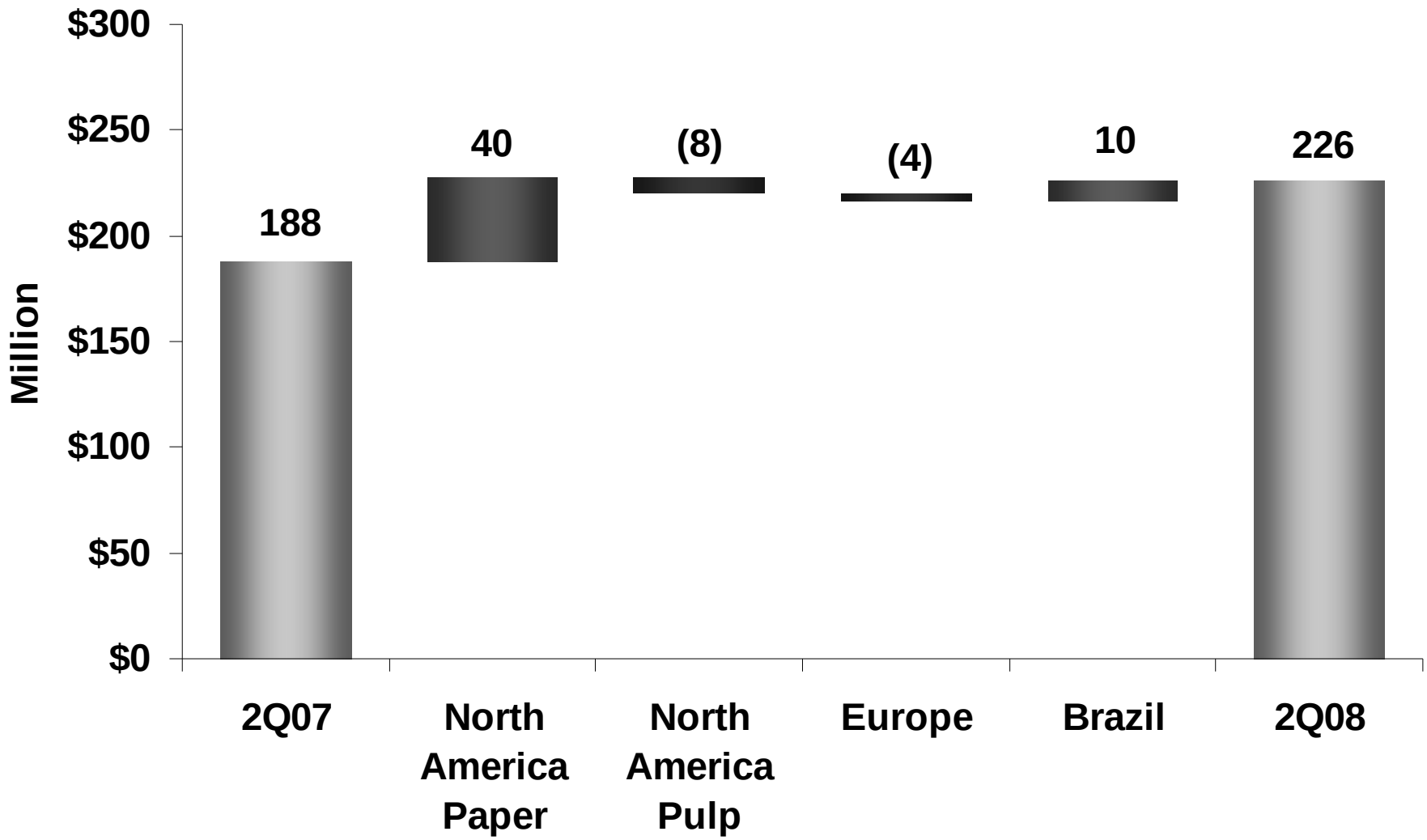
[1] Assuming dilution
[2] A reconciliation to GAAP EPS is available at www.internationalpaper.com under the Investors tab at presentations

# Business Segment Price Realization

| | Average Selling Price Realizations | | |
|---|---|---|---|
| **Printing Papers ($/ton)** | **2Q07** | **1Q08** | **2Q08** |
| Uncoated Freesheet | $904 | $950 | $988 |
| Market Pulp | $586 | $646 | $651 |
| **Industrial Packaging ($/ton)** | **2Q07** | **1Q08** | **2Q08** |
| Containerboard | $513 | $554 | $556 |
| Corrugated Boxes | $791 | $846 | $851 |

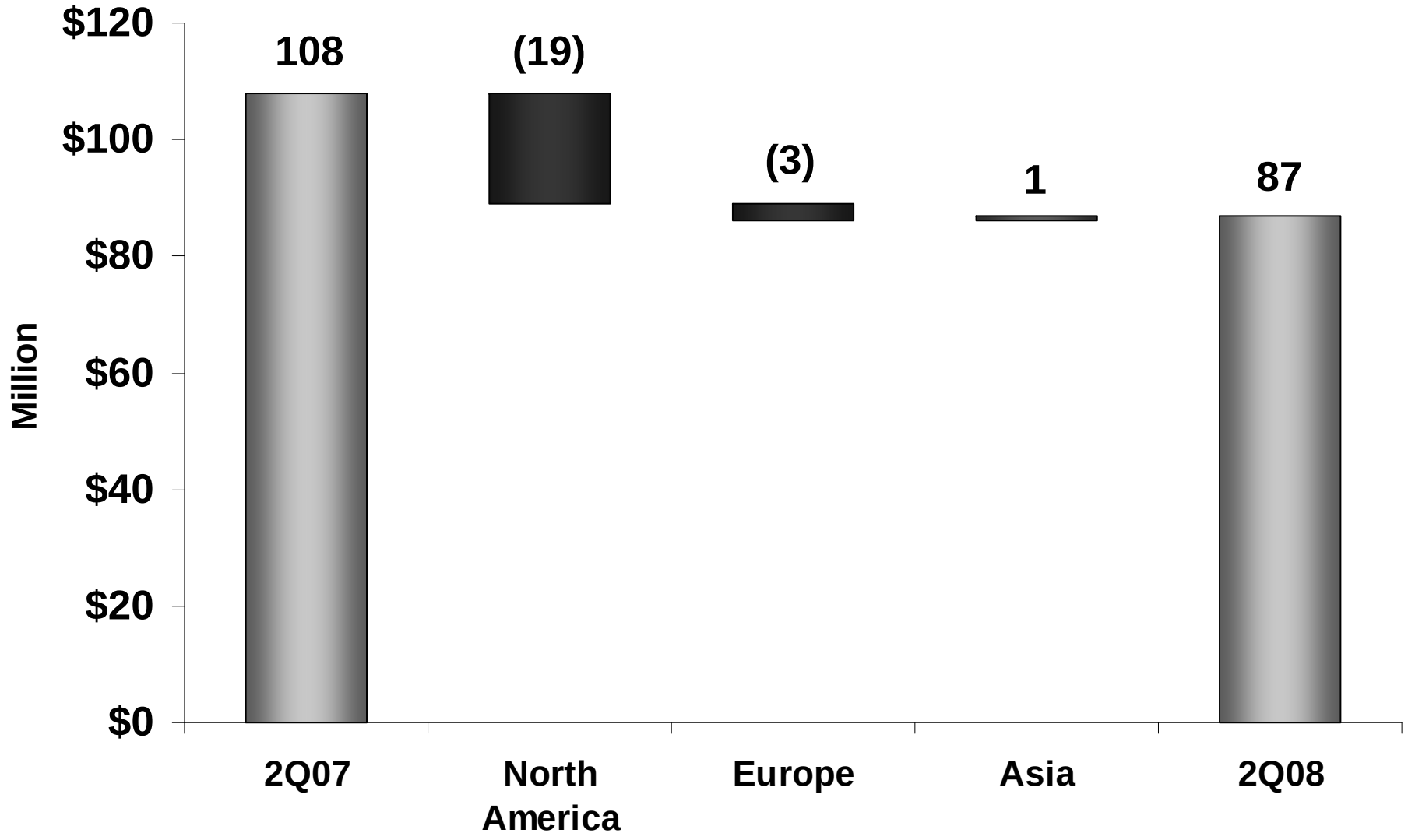
Average IP U.S. selling price realizations (includes the impact of mix across all grades)

# Printing Papers Earnings
## *2Q08 vs. 2Q07*



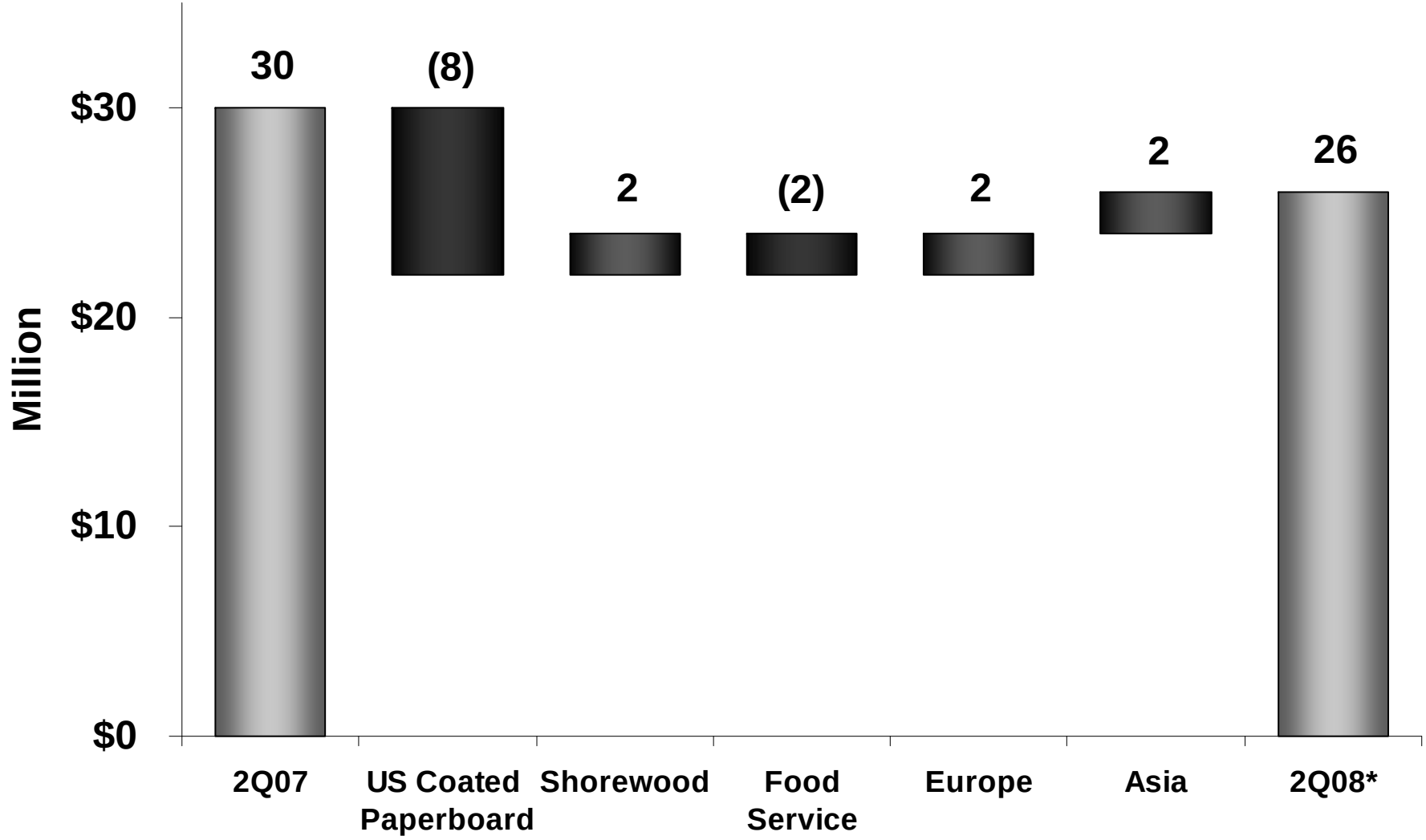

Brazilian earnings include a one-time, $6 million gain from the sale of government credits

# Industrial Packaging Earnings
## *2Q08 vs. 2Q07*




Average IP U.S. selling price realizations (includes the impact of mix across all grades)

# Consumer Packaging Earnings
## *2Q08 vs. 2Q07*

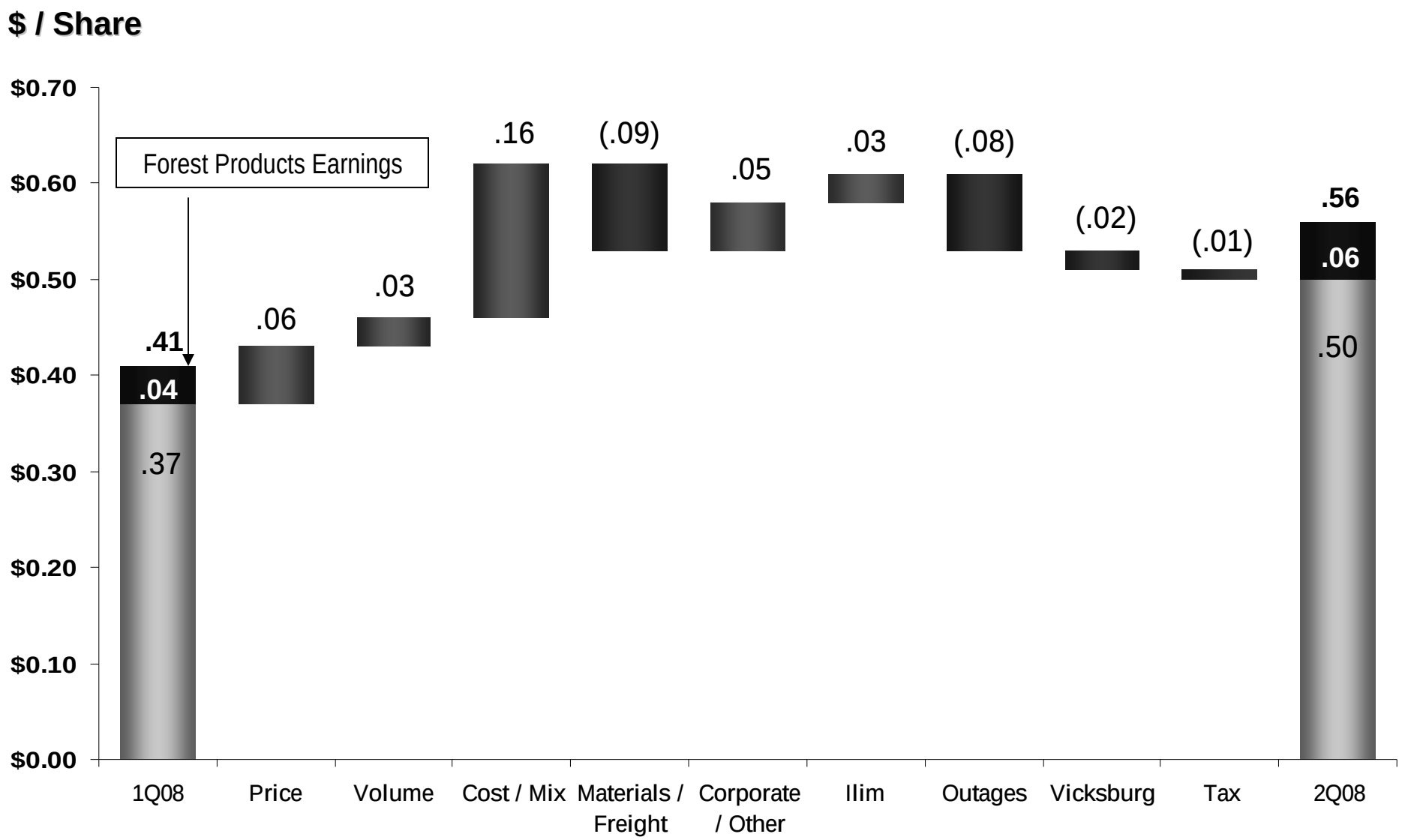



*Excludes a special item of ($13) million related to the reorganization of Shorewood's Canadian operations

# 2Q08 vs. 1Q08 EPS

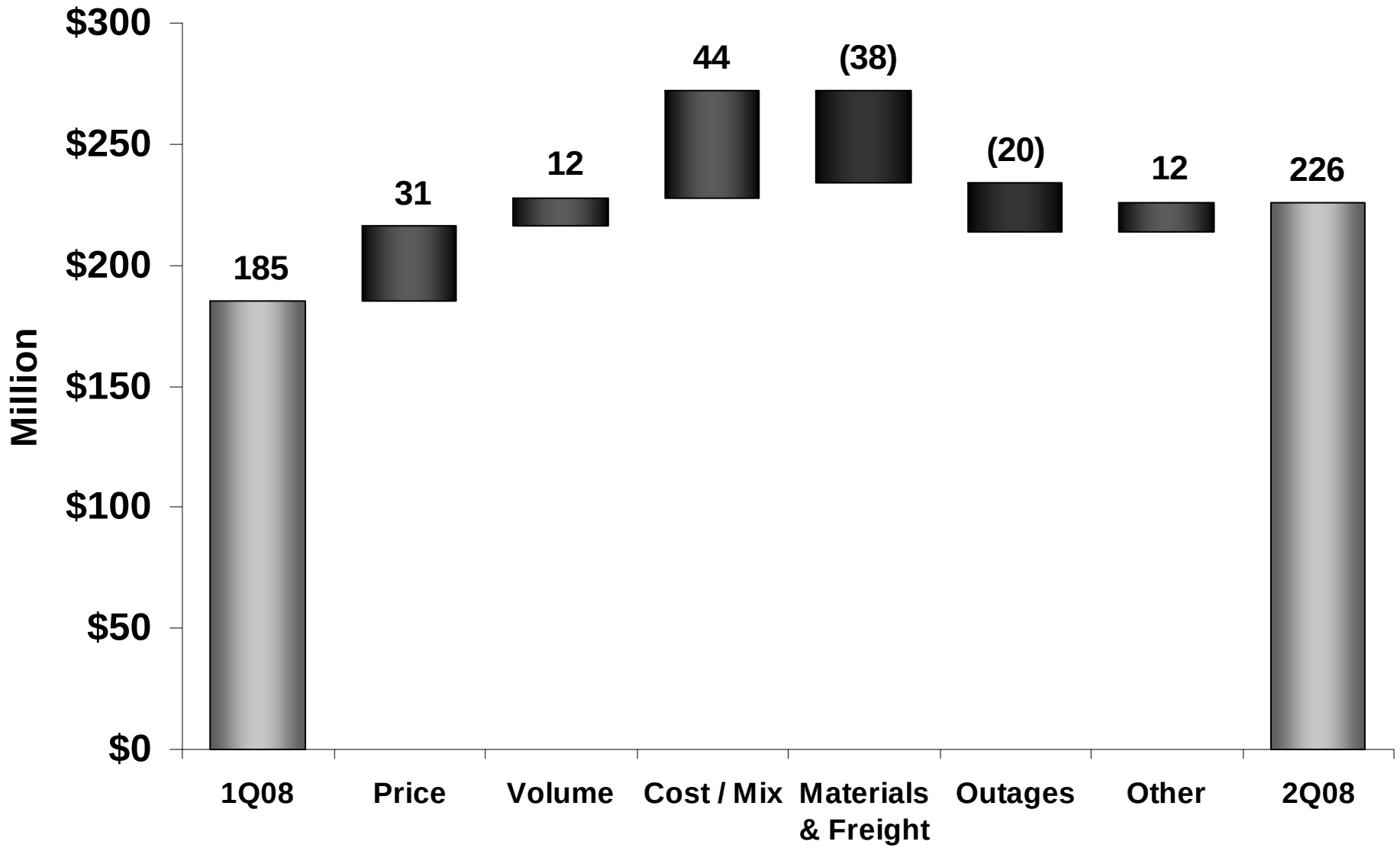
***Higher Costs, Higher Prices, Higher Maintenance Outages***

INTERNATIONAL PAPER

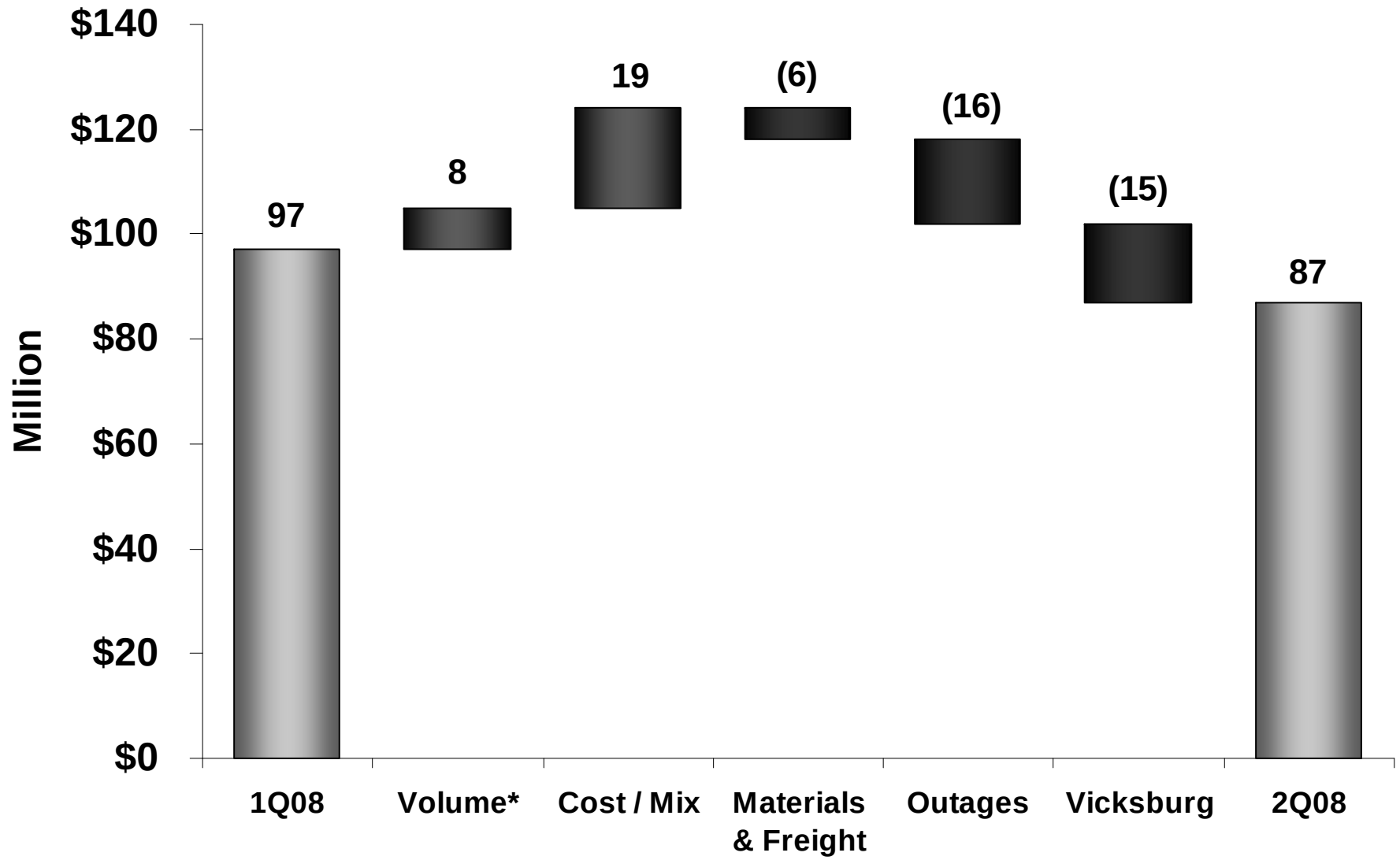



Earnings from continuing operations before special items

# Printing Papers Earnings
## *2Q08 vs. 1Q08*

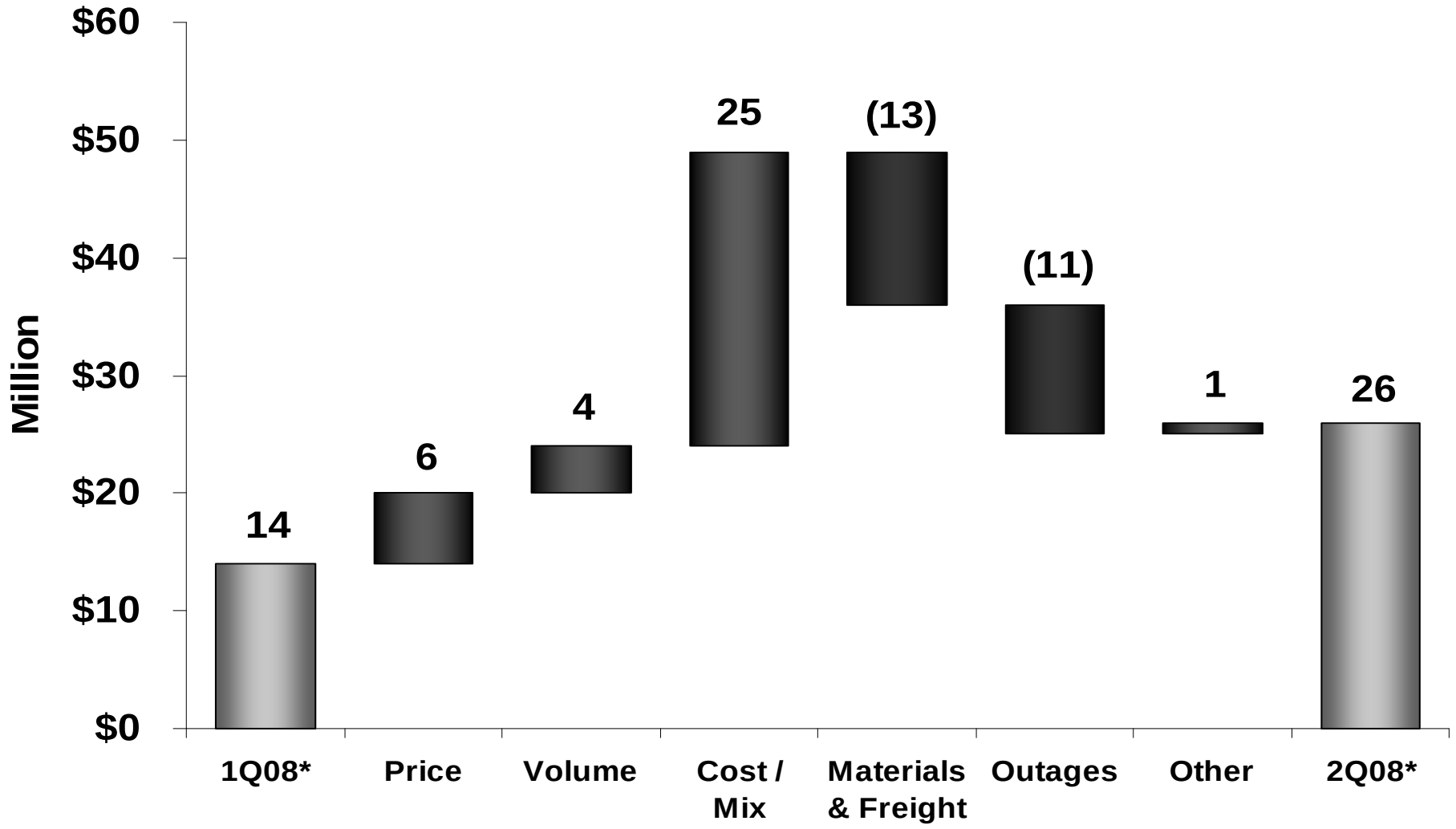


# Industrial Packaging Earnings
## *2Q08 vs. 1Q08*




*Excludes trade volume

# Consumer Packaging Earnings
## *2Q08 vs. 1Q08*



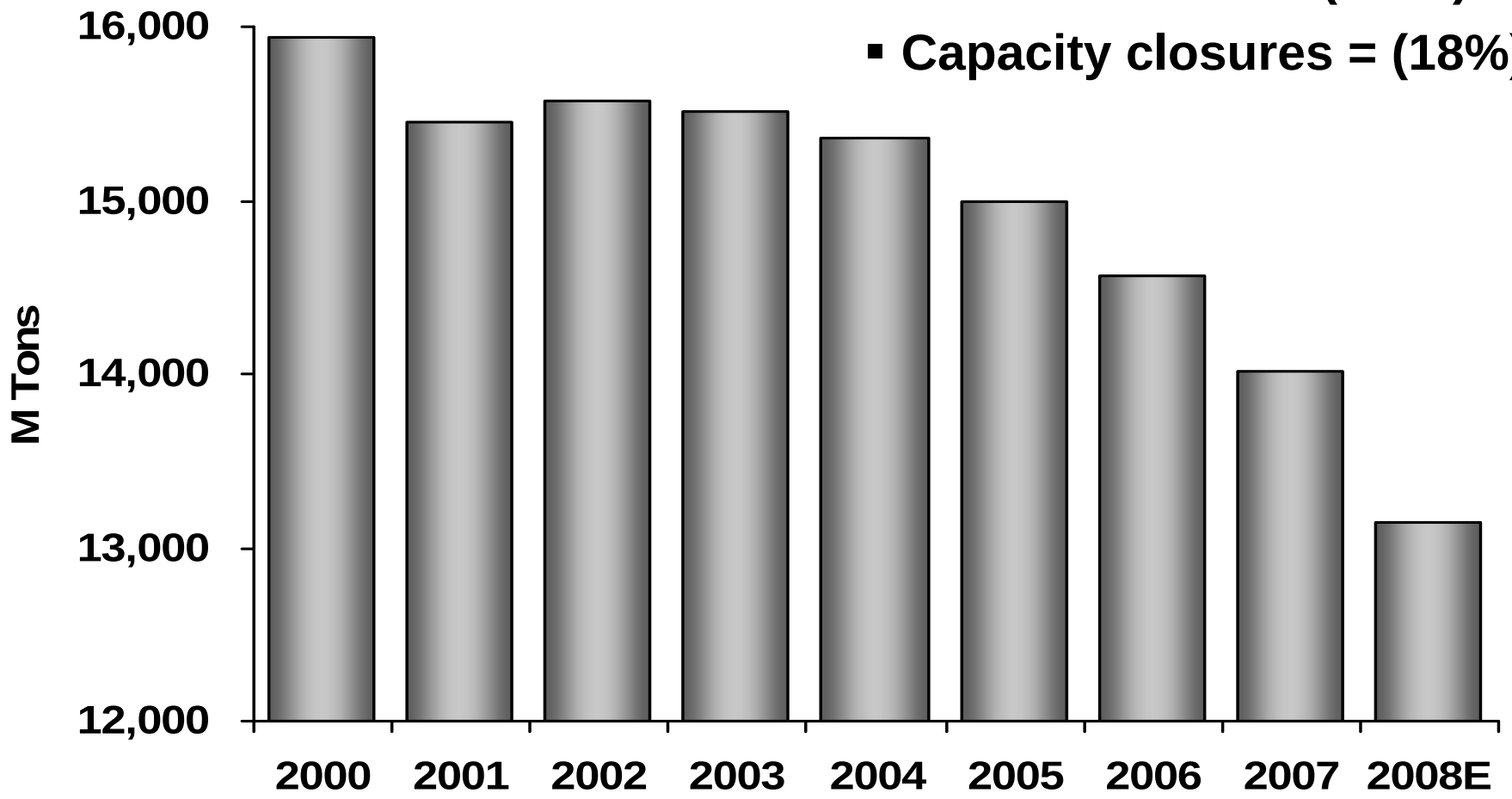

* Excludes a special item of ($5) and ($13) million in 1Q08 and 2Q08, respectively, related to the reorganization of Shorewood's Canadian operations

# North American Industry Capacity Closures
## *Uncoated Freesheet*

INTERNATIONAL PAPER

**2000 – 2008**

- **Demand CAGR = (2.4%)**
- **Capacity closures = (18%)**



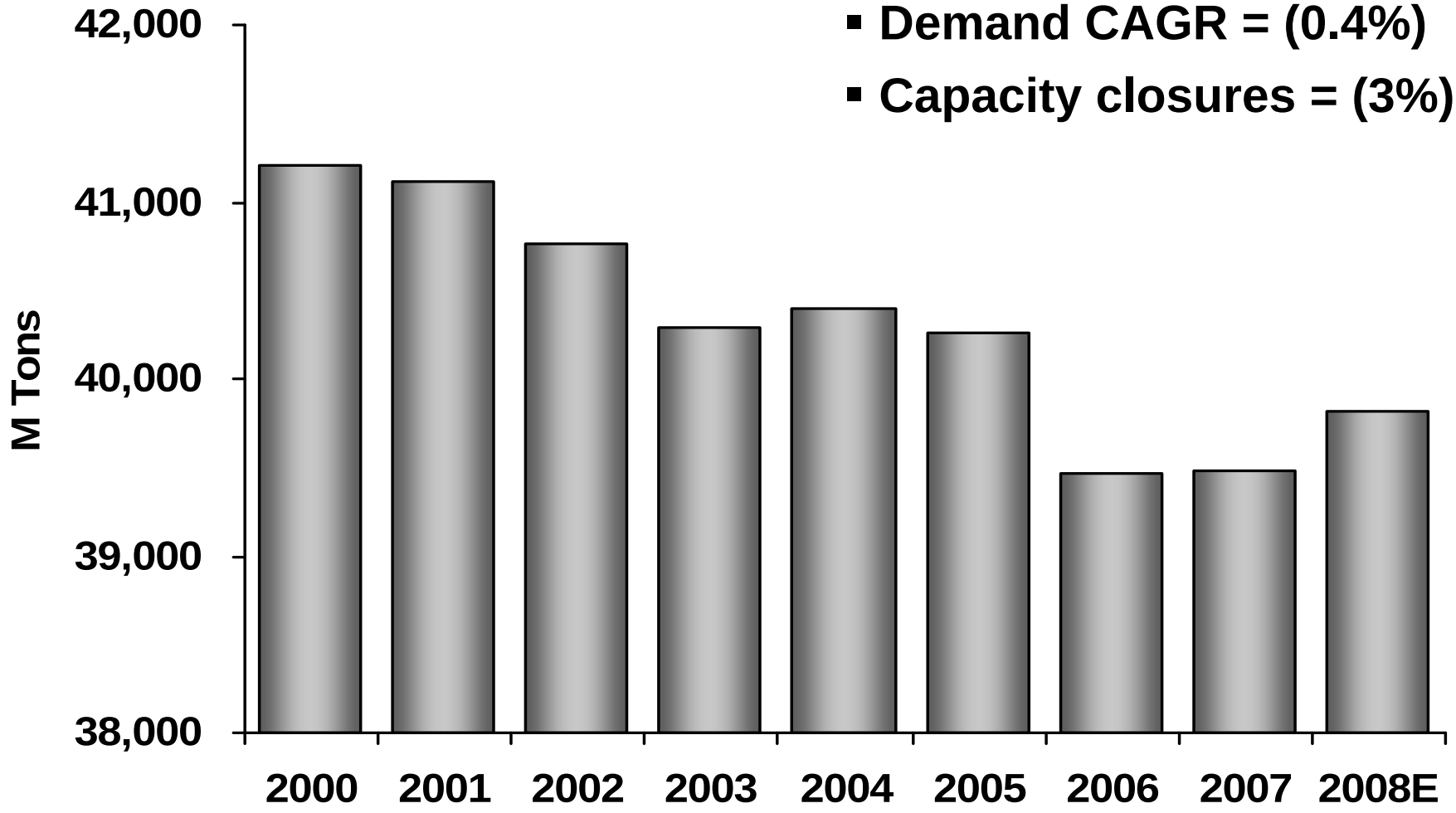

Source: AF&PA, RISI, IP Analysis

# North American Industry Capacity Closures
## *Containerboard*

INTERNATIONAL PAPER

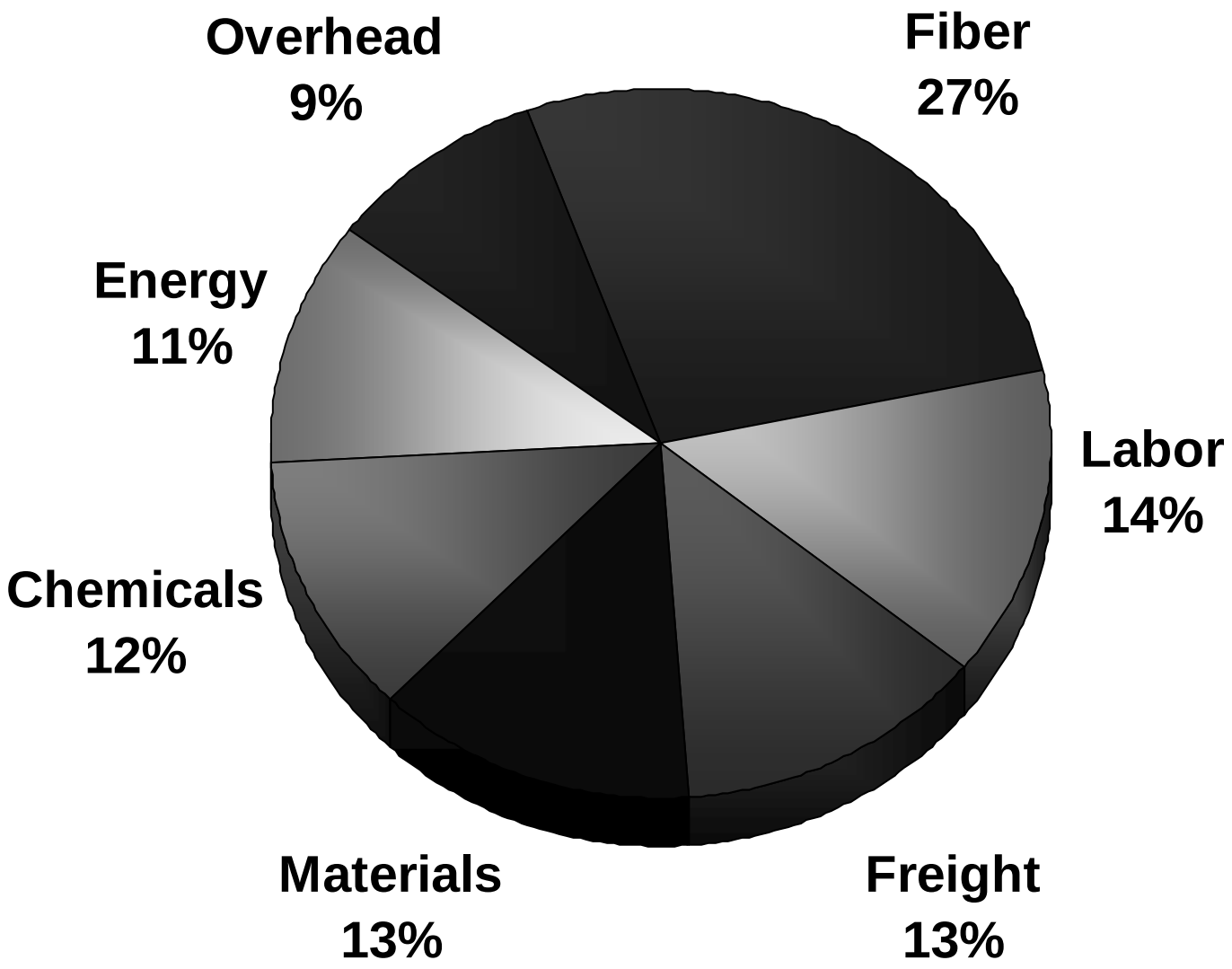
**2000 – 2008**

- **Demand CAGR = (0.4%)**
- **Capacity closures = (3%)**




Source: AF&PA, RISI, IP Analysis
2008E includes Pratt's new machine in Shreveport, LA: 360 M Tons

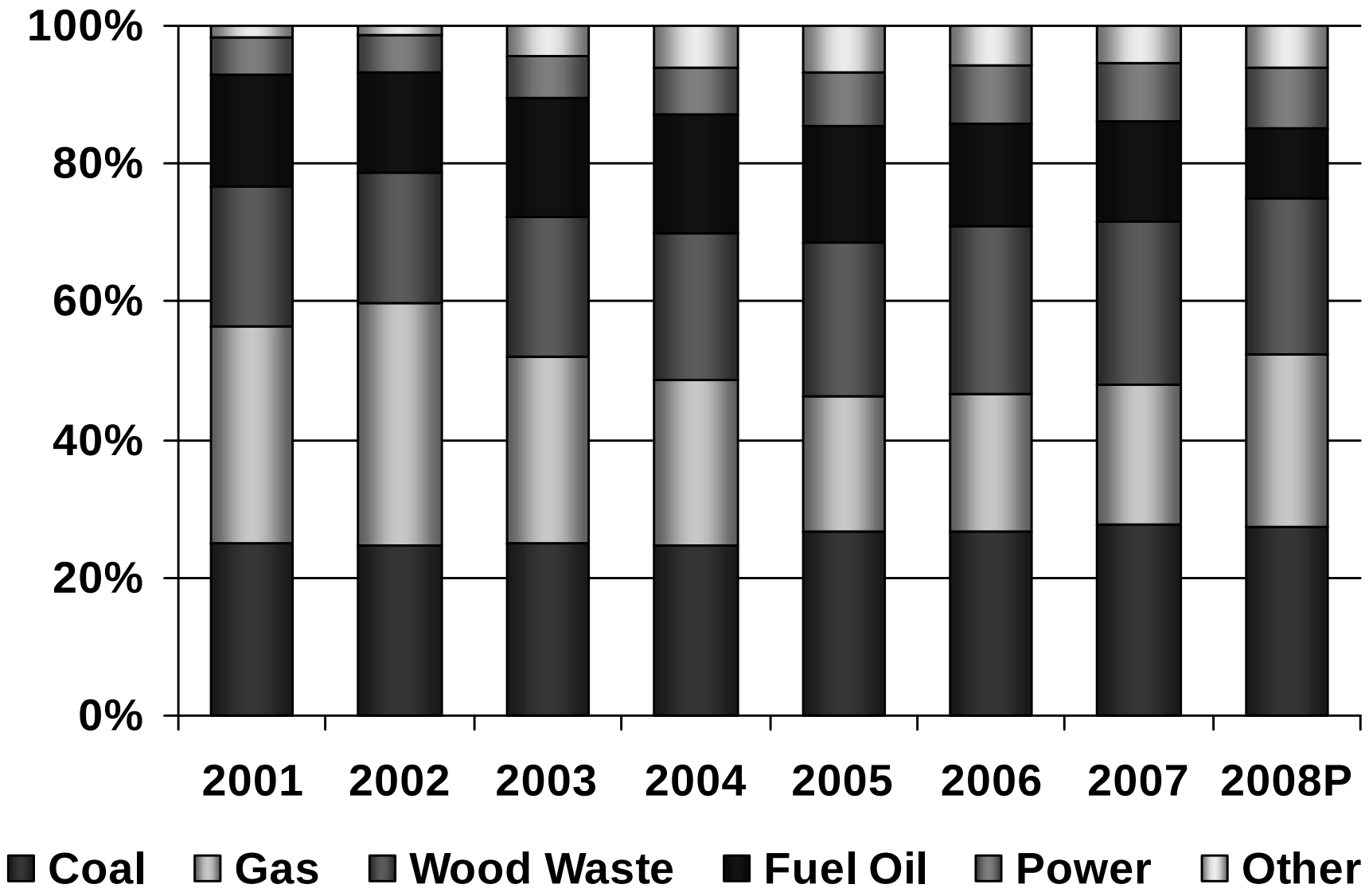
# Total Cash Cost Components
## *6M08*




North American Mills Only

# Energy
## *Substituting Lower-Cost Energy*

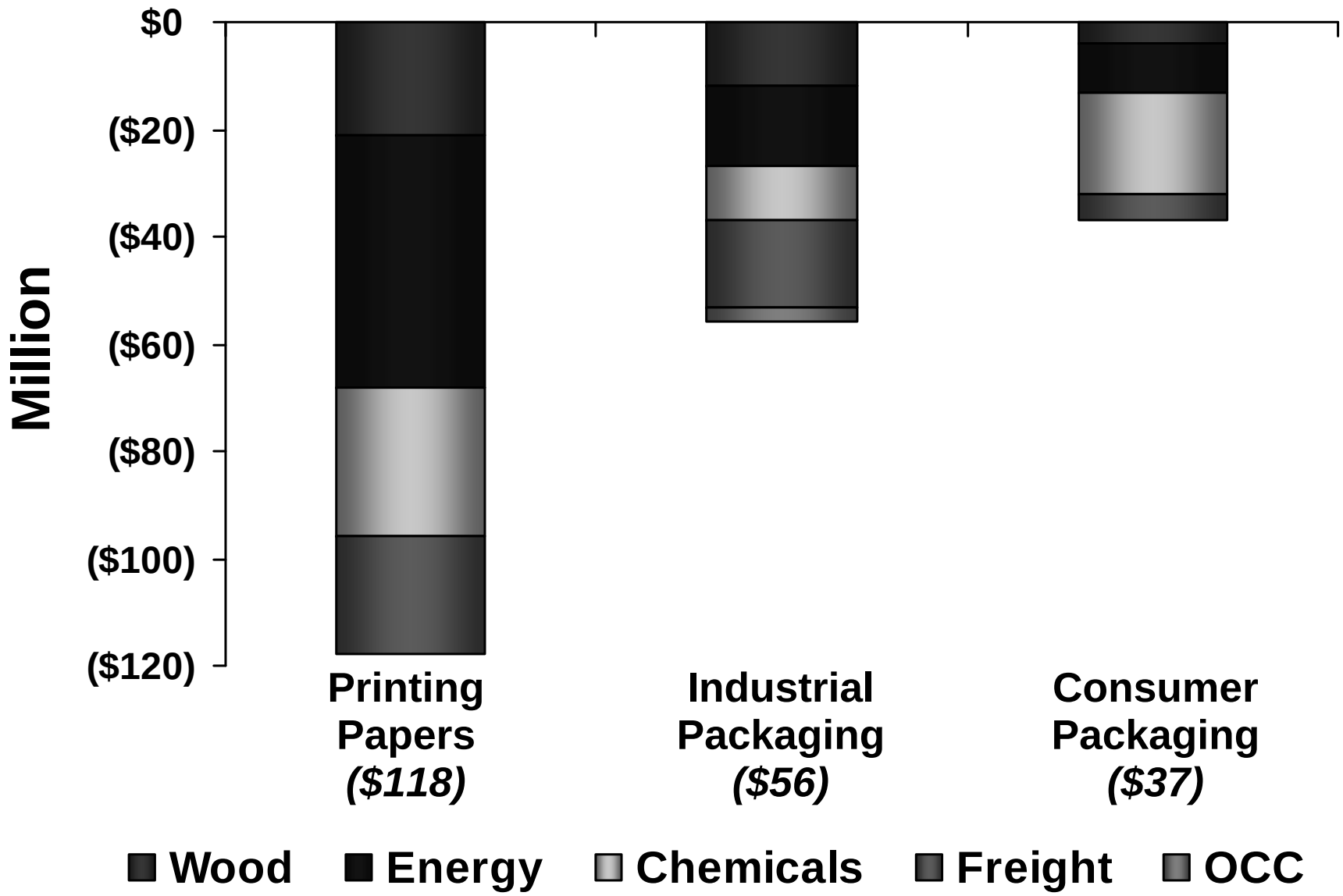
INTERNATIONAL PAPER




*Other includes shredded tires, recycled oil, and any other fossil fuels

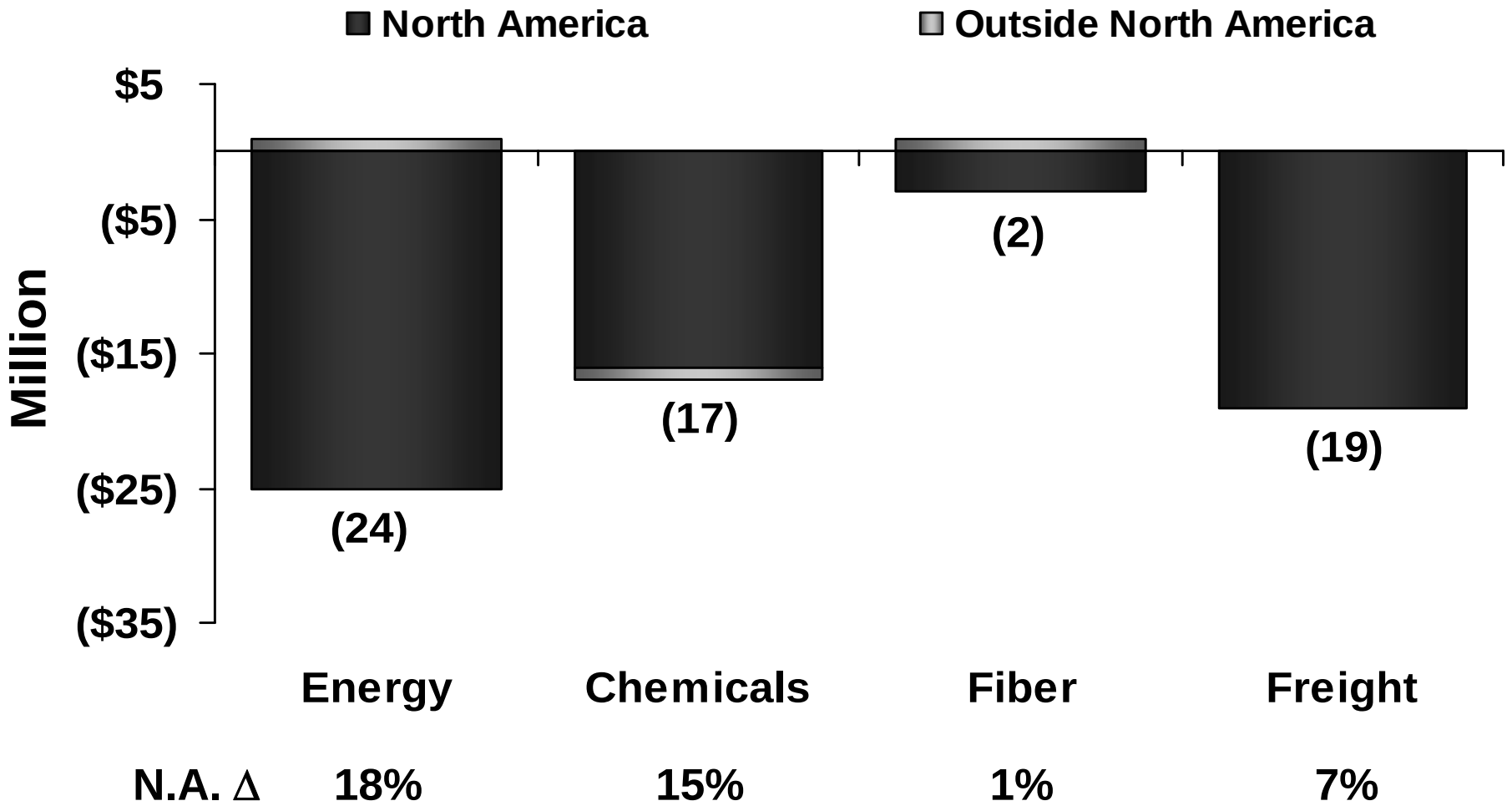
# Global Input & Freight Costs by Segment

## *$211 Million Global Impact vs. 2Q07*



# Increasing Global Input & Freight Costs

## *$62MM, or $0.10/Share Impact vs. 1Q08*

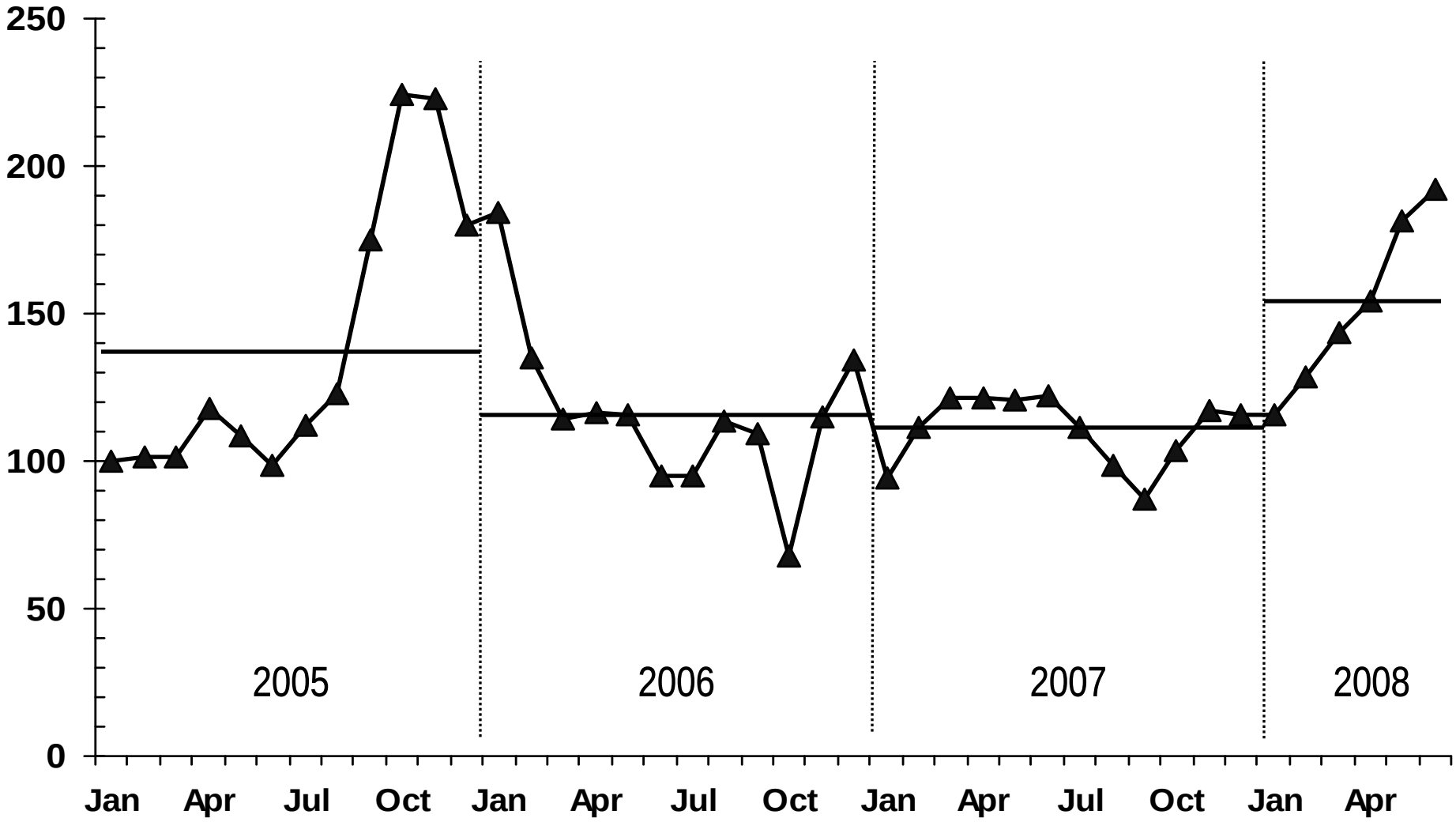



Input costs for continuing businesses
Percentage change reflects North American input costs

# Natural Gas Costs
## *45% increase vs. 2Q07 average cost*

INTERNATIONAL PAPER

Index: Jan 2005 Natural Gas Costs = 100

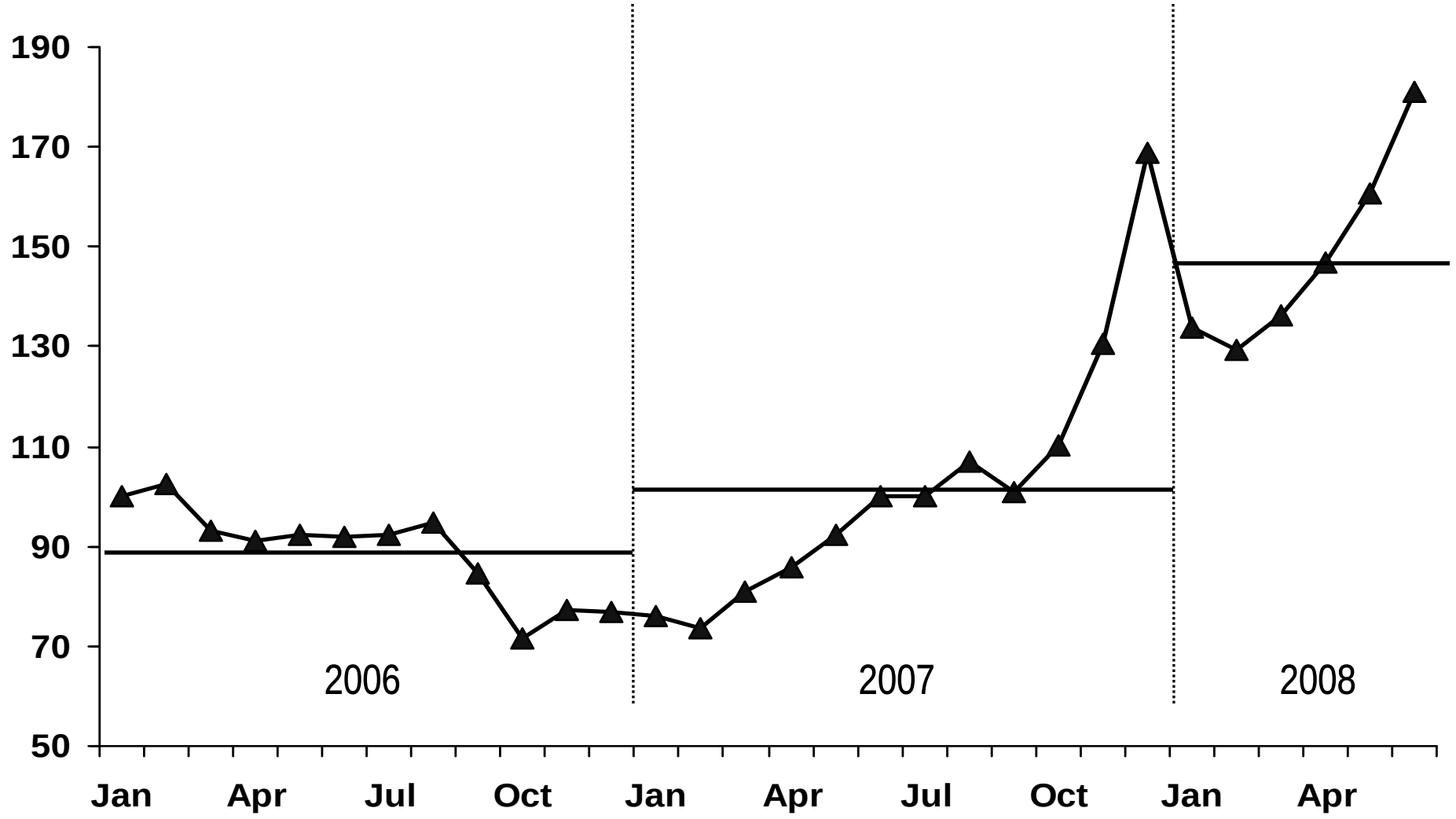



NYMEX Natural Gas closing prices

# U.S. #6 Fuel Oil
## *75% increase vs. 2Q07 average cost*

INTERNATIONAL PAPER

Index: Jan 2006 #6 Fuel Costs = 100

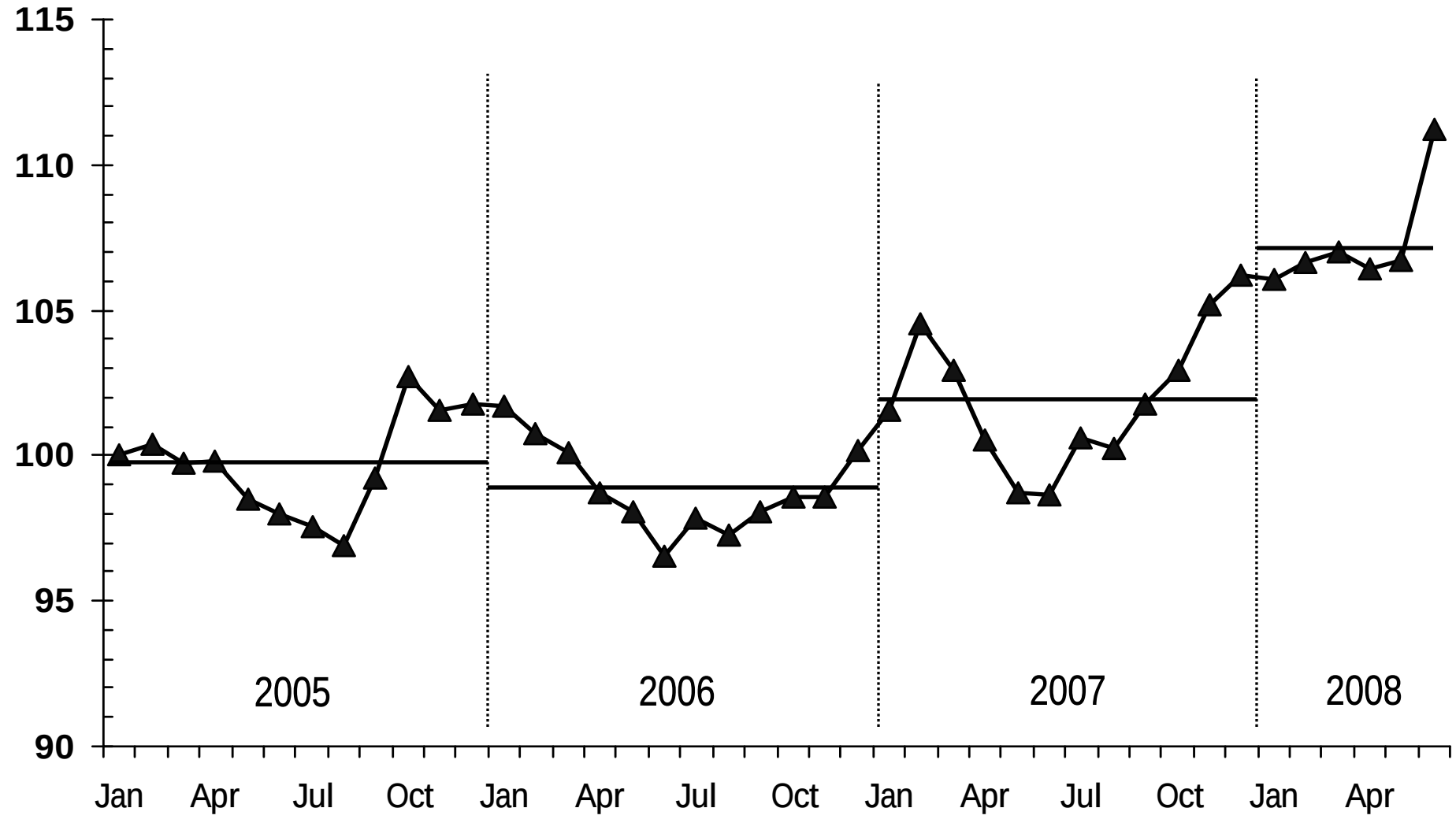



Delivered cost to U.S. facilities

# U.S. Mill Wood Costs
## *9% increase vs. 2Q07 average cost*

INTERNATIONAL PAPER

Index: Jan 2005 Wood Costs = 100

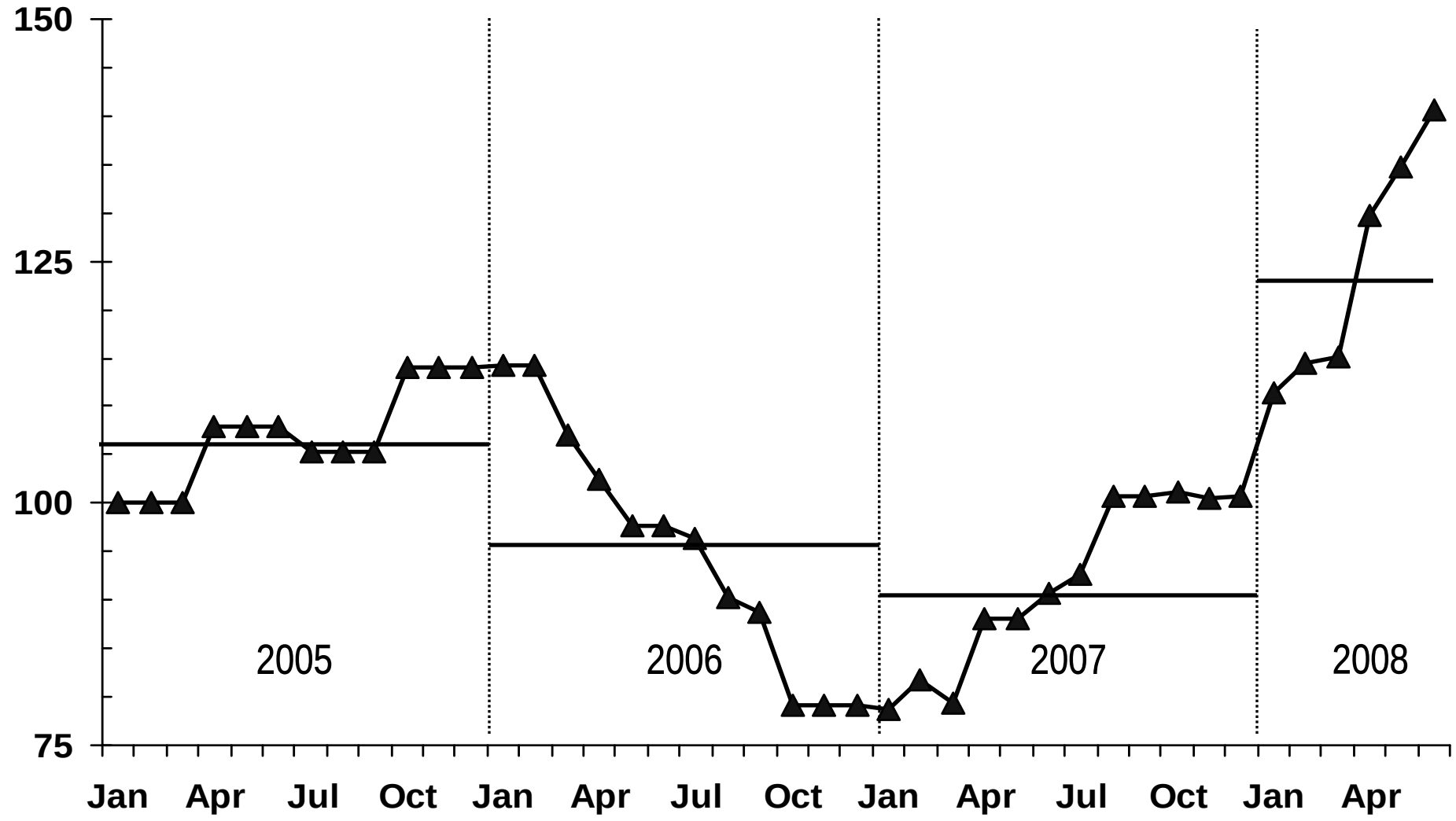



Delivered cost to U.S. facilities

# U.S. Caustic Soda Costs
## *52% increase vs. 2Q07 average cost*

INTERNATIONAL PAPER

Index: Jan 2005 Caustic Soda Costs = 100

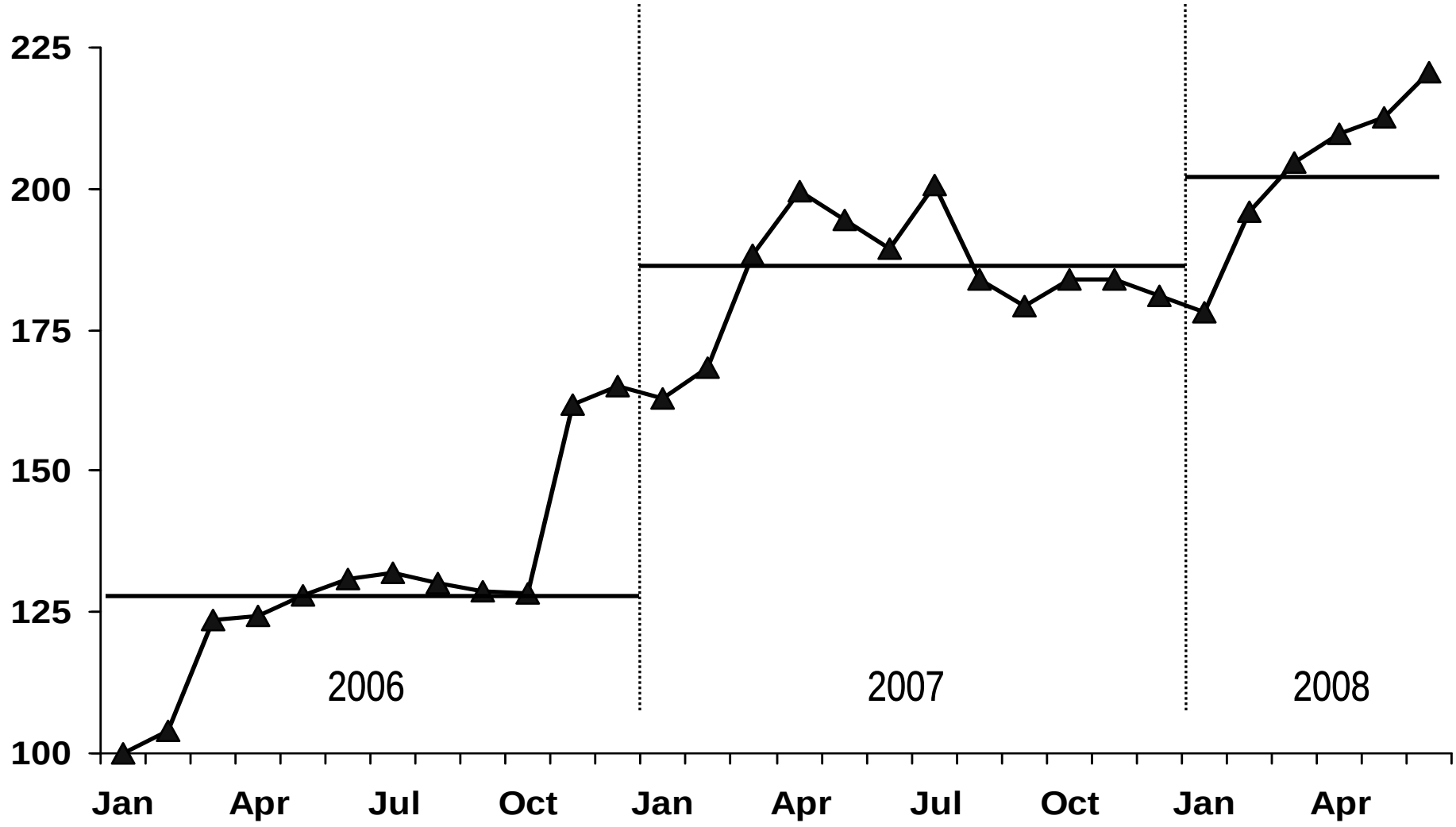



Delivered cost to U.S. facilities

# U.S. Corn Starch Costs
## *10% increase vs. 2Q07 average cost*

INTERNATIONAL PAPER

Index: Jan 2006 Corn Starch Costs = 100




Delivered cost to U.S. facilities

# Global Consumption
## *2008 Purchase Estimates for Key Inputs*

INTERNATIONAL PAPER

| | Commodity | U. S. | Non – U. S. |
|---|---|---|---|
| **Energy** | **Natural Gas (MM BTUs)** | 28,000,000 | 15,000,000 |
| | **#6 Fuel Oil (Barrels)** | 3,000,000 | 500,000 |
| | **Coal (Tons)** | 1,300,000 | 230,000 |
| **Fiber** | **Wood (Tons)** | 43,000,000 | 8,200,000 |
| | **Old Corrugated Containers (Tons)** | 600,000 | 310,000 |
| **Chemicals** | **Caustic Soda (Tons)** | 300,000 | 60,000 |
| | **Corn Starch (Tons)** | 350,000 | 110,000 |
| | **Sodium Chlorate (Tons)** | 240,000 | 50,000 |
| | **LD Polyethylene (Tons)** | 40,000 | - |
| | **Latex (Tons)** | 24,000 | 4,000 |

Includes only continuing businesses; does not include Asian or Weyerhaeuser consumption