

INTERNATIONAL PAPER

# John V. Faraci
# Chairman & CEO

***UBS Global Paper and Forest Products Conference***

*September 16, 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.**

# The New International Paper Company

- More-Focused Portfolio
- Improved Earnings & Cash Flow
- Lower-Cost Manufacturing Assets
- More Global Balance
- Balanced Use of Cash



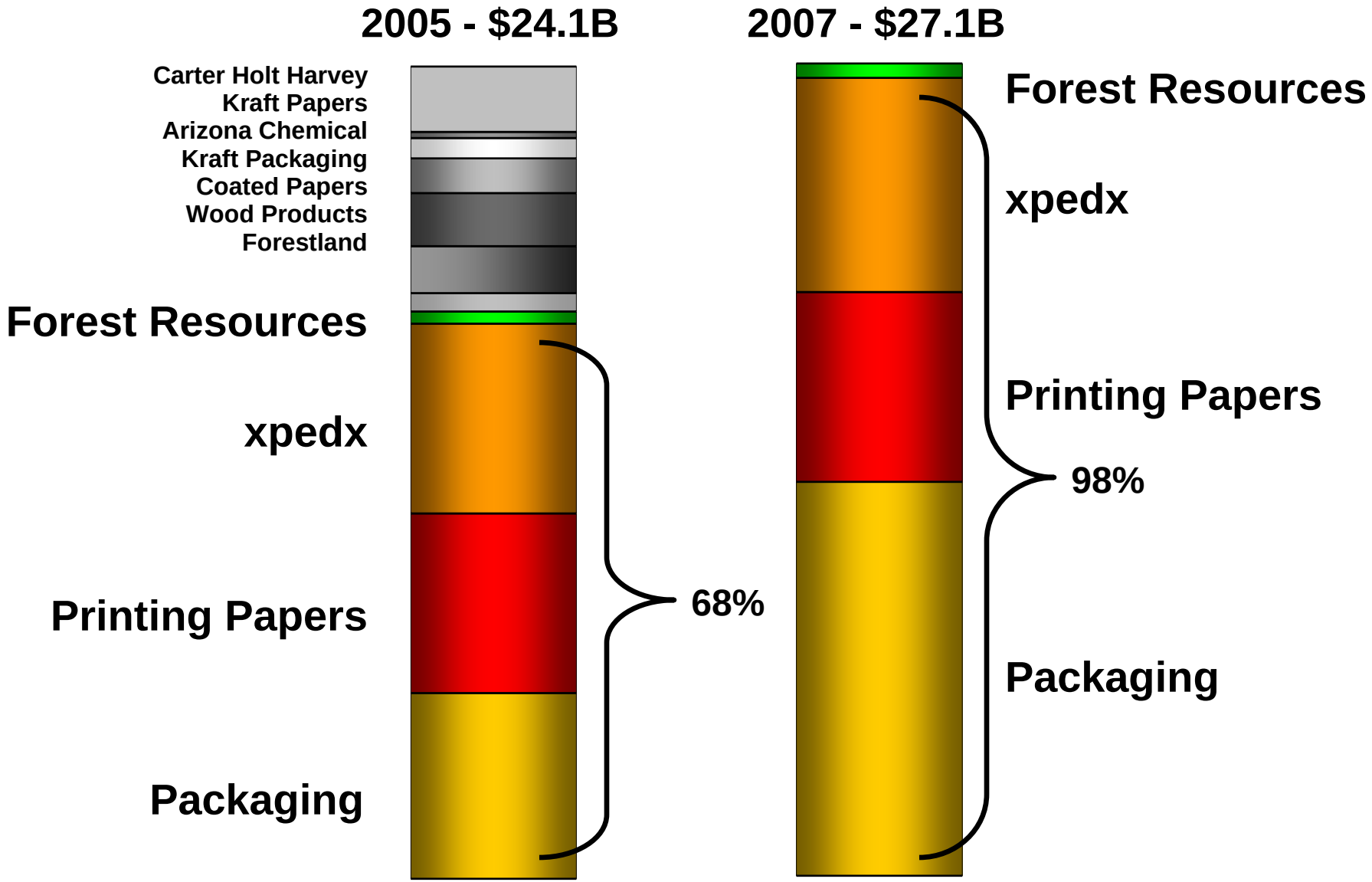






# Greater Focus
## *Pro Forma Sales Revenue*

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2007 revenue figures include Weyerhaeuser CBPR 2007 full-year revenues of $5.2 billion

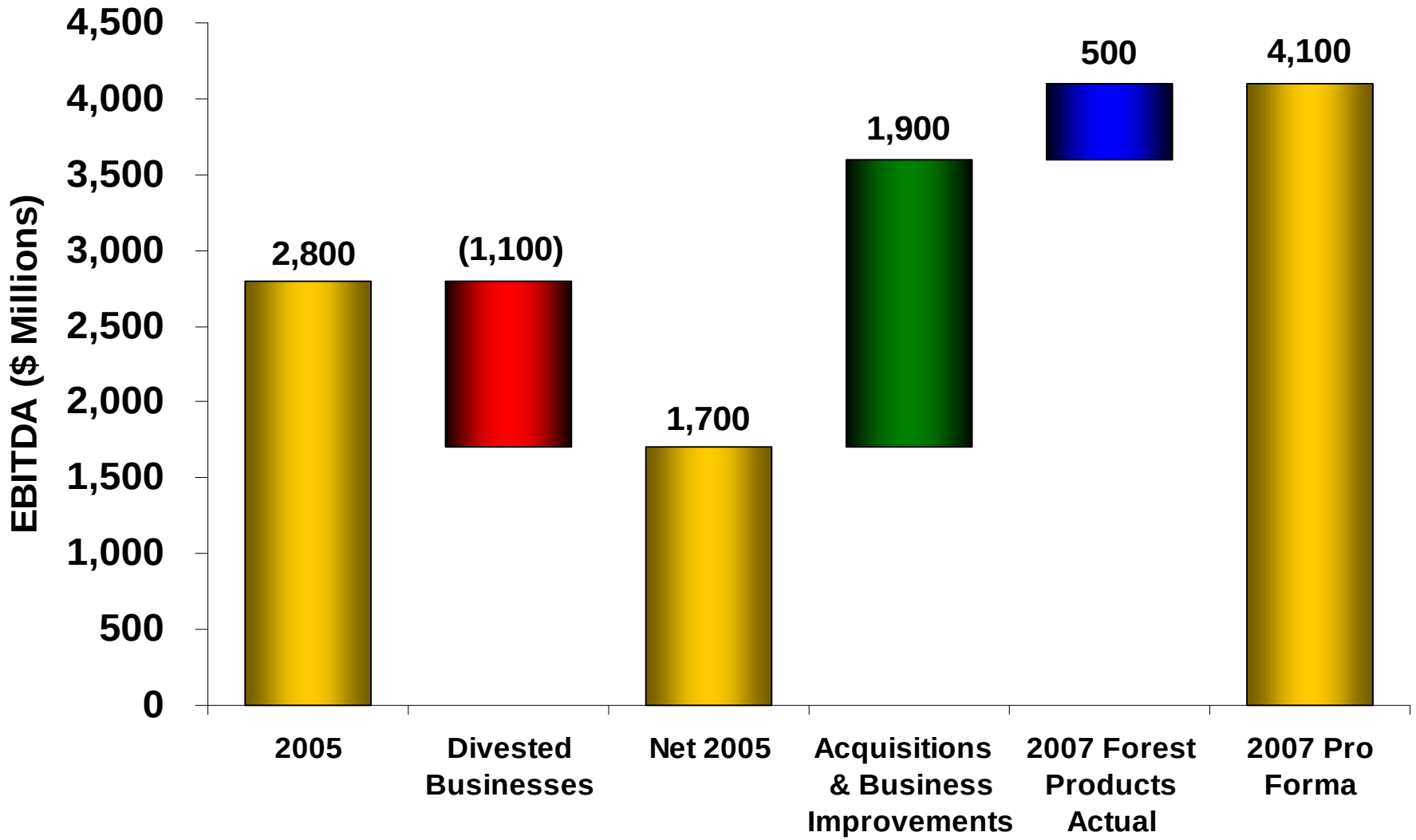
# Geographic Strength
## *Concentrating our Focus*

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| Region | Uncoated Freesheet | Softwood Market Pulp | Container Board & Boxes | Coated Bleached Board | Distribution |
|---|---|---|---|---|---|
| North America | #2 | | #1 | #1 | #1 |
| Latin America | #1 | | | | |
| Russia* | #1 | #1 | #1 | | |
| Eastern Europe | #1 | | | #1 | |
| Western Europe | #5 | | #4 | #5 | |
| China | | | | #2 | |
| Global | #1 | | #1 | #1 | |

* Includes Ilim

# Higher & Better EBITDA
## *Improving Earnings Quality*



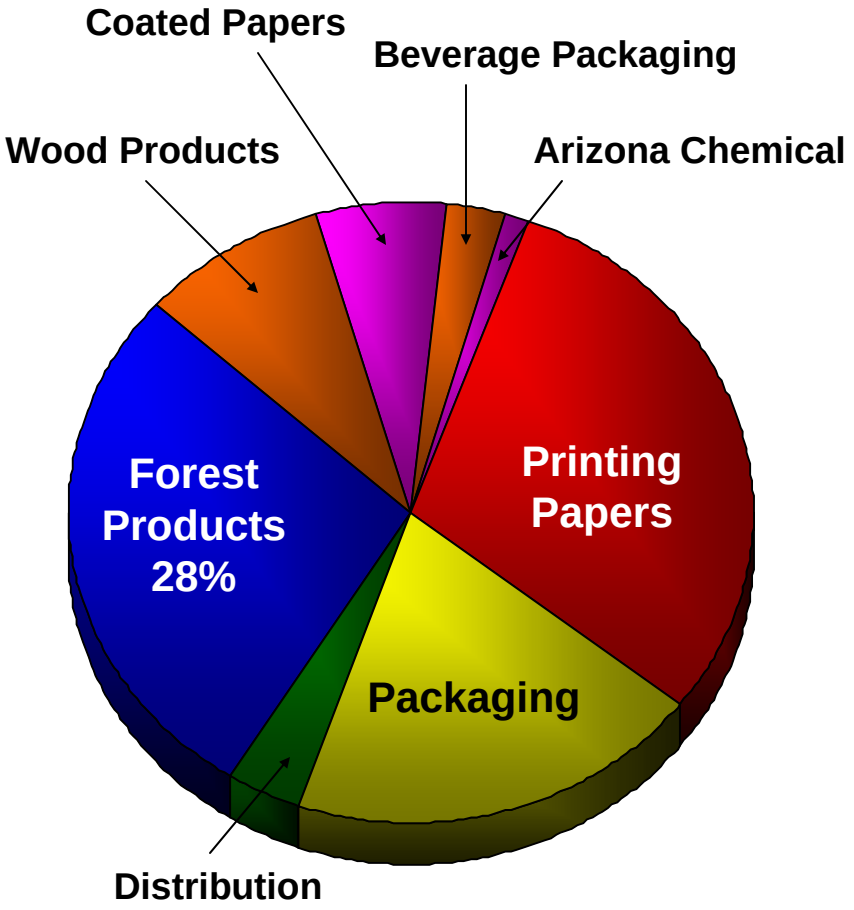

Earnings from continuing operations before special items; 2007 Pro Forma includes Weyerhaeuser CBPR 2007 EBITDA of $0.7 billion and estimated run-rate synergies of 0.4 billion plus IP's share of Ilim EBITDA estimate of $0.2 billion (reported in equity earnings)

# Higher & Better EBITDA
## *Improving Earnings Quality*

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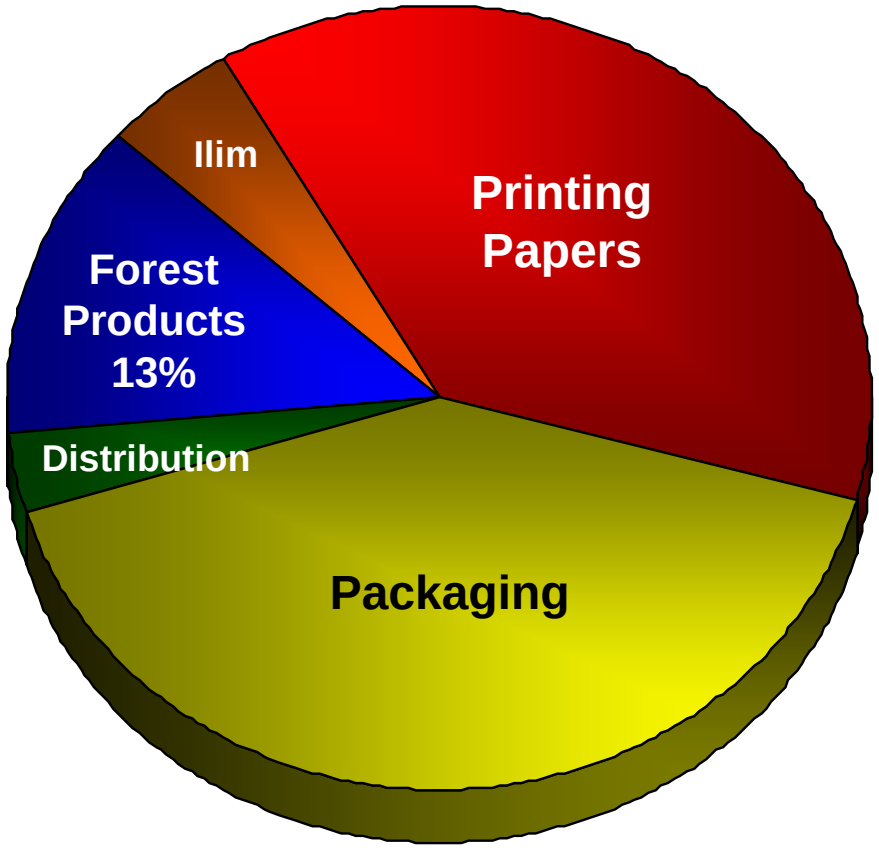
**2005**

***EBITDA - $2.8B***




**2007 Pro Forma**

***EBITDA - $4.1B(1)***




(1) Calculated as IP 2007 EBITDA of $2.8 billion plus Weyerhaeuser CBPR 2007 EBITDA of $0.7 billion and estimated run-rate synergies of 0.4 billion plus IP's share of Ilim EBITDA estimate of $0.2 billion (reported in equity earnings)

# Strong EBITDA & Cash Flow
## *Executing our Transformation Plan*

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| | $ Billions |
|---|---|
| EBITDA - 2007 Actual + IP's share of Ilim* | **$3.0** |
| WY CBPR 2007 EBITDA + Synergies Estimate | **$1.1** |
| **EBITDA 2007 Pro Forma** | **$4.1** |
| IP's share of Ilim - 2007 EBITDA Estimate | **($0.2)** |
| Capital Expenditure - 2008 Estimate | **($1.0)** |
| Interest Expense - 2008 Annualized | **($0.7)** |
| Cash Taxes - 2008 Estimate | **($0.2)** |
| Forest Products – 2008 Estimate | **($0.4)** |
| **Free Cash Flow** | **$1.6** |
| **Free Cash Flow per Share** | **$3.80** |

**This is not a forecast; for Transformation Plan illustrative purposes only**

*IP's share of Ilim EBITDA estimate of $0.2 billion (reported in equity earnings)

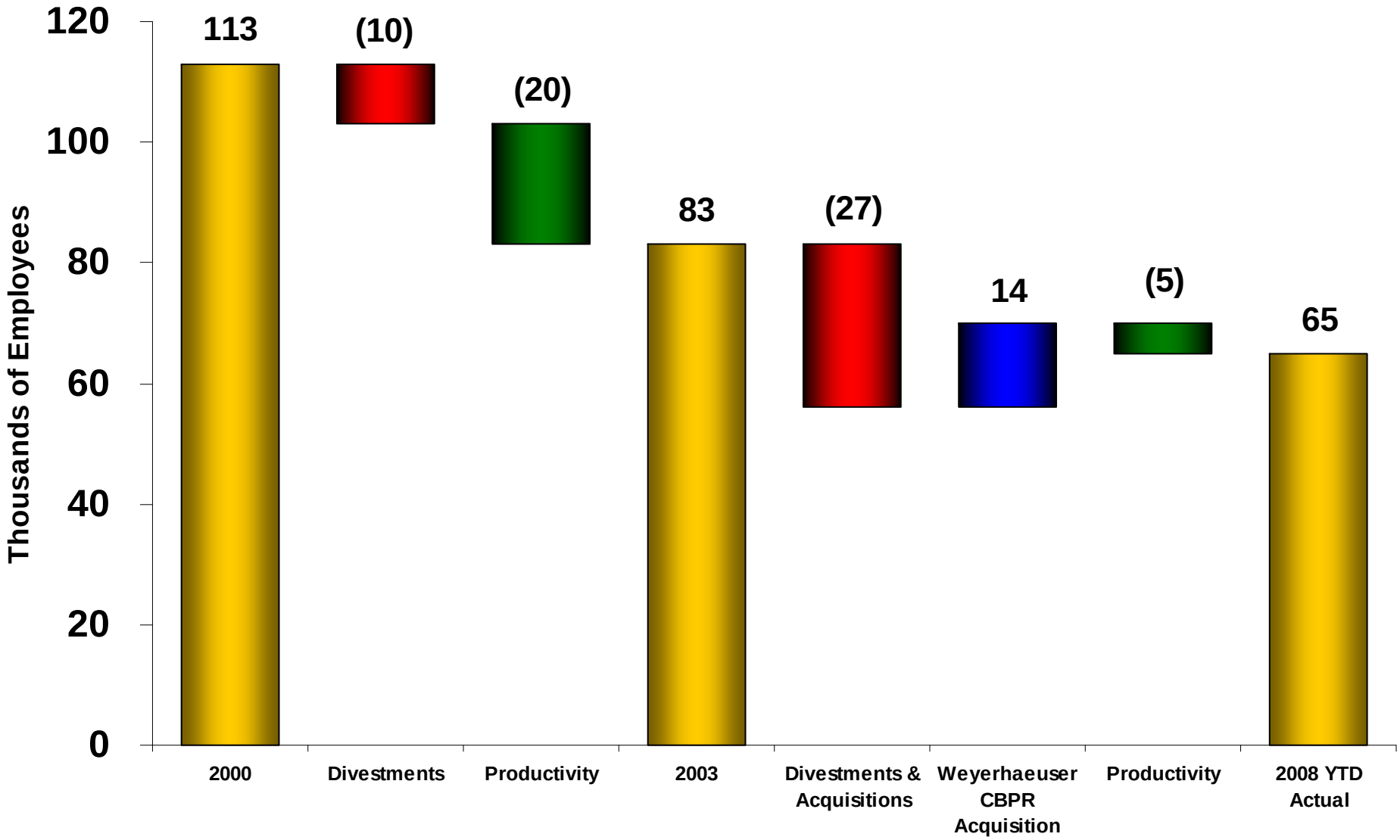
Free cash flow assumes that 2009 working capital does not change from 2008 levels

# Strong Cash Flow
## *Balanced Use of Cash*

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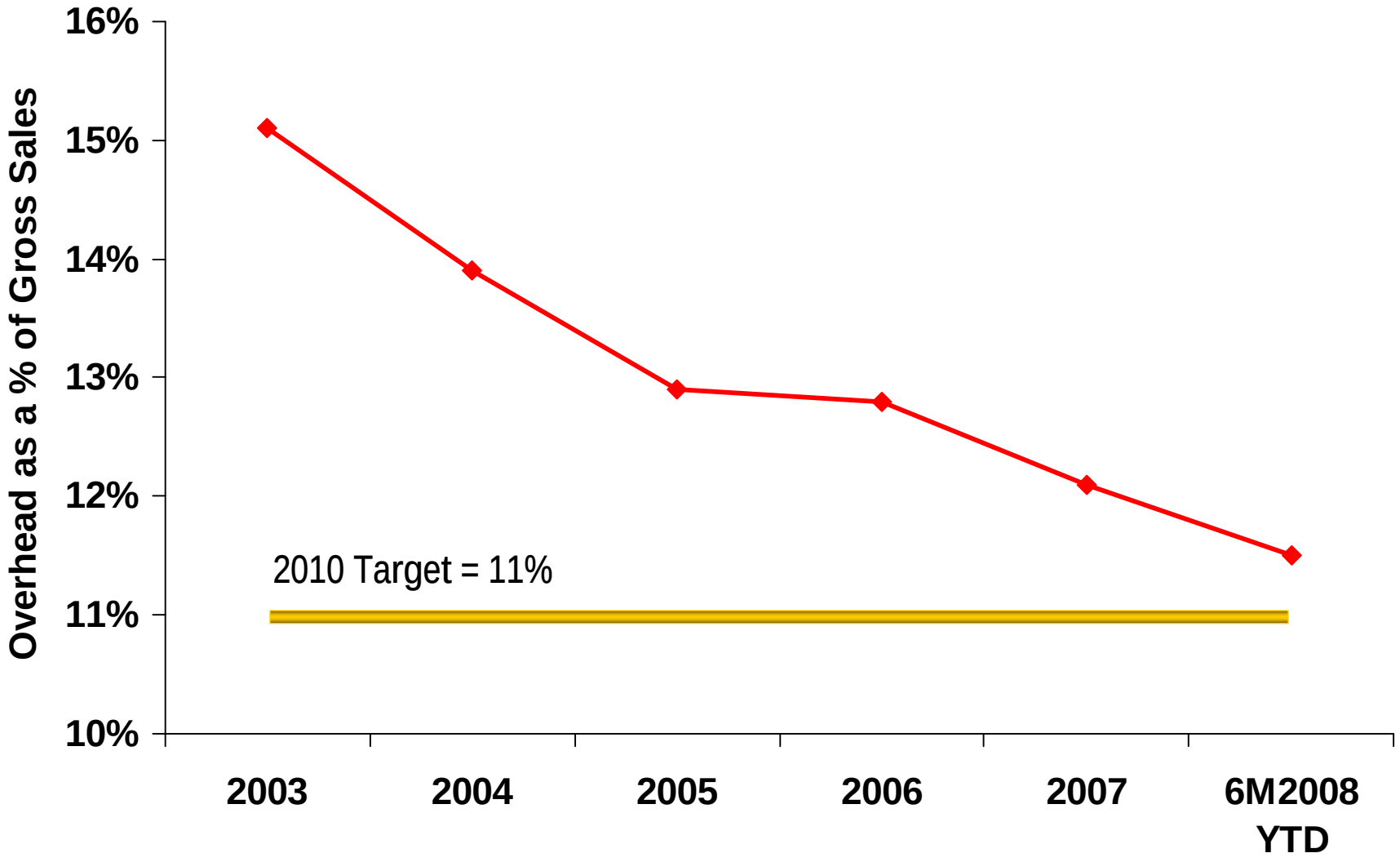
| Strong Cash Flow | Balanced Use of Cash |
|---|---|
| ▪ WY Integration | ▪ Debt Repayment |
| ▪ Synergies | Alternatives: |
| ▪ Reduced Capital Expenditures | ▪ Dividend Increase |
| ▪ Capacity Management | ▪ Share Repurchases |
| ▪ Reduced Overhead Expenses | ▪ High-Return Investments |
| ▪ Business Improvement | |

# Workforce Changes
## *Changing our Cost Structure*



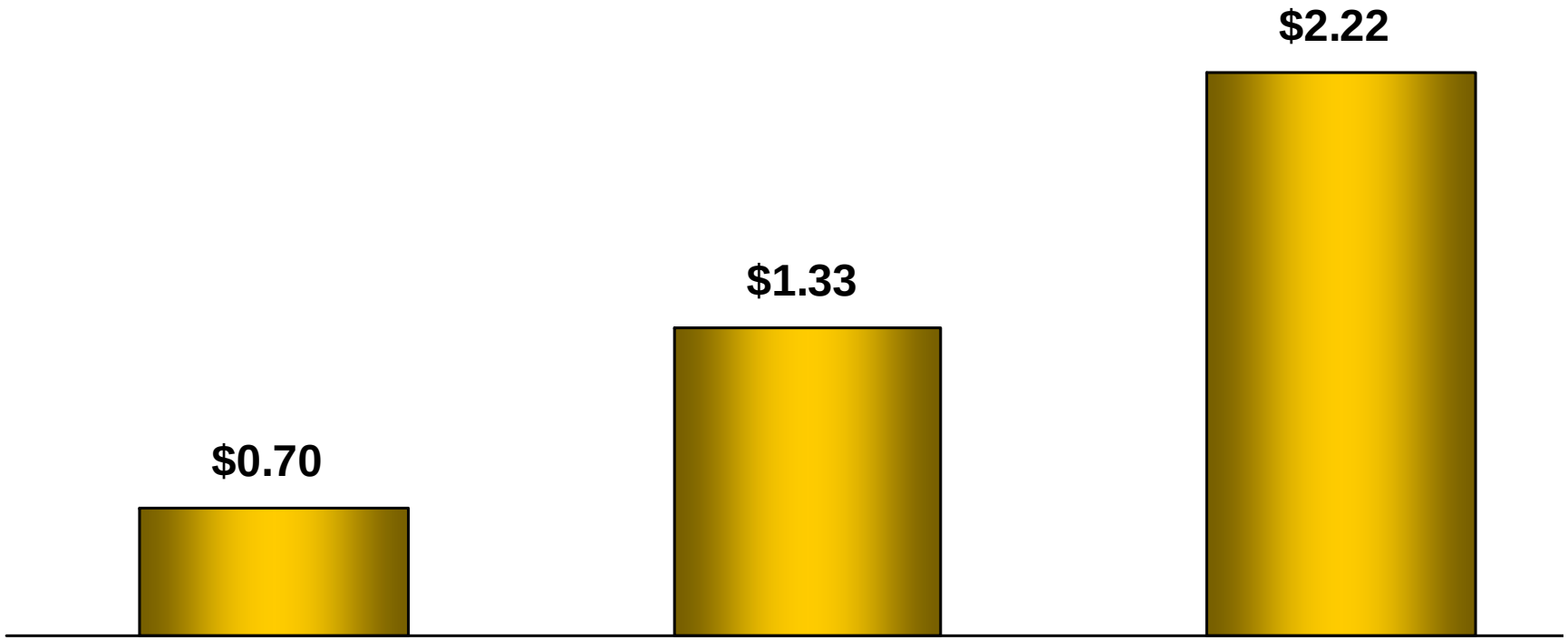

Excludes Ilim joint venture employees

# Overhead as % of Sales
## *Increasing our Efficiency*




Overhead includes Selling & Administrative and Manufacturing Administrative expenses

# Improving Absolute EPS
## *From Core Business Earnings*




| | 2005 | 2006 | 2007 |
|---|---|---|---|
| Forest Products Earnings | 54% | 39% | 24% |

EPS from continuing operations before special items
Forest Products Earnings percentage based on operating income
A reconciliation to GAAP EPS is available at www.internationalpaper.com under the Investors tab at presentations



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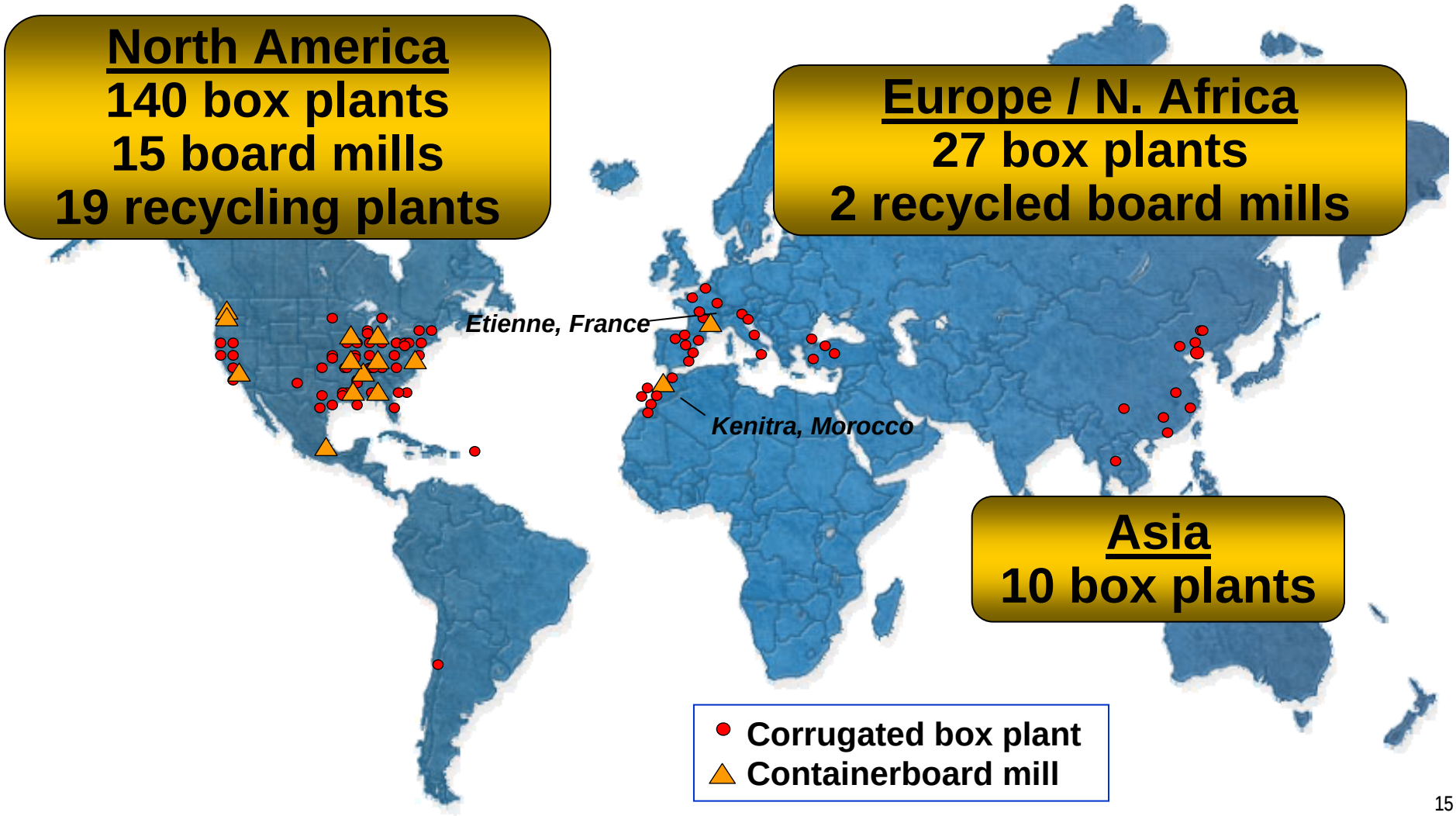
# North American Industrial Packaging

# Global Industrial Packaging Business

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**North America**
**140 box plants**
**15 board mills**
**19 recycling plants**

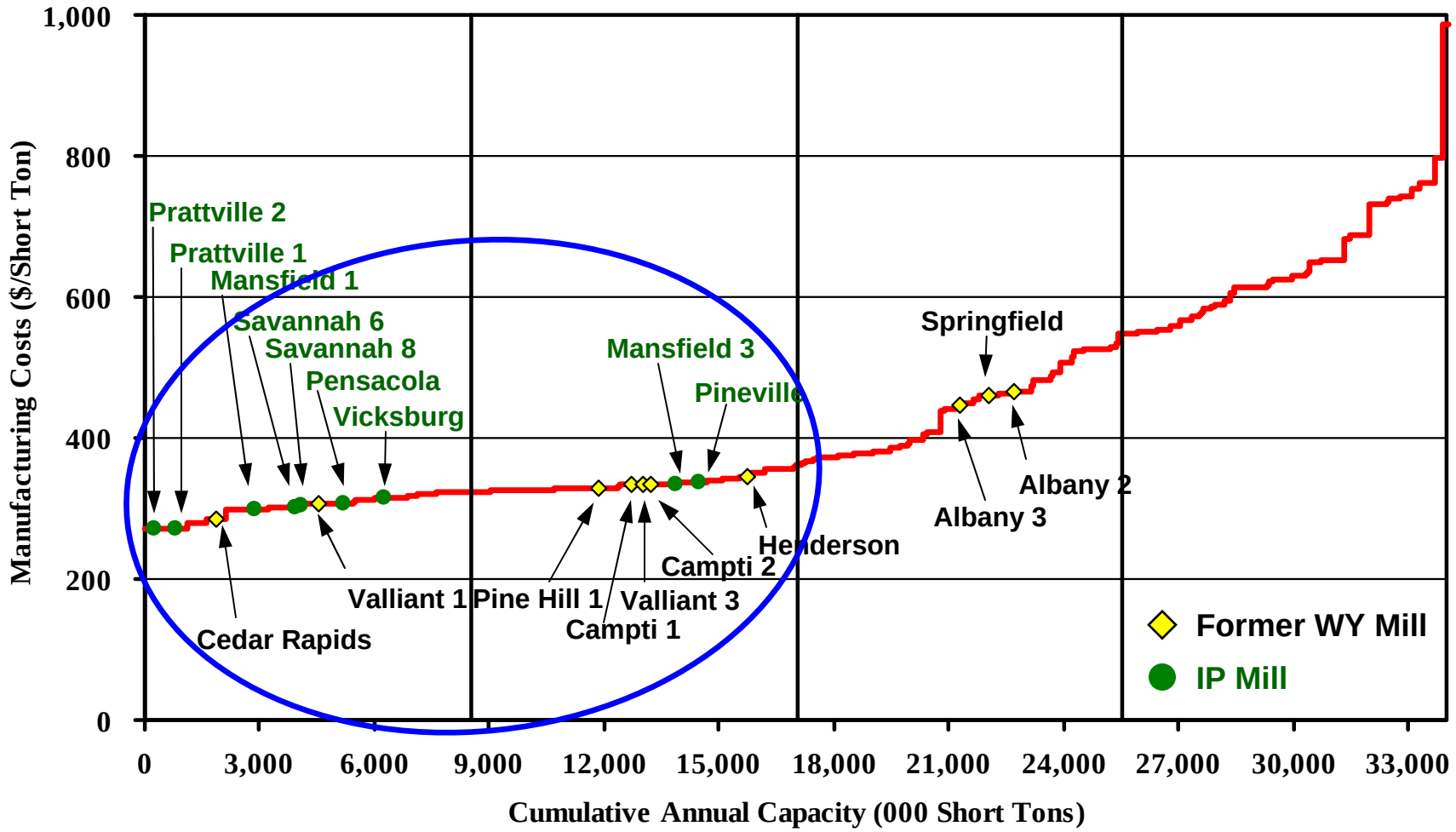
**Europe / N. Africa**
**27 box plants**
**2 recycled board mills**




**Asia**
**10 box plants**

# Containerboard Global Cost Curve

## *80% of IP Capacity in 1st & 2nd Quartiles*

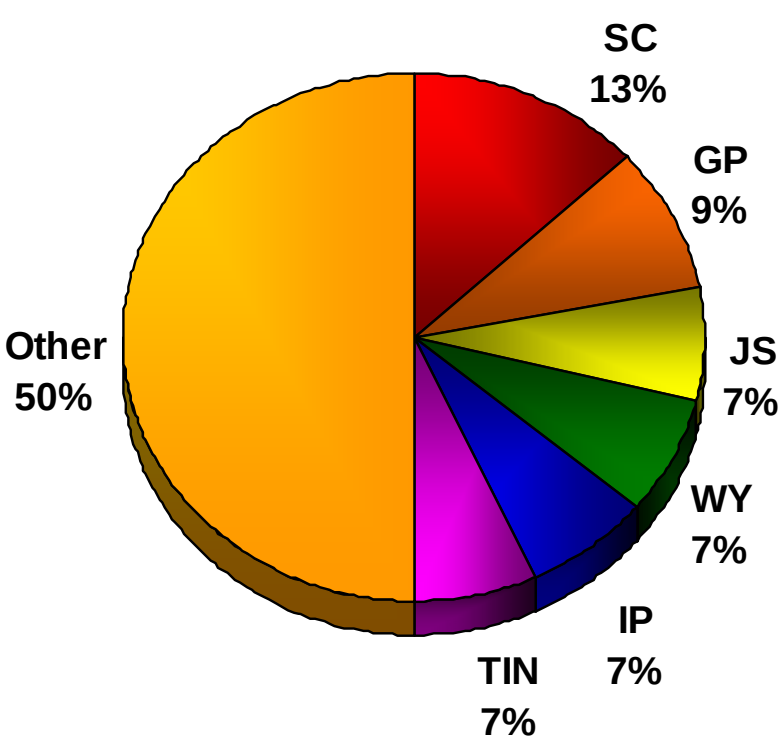



Source: Pöyry CostTrac – 1st Quarter, 2008
42# and 26# Global Kraft Linerboard cash cost per ton delivered to Chicago
Henderson, Savannah 8, Mansfield 3 and Pensacola based on 26#

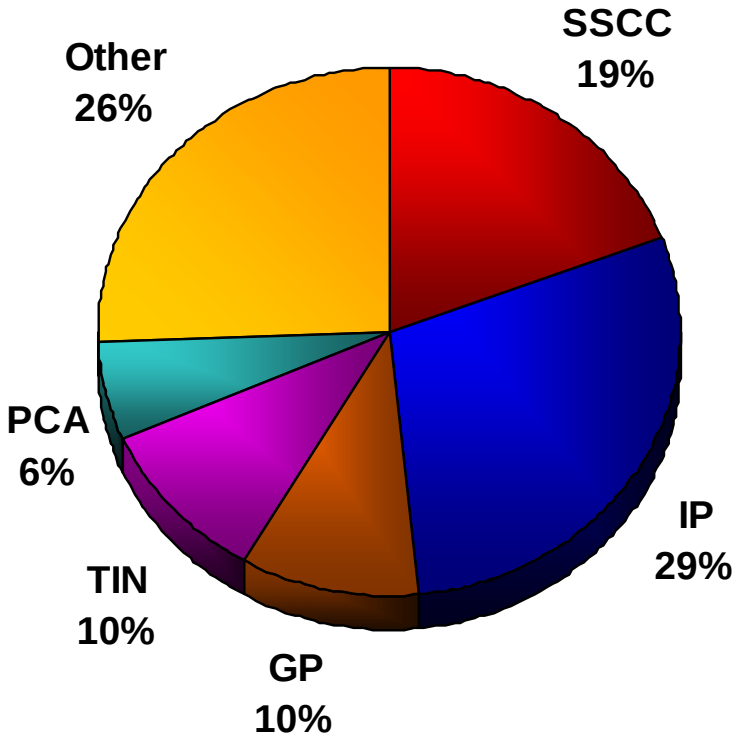
# North American Containerboard
## *Structural Changes*

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### 1995 Producer Position
***Top 2 = 22%***
***Top 4 = 36%***




### 2008 Producer Position
***Top 2 = 48%***
***Top 4 = 68%***



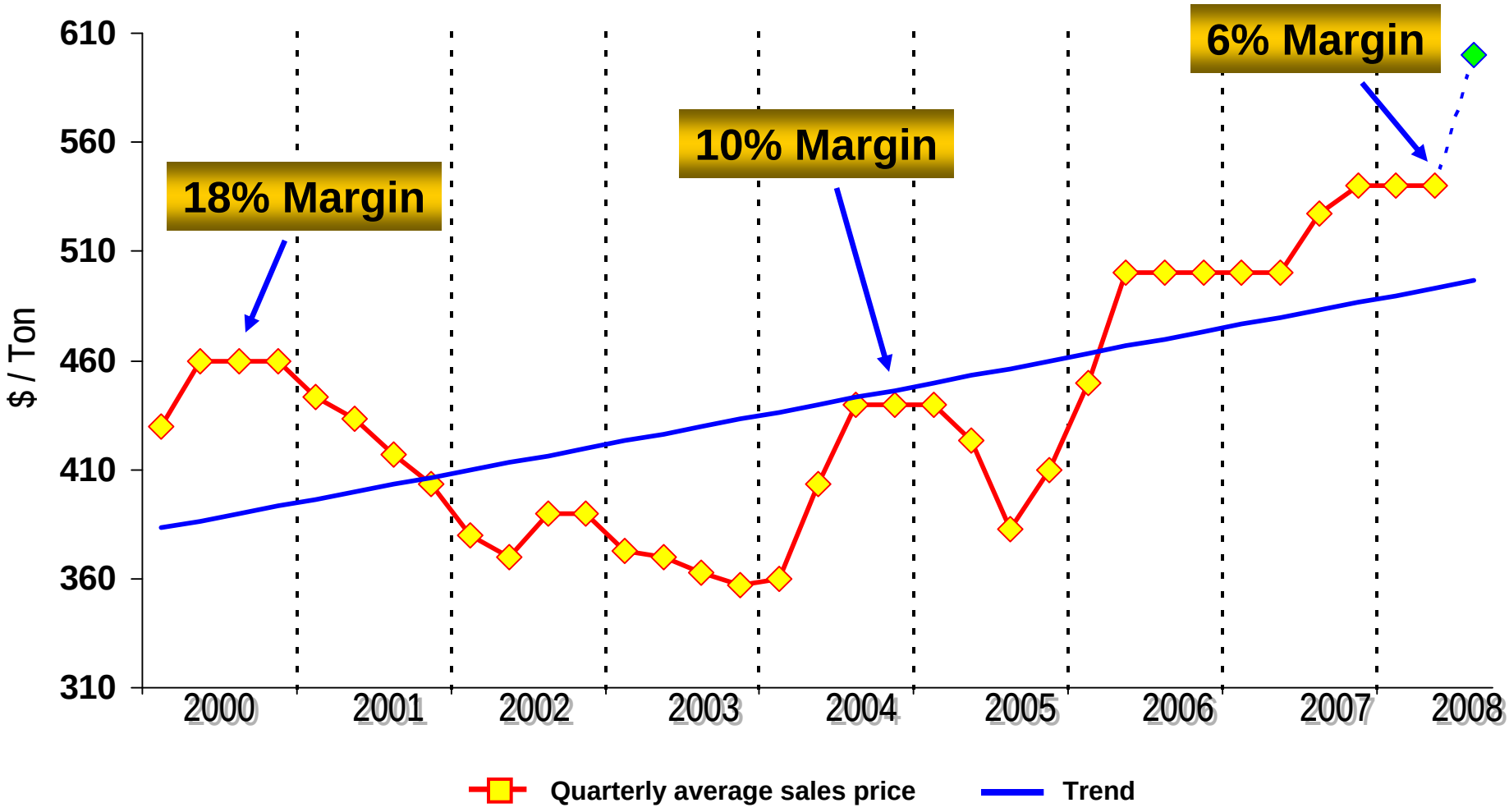

1995 Source: AF&PA, Company Reports, IP Analysis

2008 Source: RISI

# North American Industry Selling Prices

## *42 lb. Kraft Linerboard*

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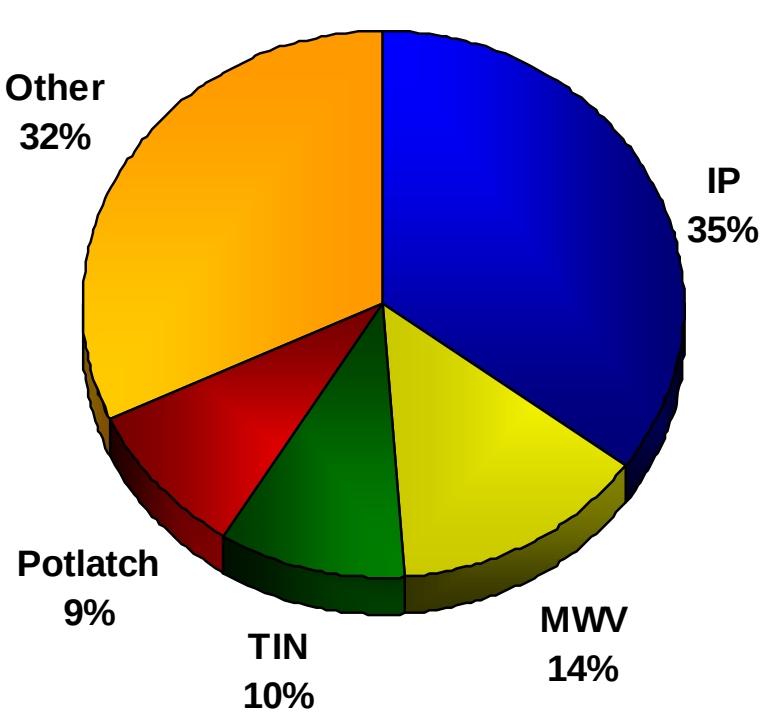



Sources: Selling Prices - RISI U.S. data, Margins – International Paper Industrial Packaging
2008 margin does not reflect the $55 per ton price increase announced in July

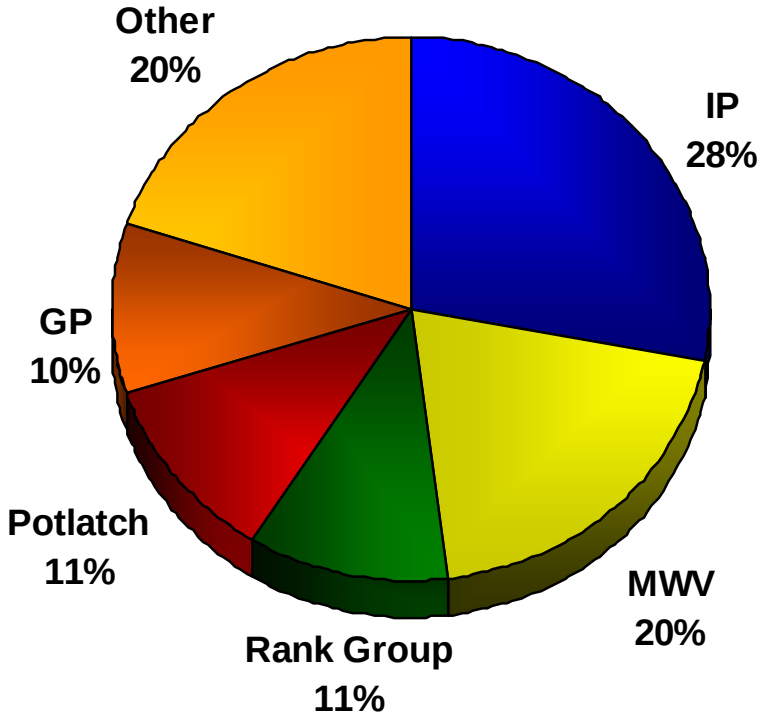
# North American Coated Paperboard
## *Producer Position*

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### 1998 Producer Position
***Top 2 = 49%***
***Top 4 = 68%***




### 2008 Producer Position
***Top 2 = 48%***
***Top 4 = 70%***

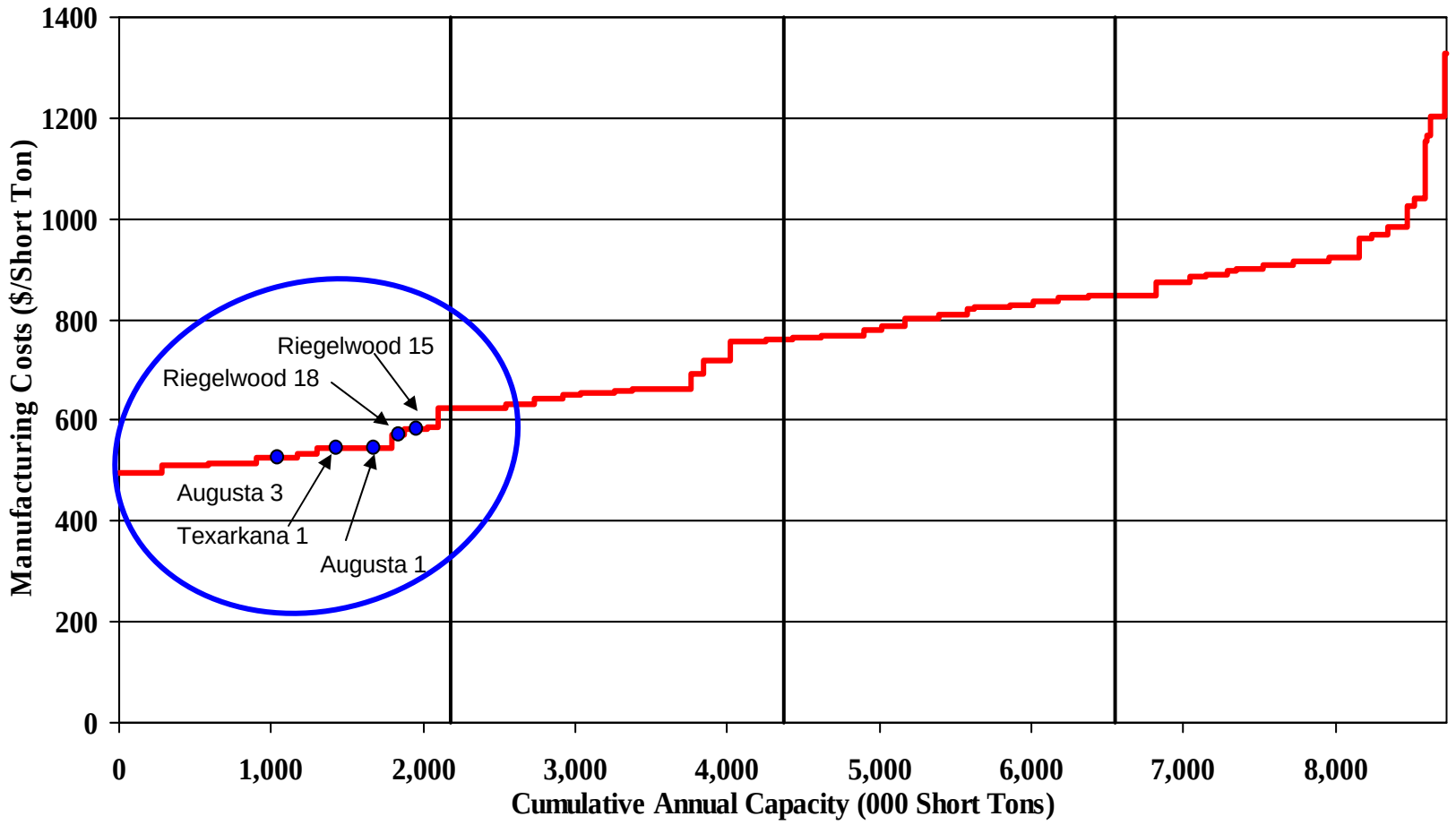



1995 Source: AF&PA, Company Reports, IP Analysis

2008 Source: RISI

# Coated Paperboard Global Cost Curve

## *IP North American Capacity in 1st Quartile*




Based on Poyry's 2007 CostTrac model at 1st Quarter, 2008, Prices and Exchange Rates.
57# Global Coated Paperboard cash cost per ton delivered to Chicago.

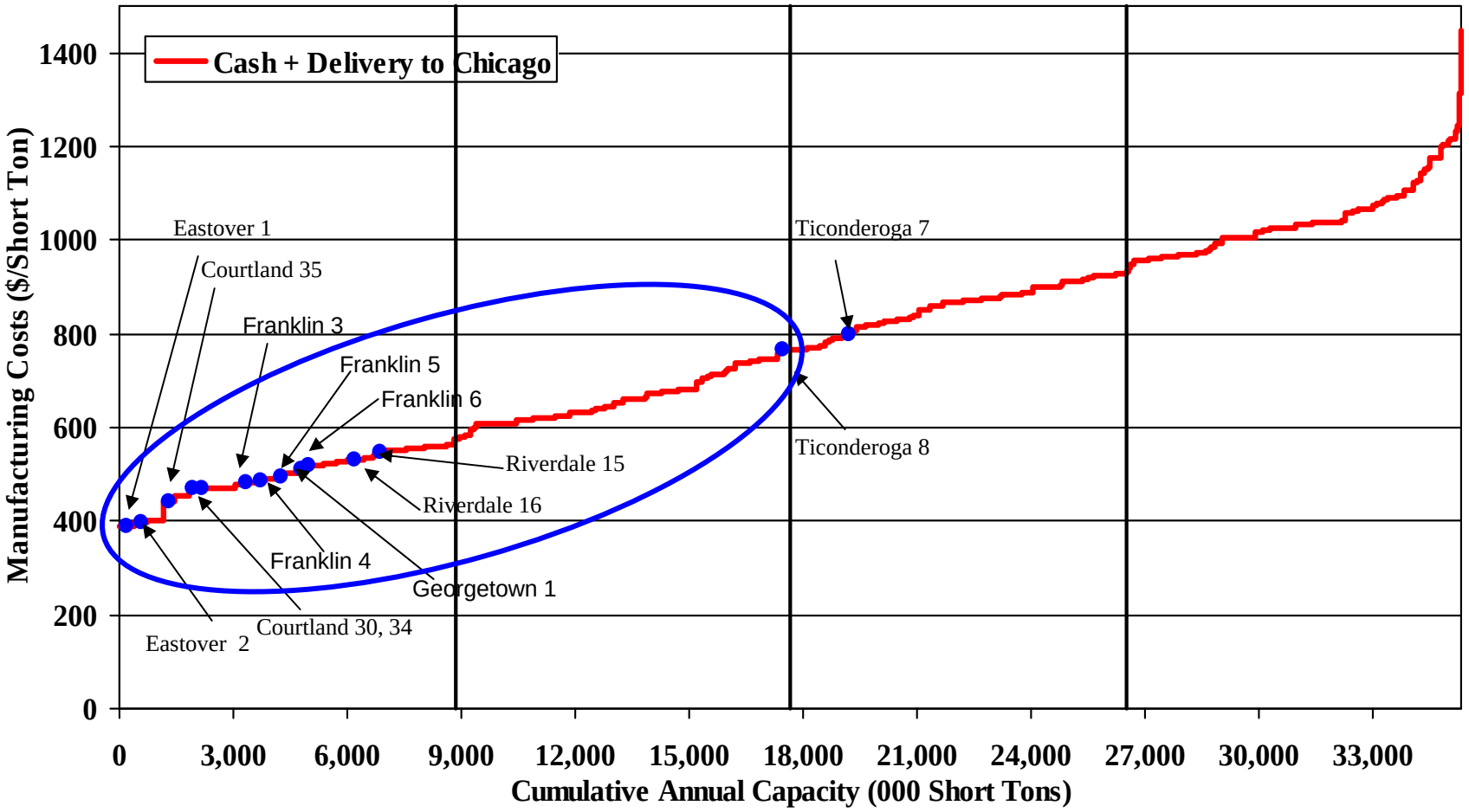


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# North American Printing Papers

# Uncoated Freesheet Global Cost Curve

## *94% of IP Capacity in 1st & 2nd Quartiles*

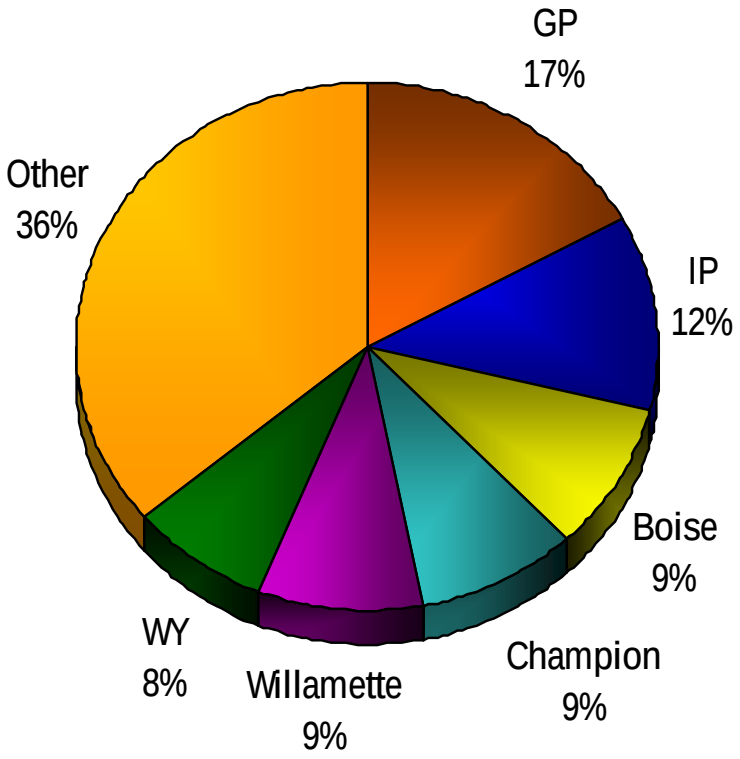



Based on Poyry's 2007 CostTrac model at 1st Quarter, 2008, Prices and Exchange Rates.

# North American Uncoated Freesheet
## *Structural Changes*

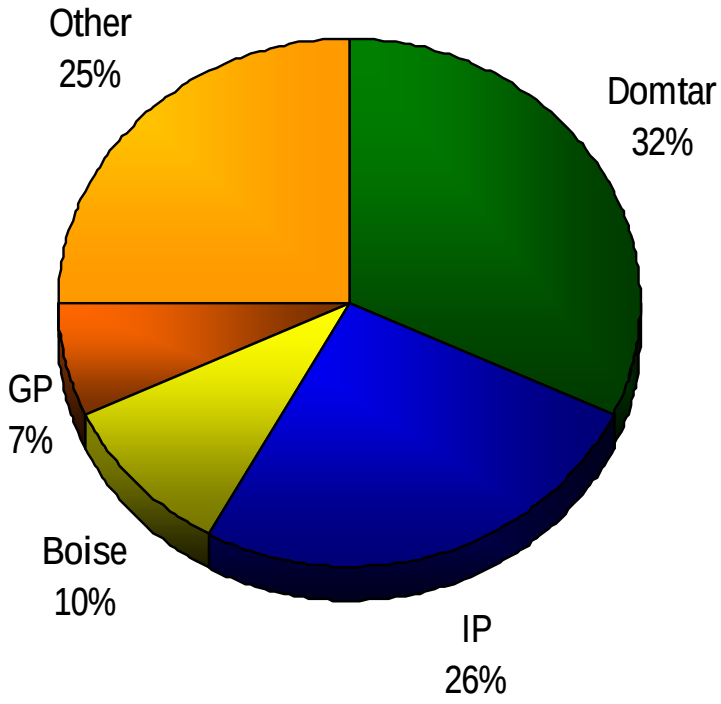
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### 1998 Producer Position
***Top 2 = 29%***
***Top 4 = 47%***




1998 Source: Company Reports, IP Analysis

### 2008 Producer Position
***Top 2 = 58%***
***Top 4 = 75%***

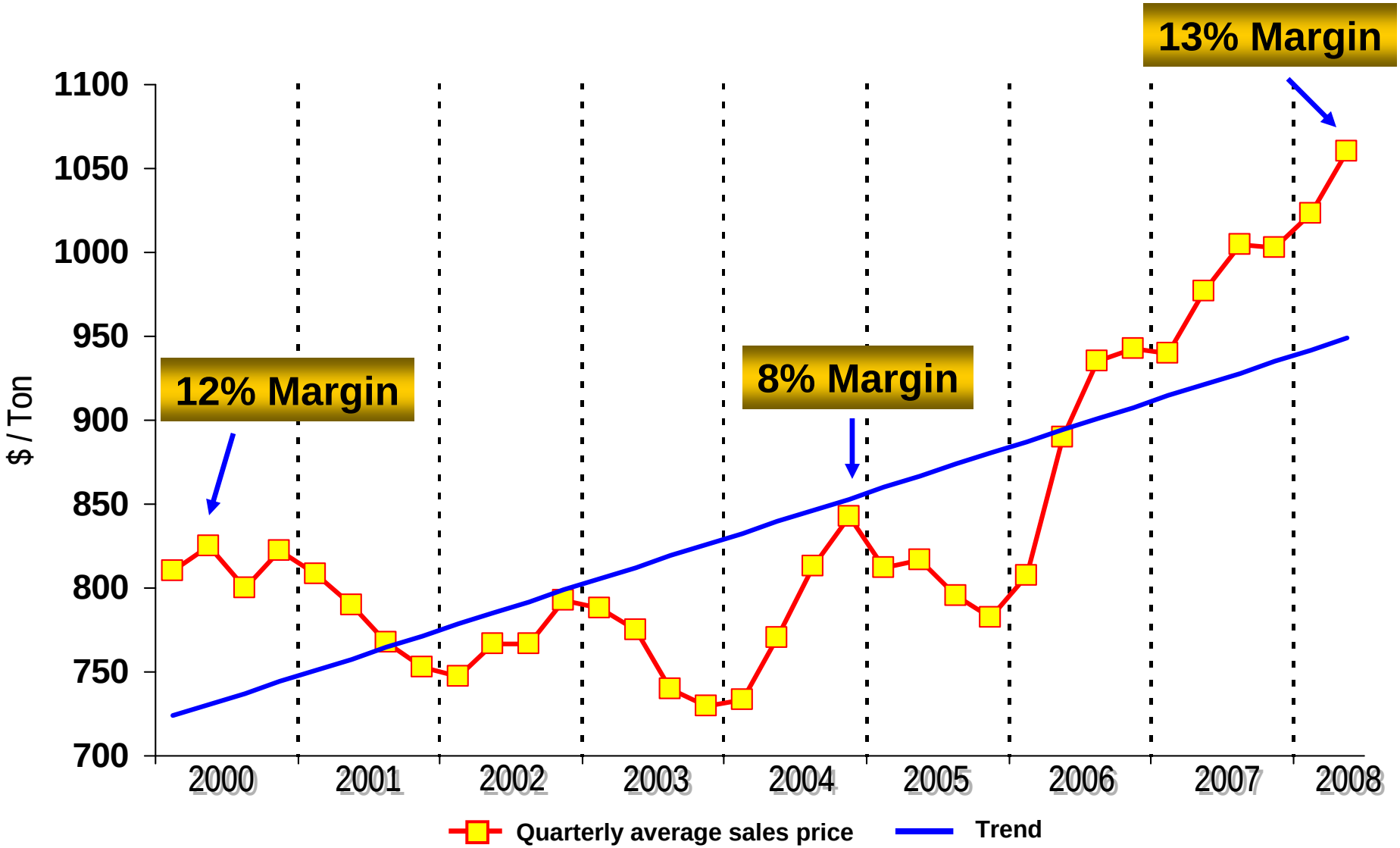



2008 Source: RISI

# North American Industry Selling Prices

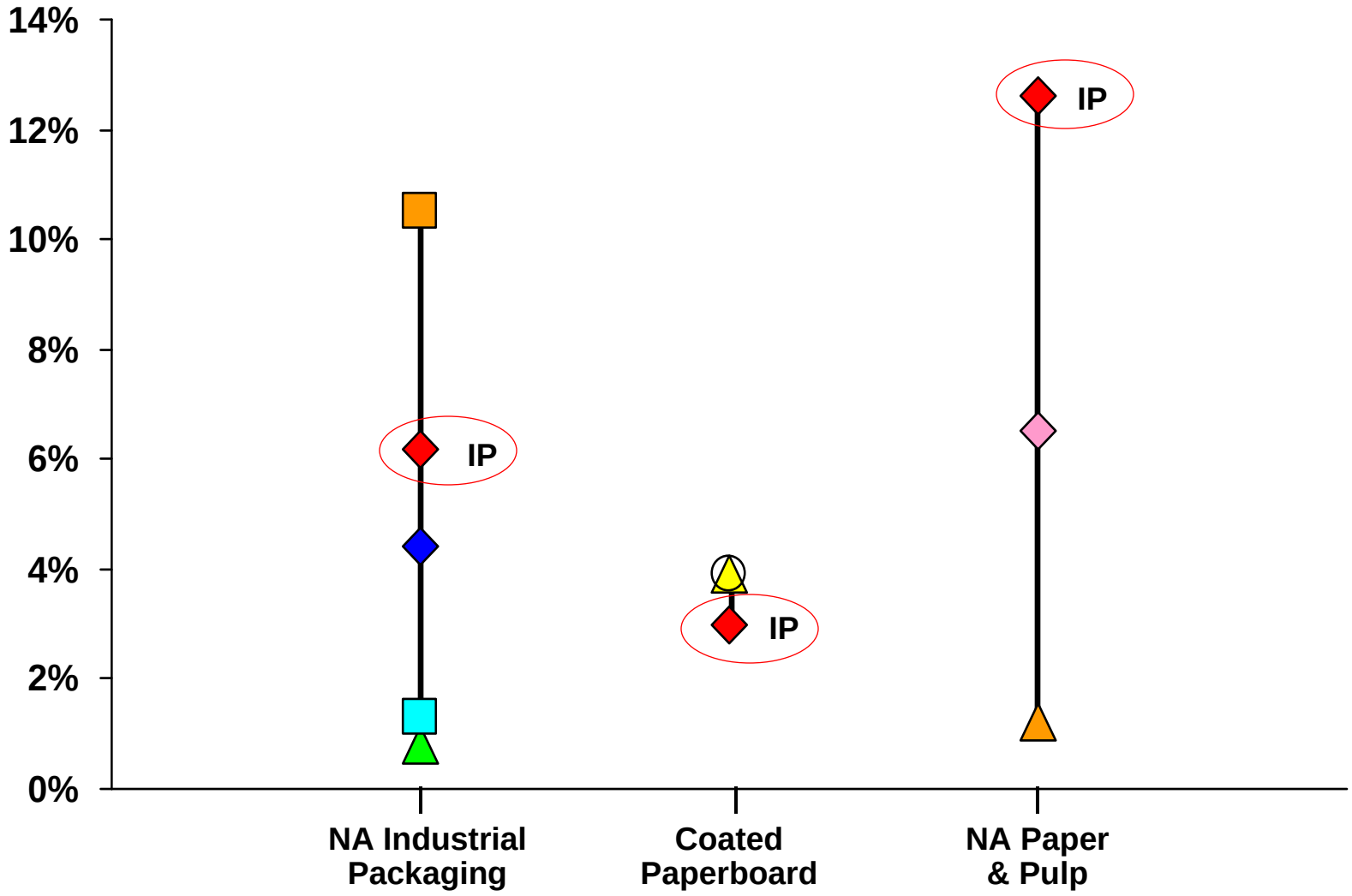
## *20 lb. Copy Paper*

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Sources: Selling Prices - RISI U.S. data, Margins – International Paper NA Printing Papers

# Return on Sales Margins
## *2Q08 IP vs. Peer Performance*




Return is Operating Income before Special Items
Each competitors' corporate expenses and special items have been adjusted for comparative purposes



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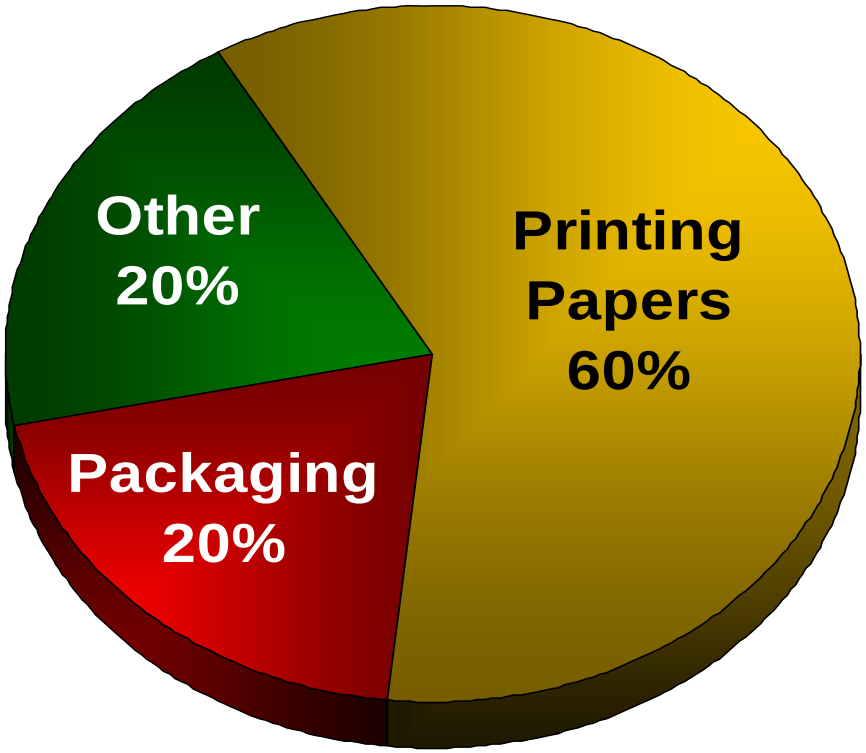
*xpedx*

# xpedx

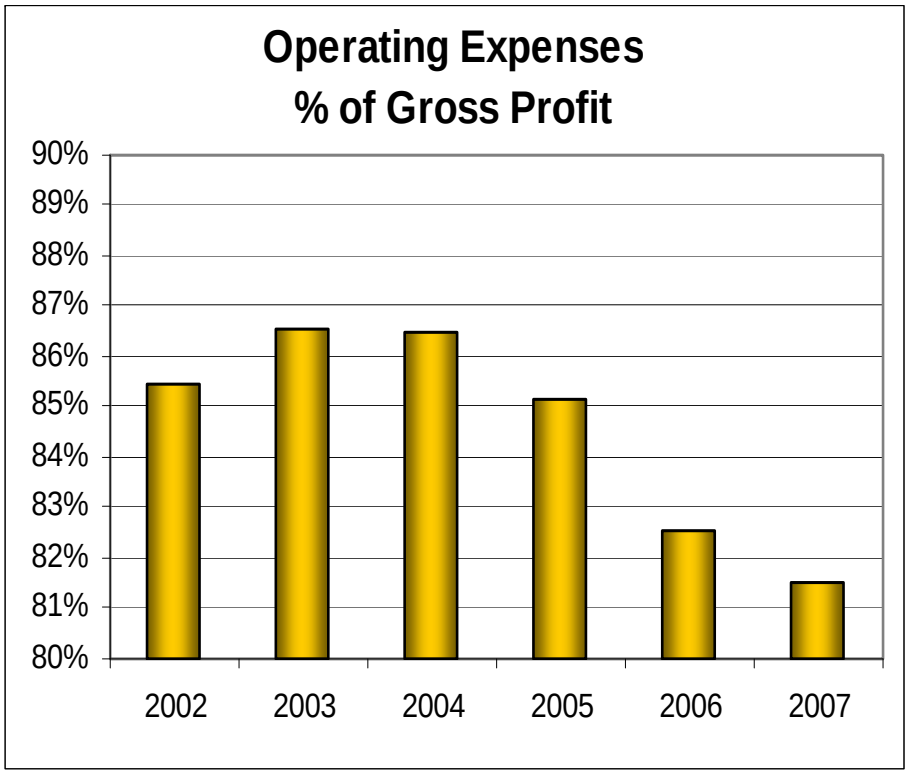
**Largest N.A. distributor and IP's largest customer**

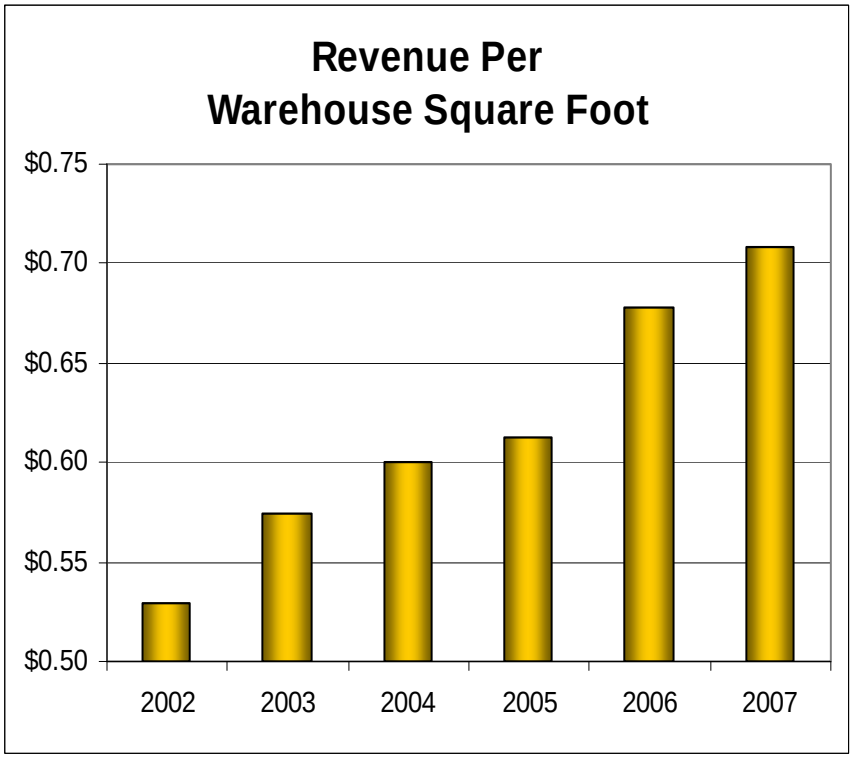
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## 2007 Sales Mix



# xpedx Margin Improvement




- 400 BP improvement since 2002
- Each 100 BP improvement increases profits by $13 million

- 34% increase in productivity since 2002
- 12% decrease in total warehouse space

# *xpedx* Strategy

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- **Organic growth**
- **Increase packaging volumes**
- **Higher sales on same footprint**
- **Buy / Handle / Sell initiatives**
- **Strategic acquisitions**





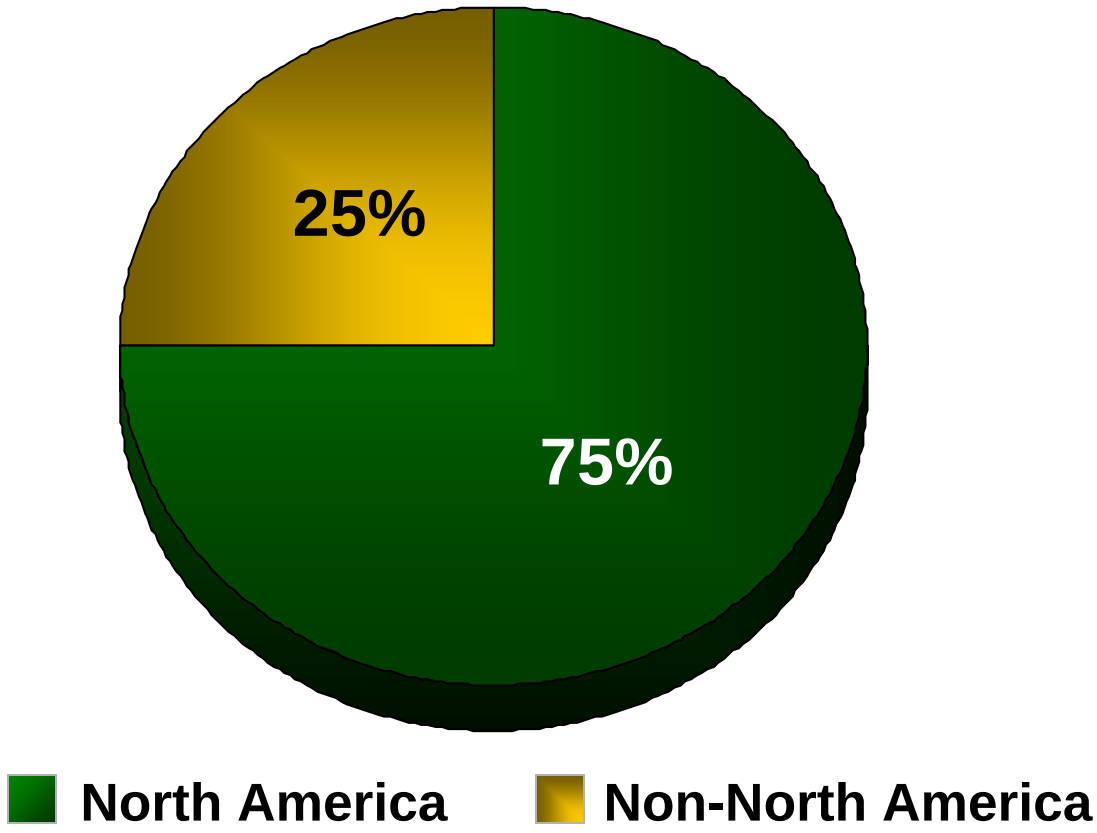
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# Operations Outside North America

# Global Balance
## *Diversifying our Earnings Capacity*

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**IP 6M2008 Annualized**
**+ WY CBPR 2007 Earnings + Synergies**




Operating profits exclude Forest Products and Special Items, and include IP's share of Ilim joint venture
Synergies estimated at $400MM

# IP Brazil
## *Transforming Earnings and Margins*

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| | 2005[1] | 2008[2] |
|---|---|---|
| **Sales Revenue** | $684 | $960 |
| **EBITDA** | $150 | $315 |
| **EBITDA Margin** | 22% | 33% |

- **High demand growth**
- **Low-cost manufacturing**

Note:
[1] 2005 results include sales and earnings from divested business
[2] 2008 represents 6M08 YTD annualized

# Três Lagoas - 2009 Start Up
## *200k MT Integrated Paper Machine*

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# Ilim Joint Venture

- **Strong customer base in Russia & China**
  - **Solid economic growth**
  - **High demand growth**
- **Low-Cost Manufacturing**
- **Business performing at plan**
  - **20%+ EBITDA margins**
  - **Many margin improvement opportunities**
- **Ilim board of directors approved $2 billion capital plan for 2008 – 2013 (to be funded by Ilim)**

Ilim EBITDA margin is on a 100% basis before IP adjustments

# Sun Paper Joint Venture







New Sun Coated Paperboard Machine

- 2 machines - 425,000 metric TPY
- 3rd machine - 380,000 metric TPY
  - World-class capacity at 40% of traditional capital cost
- High demand growth region
- Low-cost manufacturing

# International Paper Summary

- **Different Company**
  - **More-Focused Portfolio**
  - **Improved Earnings & Cash Flow**
  - **Lower-Cost Manufacturing Assets**
  - **More Global Balance**
  - **Balanced Use of Cash**
- **Ability to generate cost-of-capital returns**


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