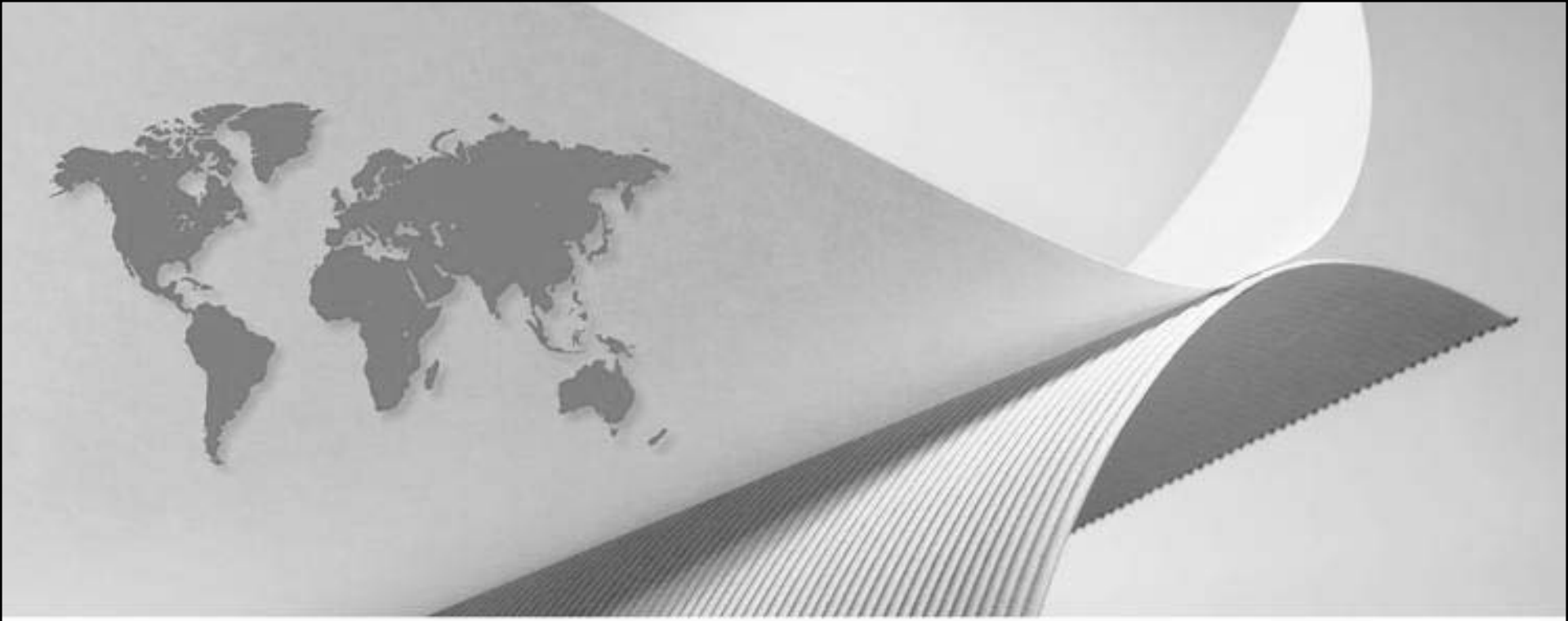


INTERNATIONAL PAPER

Maximizing Free Cash Flow

Investor Day

June 9, 2009



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Speakers

John Faraci

Chairman & Chief Executive Officer

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John Faraci was named chairman and chief executive officer in November 2003. He served previously in the positions of president, executive vice president and chief financial officer. John joined International Paper in 1974.

John also serves as a director of United Technologies Corp., the Grand Teton National Park Foundation and the National Park Foundation. He is a member of the Citigroup International Advisory Board, American Enterprise Institute and the Denison University Board of Trustees.

John earned a bachelor's degree in history and economics from Denison University and a master's degree in business administration from the University of Michigan.

John and his wife, Heath, have two daughters.

Tim Nicholls

Senior Vice President & Chief Financial Officer

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Tim Nicholls was named senior vice president and chief financial officer in November 2007. He served previously as vice president and chief financial officer of International Paper-Europe, president of Weldwood (formerly a wholly owned subsidiary of International Paper), director of finance and strategic planning for industrial packaging, and general manager of the international packaging business. Tim joined the company in 1999 through the acquisition of Union Camp, which he joined in 1993.

Tim earned a bachelor's degree in management from the University of South Carolina and a master's degree in business administration from the University of Georgia.

Tim and his wife, Catherine, have two sons.

Carol Roberts

Senior Vice President, Industrial Packaging



Carol Roberts was named senior vice president of Industrial Packaging in November 2005. She served previously as vice president of the container business, vice president of human resources, general manager of kraft packaging and mill manager. Carol joined International Paper in 1981.

Carol earned a bachelor's degree in mechanical engineering from Yale University.

Carol and her husband, Craig, have two daughters.

H. Wayne Brafford

Senior Vice President, Printing & Communications Papers

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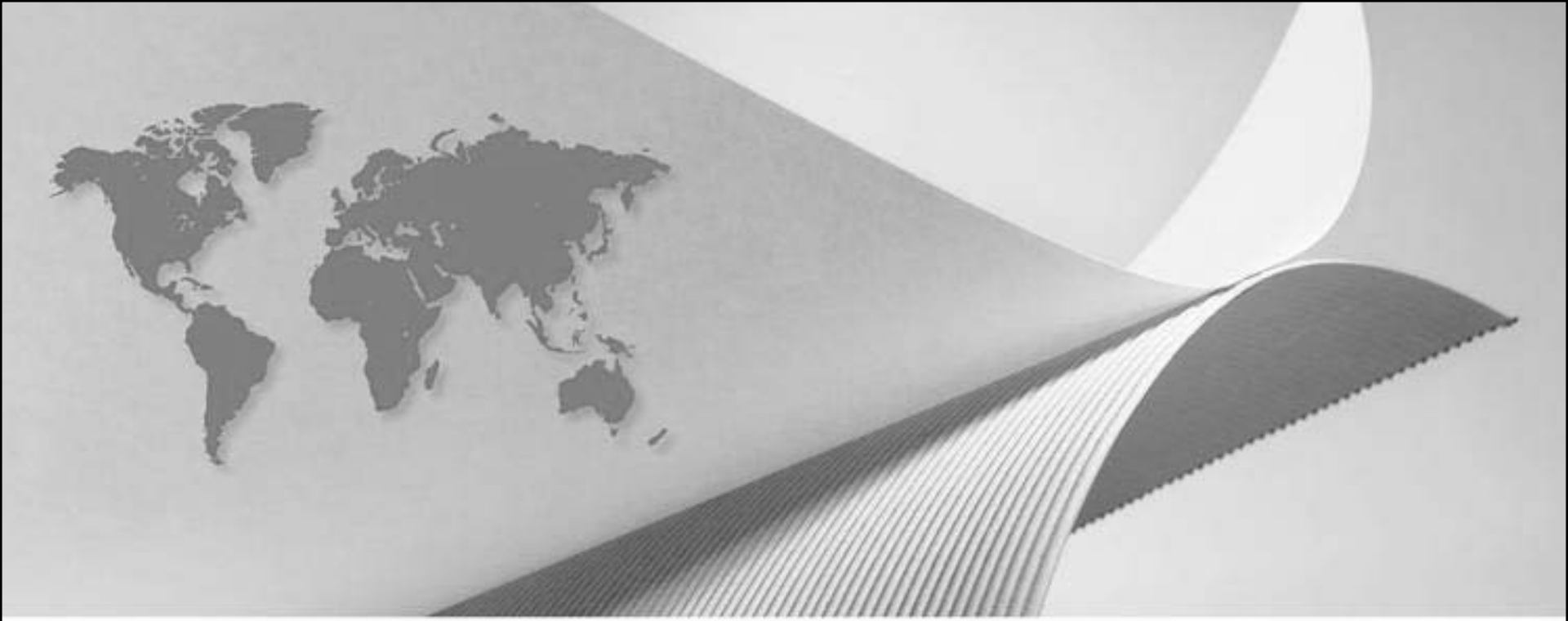
H. Wayne Brafford is senior vice president of Printing & Communications Papers. He served previously as senior vice president of industrial packaging. Wayne has held a number of financial, strategic planning and general management leadership positions throughout his career in printing papers, consumer and industrial packaging, wood products, forestry and diversified businesses. Wayne joined International Paper in 1975.

Wayne earned a bachelor's degree in pulp and paper science and technology from North Carolina State University and a master's degree in business administration from Tulane University.

Wayne and his wife, Scottie, have three sons.



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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) increases in interest rates and our ability to meet our debt service obligations; (ii) industry conditions, including but not limited to changes in the cost or availability of raw materials, energy and transportation costs, competition we face, cyclicality and changes in consumer preferences, demand and pricing for its products; (iii) global economic conditions and political changes, including but not limited to the impairment of financial institutions, changes in currency exchange rates, credit availability, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation and pension and health care costs; (iv) unanticipated expenditures related to the cost of compliance with environmental and other governmental regulations and to actual or potential litigation; and (v) whether we experience a material disruption at one of our manufacturing facilities and risks inherent in conducting business through a joint venture. 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.

Today's Schedule

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8:00 – 9:15	Meeting
9:15 – 9:30	Break
9:30 – 10:45	Meeting
10:45 – 11:45	Panel Questions & Answers
11:45 – 12:30	Boxed Lunch



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Transformation Progress

John V. Faraci,
Chairman & Chief Executive Officer

Agenda

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Transformation Progress	**John V. Faraci**
Financial Update & Direction	**Tim S. Nicholls**
Corrugated Packaging	**Carol L. Roberts**
Uncoated Papers	**H. Wayne Brafford**
Strategy & Capital Allocation	**John V. Faraci**
Panel Questions & Answers	**All**

IP Transformation

Improving IP's Strategic Position

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- **More Focused**
- **Reduced Capital Intensity**
- **Stronger Businesses**
- **More Global**
- **Lower Cost**
- **More Profitable**
- **More Sustainable Cash Flow**

IP Transformation

Improving IP's Strategic Position

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	2005	2008
# of Operating Businesses[1]	12	4
# of Employees[1]	80,000	62,000
Capital Employed[1] ($ Billion)	$30	$23
Overhead ($ Billion)	$3.2	$2.8
Debt[1] ($ Billion)	$14.6	$12.1
EBITDA ($ Billion)	$2.8	$3.0
Free Cash Flow ($ Billion)	$0.4	$1.7

[1] 2005 represents January 1, 2005

EBITDA before special items including discontinued operations; free cash flow before dividends

IP Transformation
Smaller Capital Base

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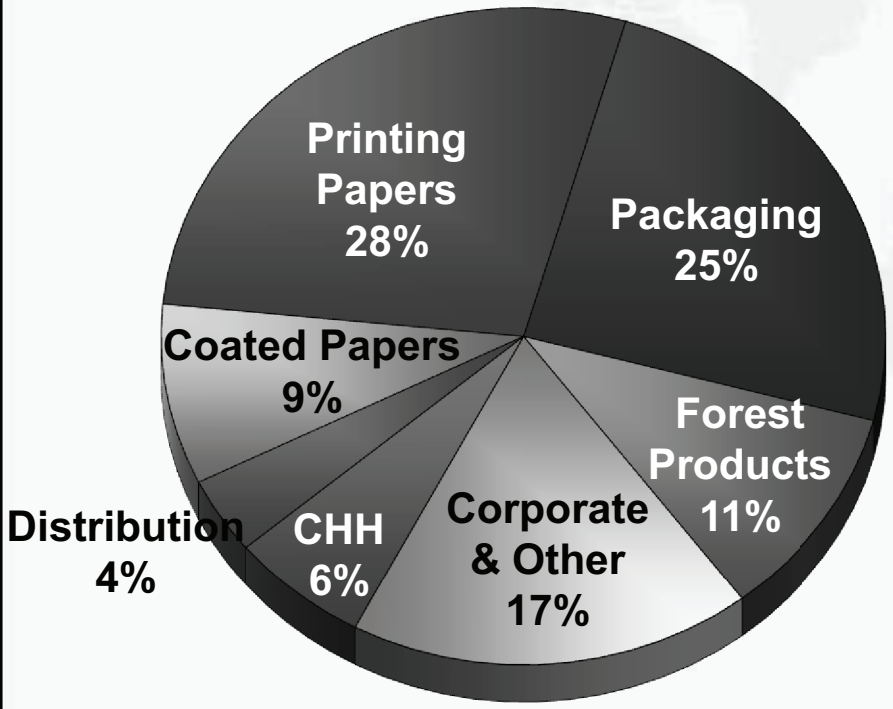
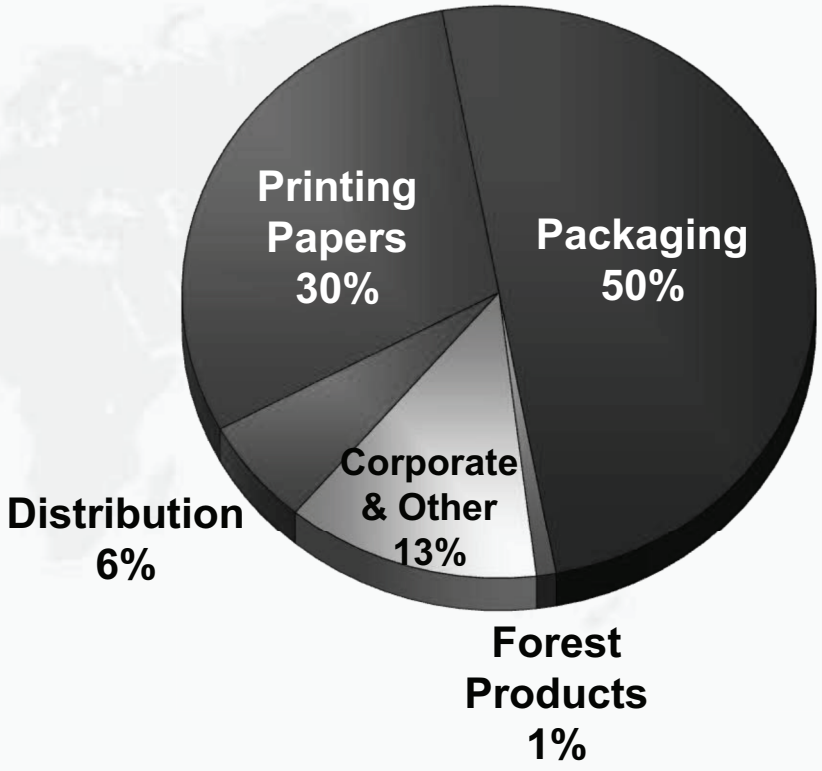
2005
Capital Employed
$30B



2008
Capital Employed
$23B



2005 capital employed represents January 1, 2005; 2008 capital employed represents December 31, 2008
Packaging includes Consumer Packaging & Industrial Packaging

IP Transformation

#1 or #2 Position in Strategic Regions

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	Supplier Position	
North America	**2005**	**2008**
Corrugated Packaging	3	1
Uncoated Papers	1	2
Bleached Board	1	1
Distribution	1	1
Emerging Markets		
Latin America - Uncoated Paper	2	1
Russia - Paper, Pulp & Packaging	3	1
China – Bleached Board	-	1

IP Transformation

North American Printing Papers

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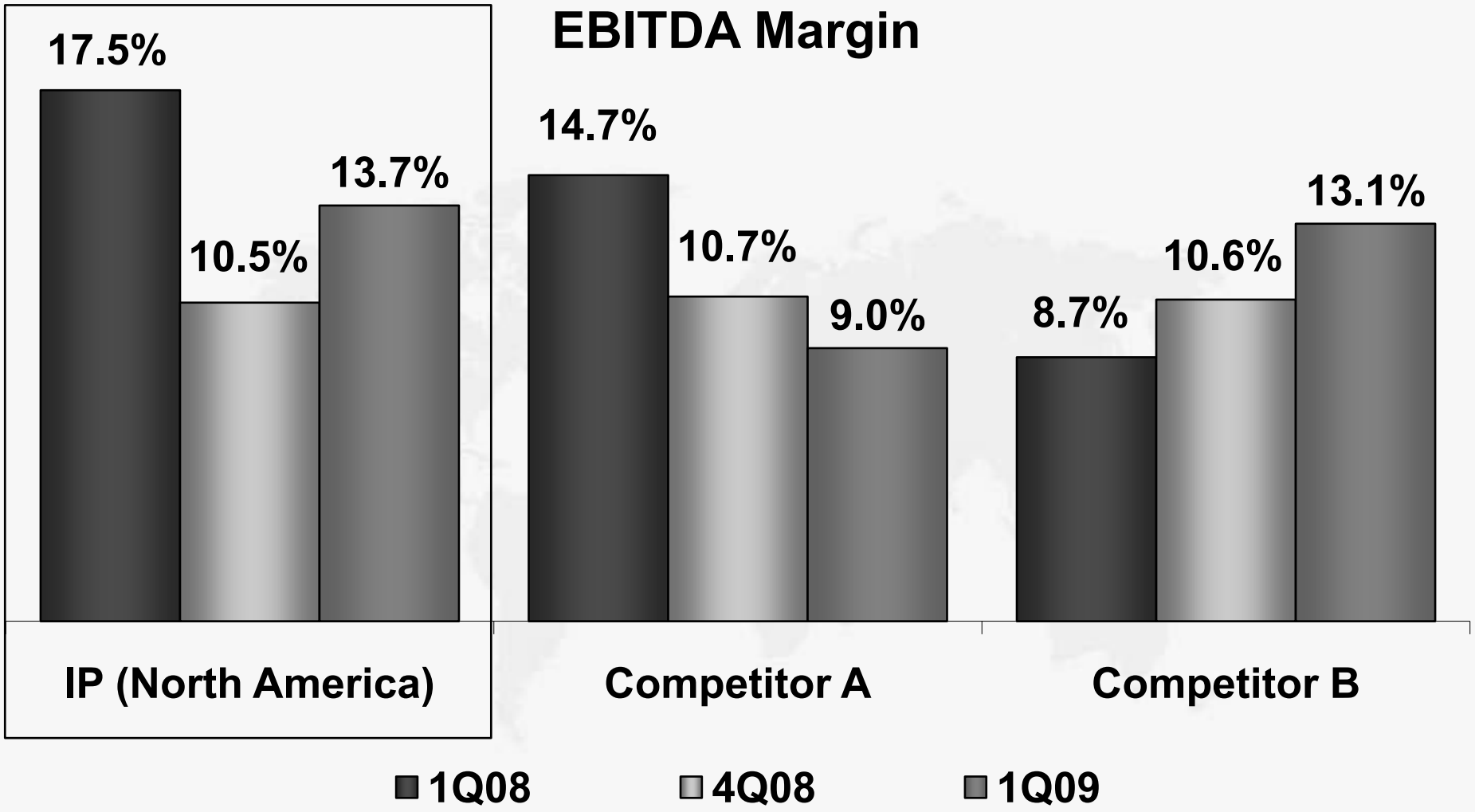

Source: Earnings calls, press releases, SEC filings, IP Analysis
EBITDA margin equals EBITDA divided by sales

IP Transformation

North American Coated Paperboard

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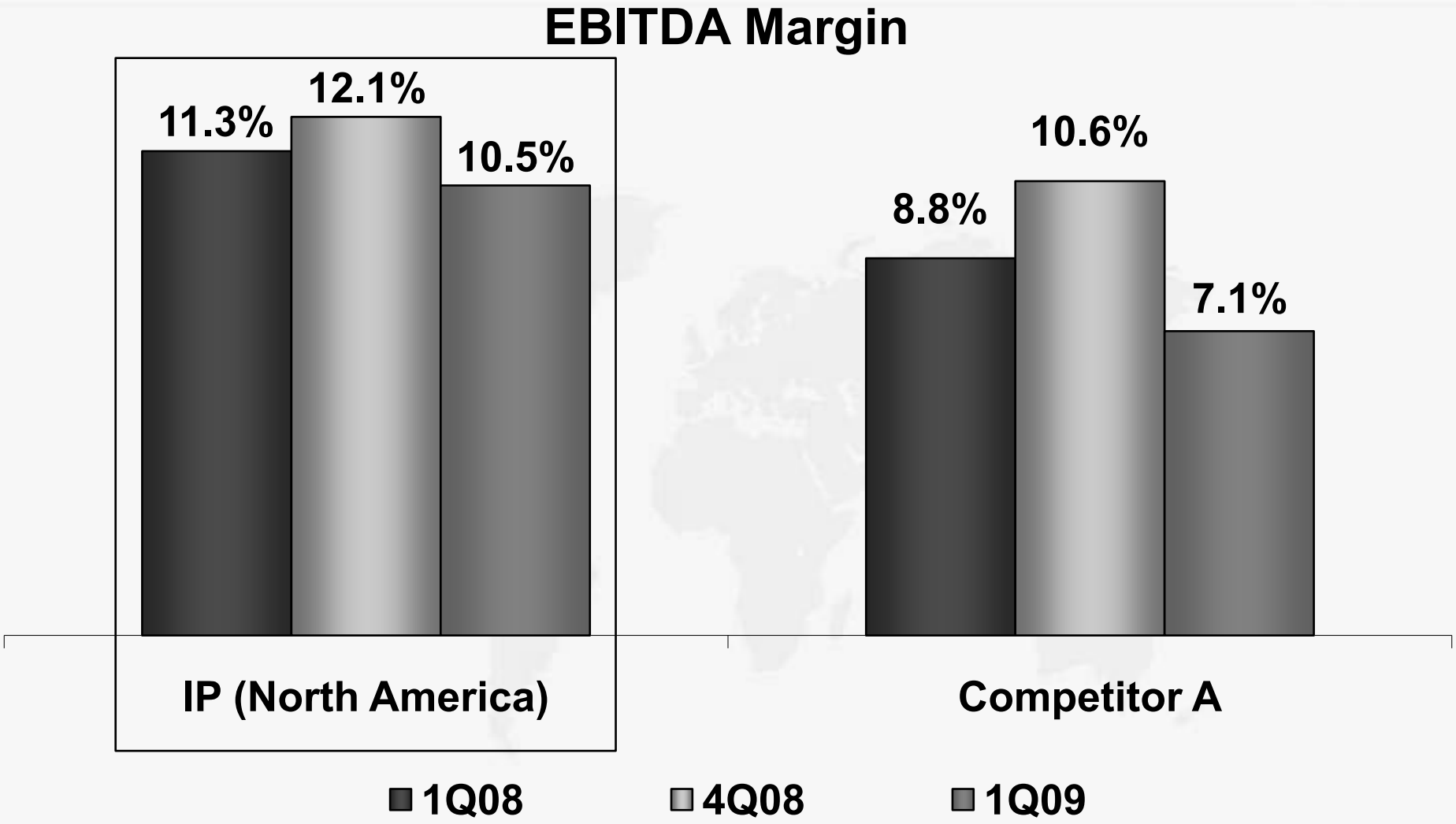

Source: Earnings calls, press releases, SEC filings, IP Analysis

EBITDA margin equals EBITDA divided by sales

IP Transformation

North American Industrial Packaging

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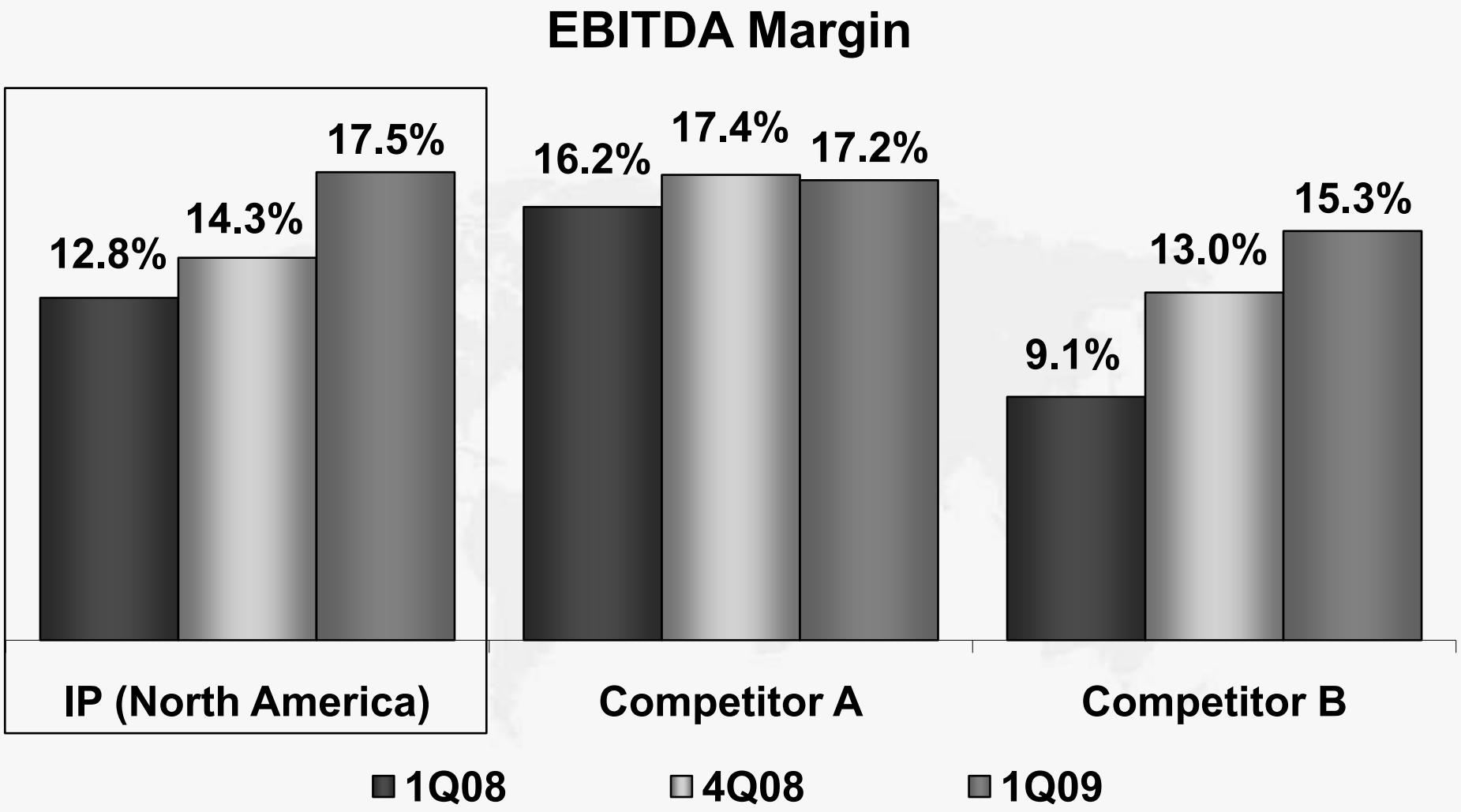

EBITDA margins for IP legacy business. Source: Earnings calls, press releases, SEC filings, IP Analysis
EBITDA margin equals EBITDA divided by sales

IP Transformation

Strategic Fit of Recent Acquisitions

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WY PKG	• **Strengthened core business** • Increased cash generation • > $500 million of synergies • Achieved #1 market position
Ilim Joint Venture	• **Secured low-cost capacity at low entry multiple** • Strong market position with attractive fiber base • Platform for future growth
Brazil	• **Strengthened existing business** • Secured global low-cost capacity • Achieved leading supplier position • Growing market
Sun Joint Venture	• **Secured capacity at low capital cost** • Established a beachhead in the largest market • Low-cost, high-demand-growth market

IP Transformation

Strategic Fit of WY PKG Acquisition

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- **Strengthened Core Business**
- **Leading Supplier Position**
- **Quality Assets**
- **Strong Free Cash Flow**
- **Already Overcame Execution Risks**
- **Significant Upside Earnings Potential**

IP Transformation
Synergies Driving Returns

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	Original	Revised
Purchase Price	**$6.0B**	**$6.0B**
NPV of Tax Step Up	**$1.4B**	**$1.3B**
Net	**$4.6B**	**$4.7B**
Synergies at Full Run Rate	**$400M**	**$500M**
Estimated EBITDA Multiple *(Net of Tax Benefit & with Synergies)*	**4.3X**	**4.6X**

Revised EBITDA Multiple based on 1Q09 YTD annualized results

IP Transformation

Expanded Global Footprint in Emerging Markets

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Brazil	**Luis Antonio & Tres Lagoas**
Russia	**Ilim Joint Venture**
China	**Sun Joint Venture**

IP Transformation

Emerging Markets Contributing ~25% of IP EBITDA

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	2005	2008 Pro Forma
Sales ($ Billion)	**$1.5**	**$3.7**
EBITDA ($ Billion)	**$0.4**	**$0.8**
EBITDA Margin	**27%**	**21%**

Results include Brazil, Svetogorsk, Kwidzyn, Sun joint venture without machine start-up costs & pulp inventory write-down, & Ilim pro forma adjusted to approximate IP's 50% ownership excluding gain on sale of KPK mill

IP Transformation

Brazil - Greater Focus, More Profitable

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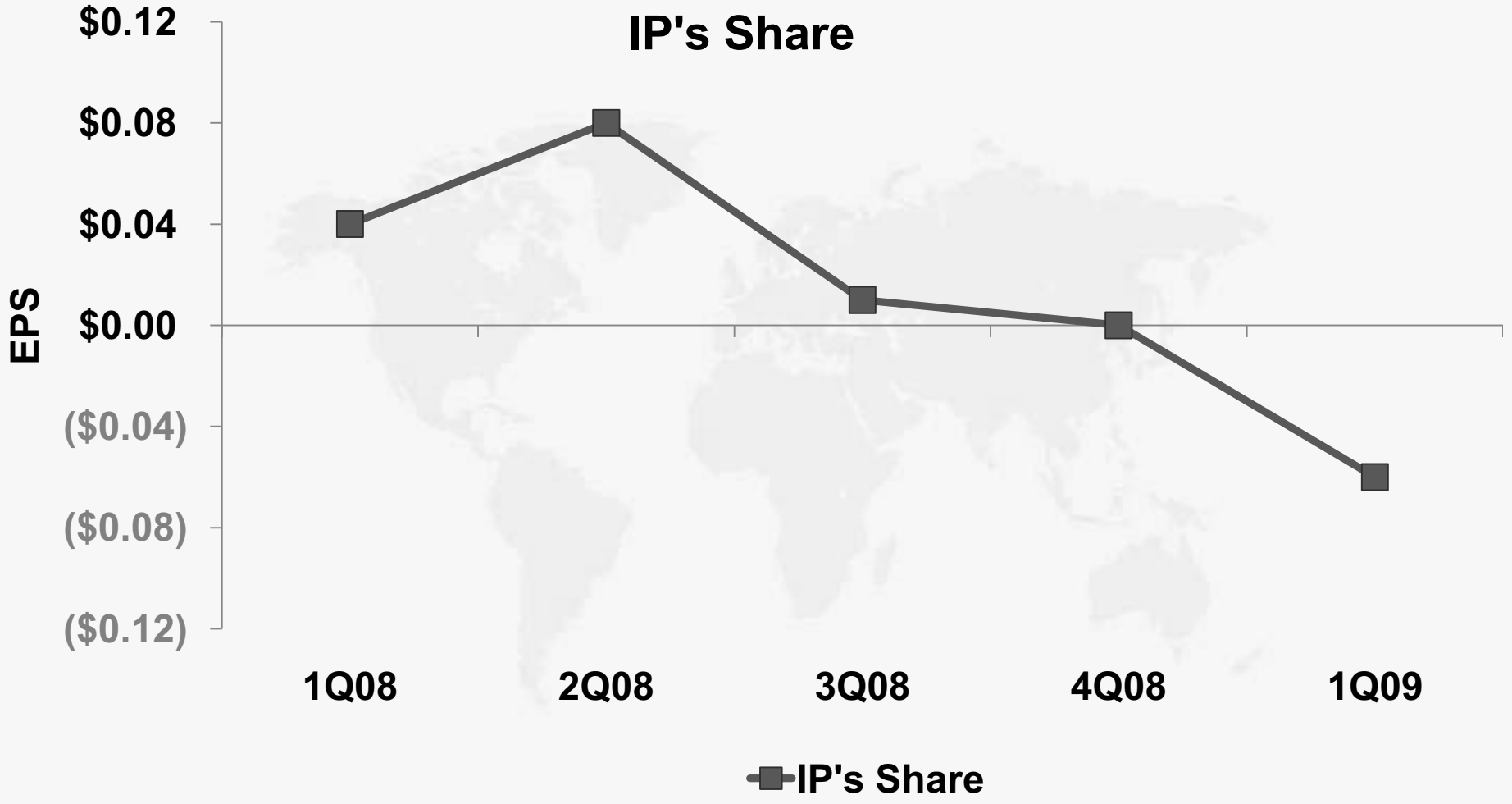
	2005	2008
# of Businesses	**4**	**1**
Sales ($ Million)	**$684**	**$950**
EBITDA ($ Million)	**$217**	**$317**
EBITDA Margin	**32%**	**33%**
UFS Supplier Position	**#2**	**#1**

IP Transformation

Ilim - IP's Cumulative Share = $0.07



IP Transformation
Ilim - Improving Market Conditions

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Market Pulp for China

- 50% of Ilim total capacity
- YTD pulp imports up 25% vs. 2008 levels
- Softwood pulp pricing starting to improve
- Hardwood pulp pricing nearing bottom

IP Transformation
Ilim - Remain Positive on Russia

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- Worst part of economic crisis is over
- Siberian mills remain potential long-term, low-cost China market pulp suppliers
- Attractive growth opportunities
- Significant cost reductions underway
  - Fiber
  - Employees
- Timing of capital investments remain dependent on internal cash flow generation

IP Transformation

Systematic Overhead Cost Reductions

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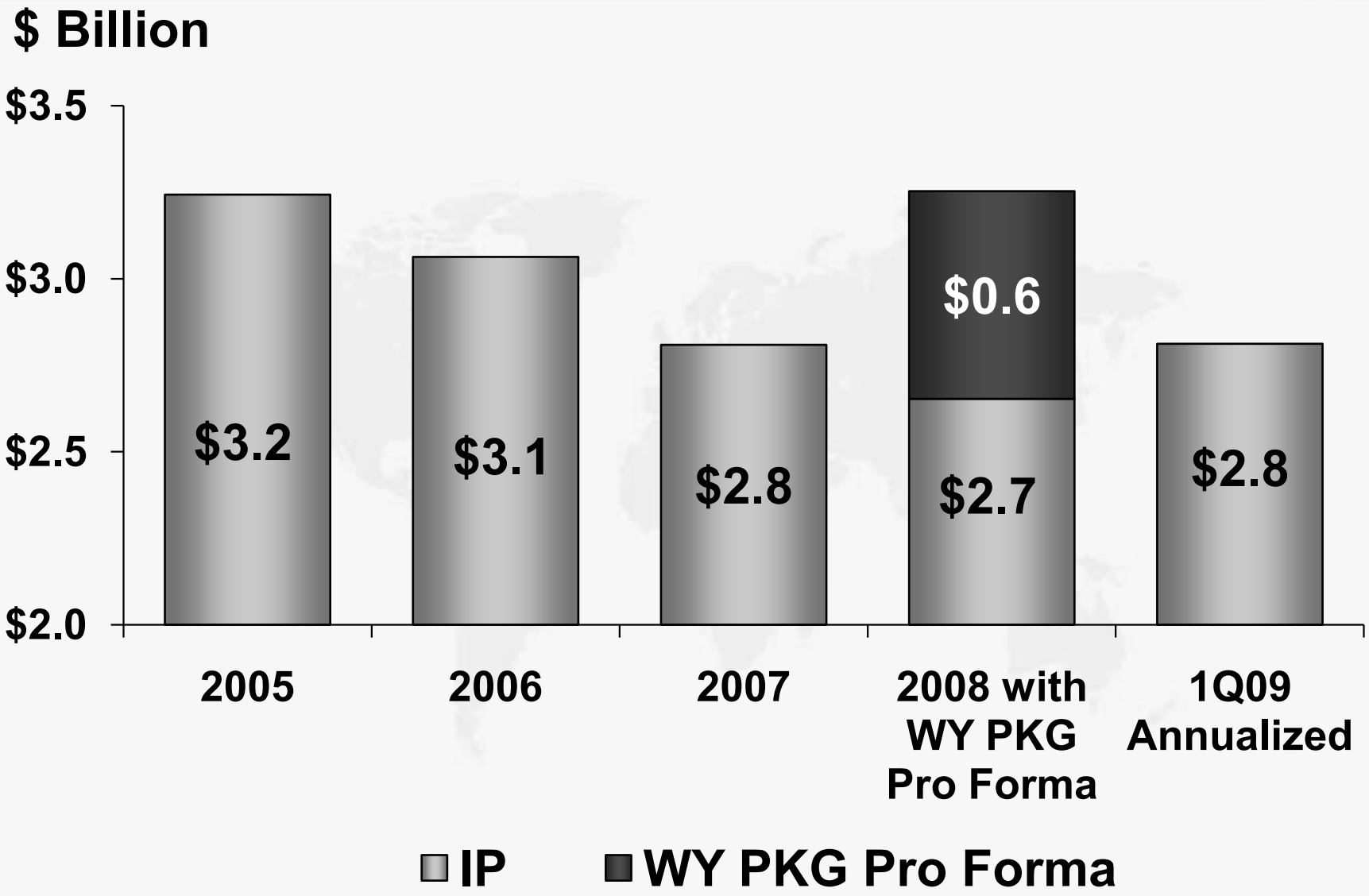
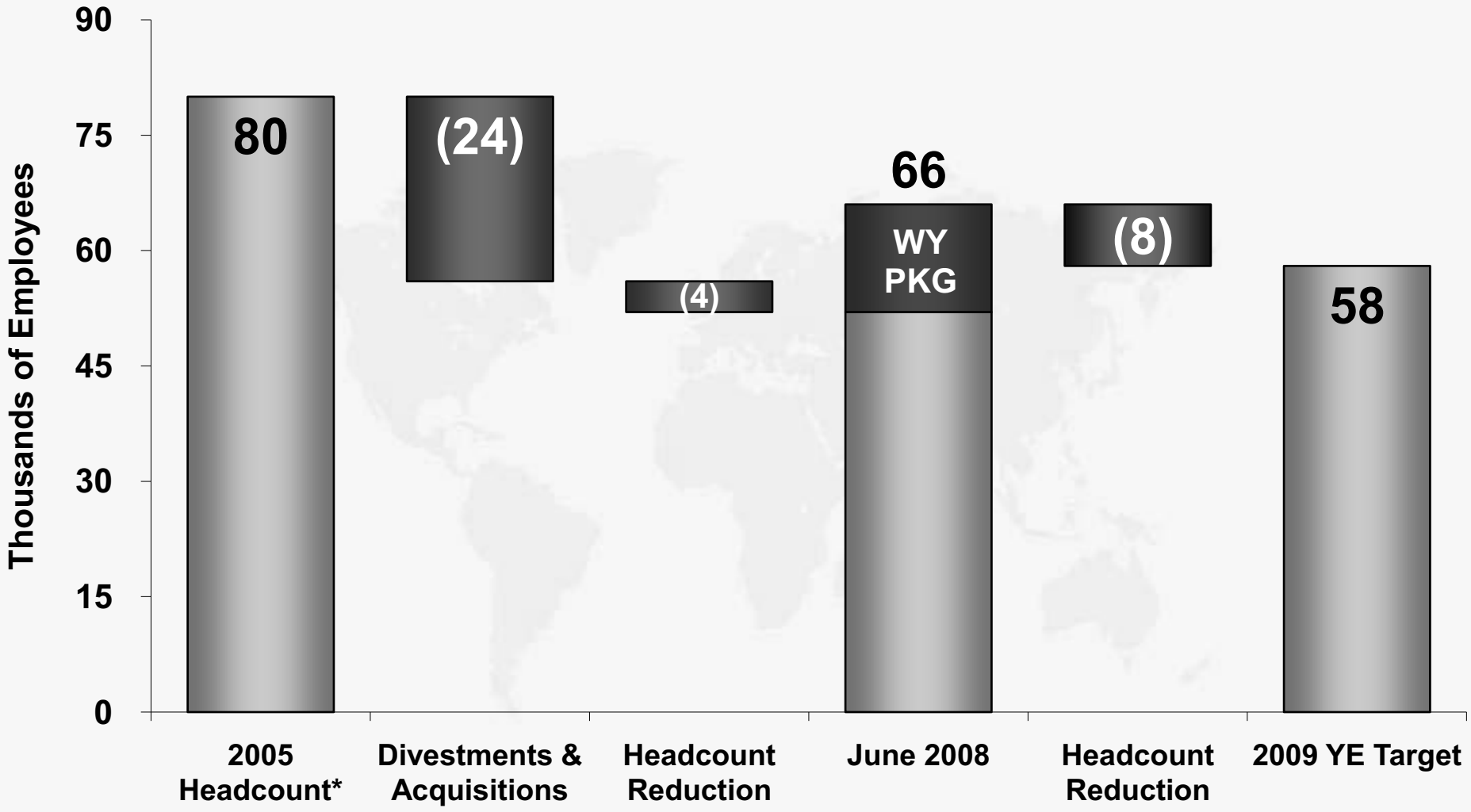


Includes discontinued operations

IP Transformation

28% Headcount Reduction by 2009



* At January 1, 2005
Excludes Ilim joint venture employees

IP Transformation
Improving EBITDA Quality

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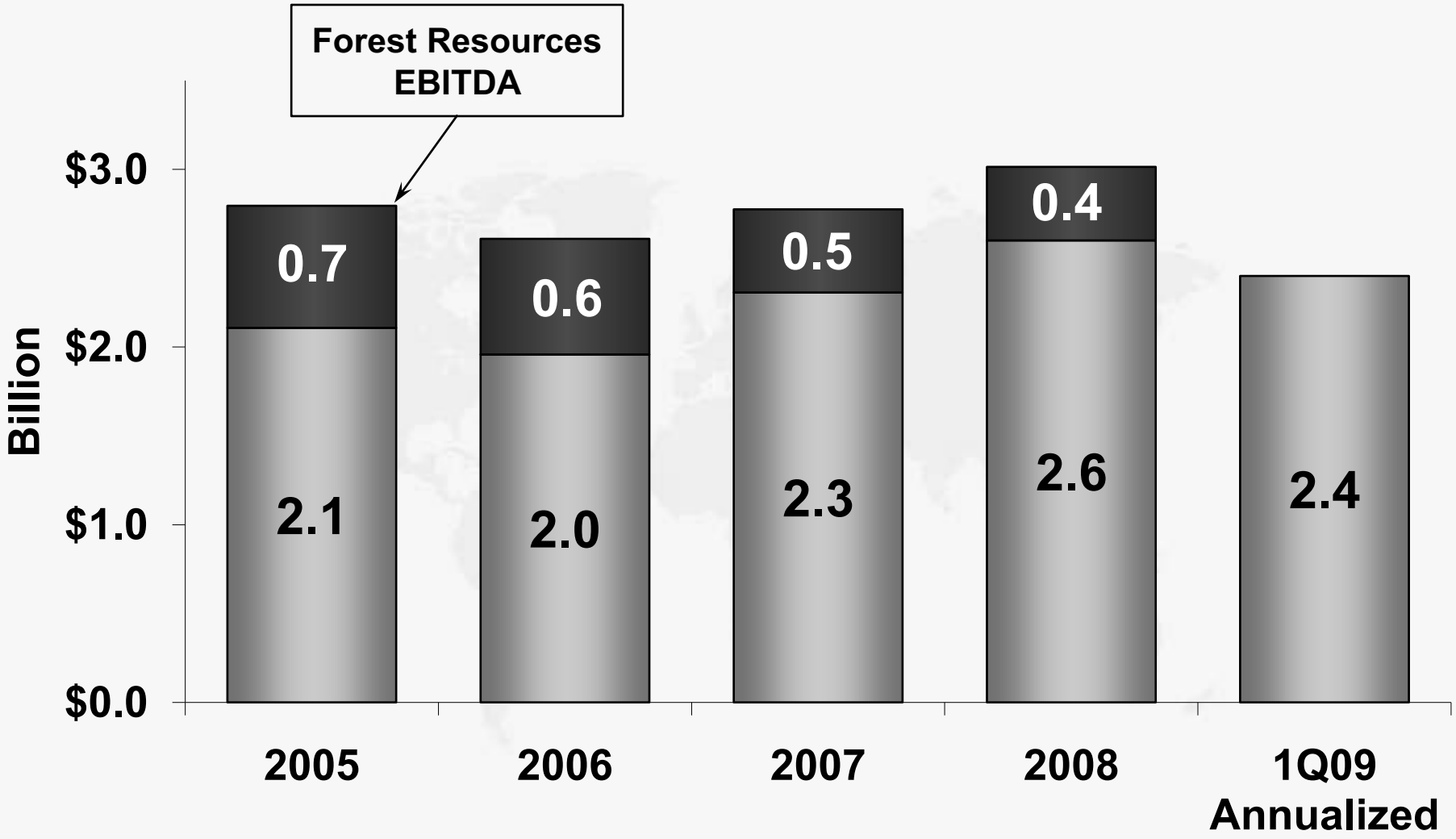
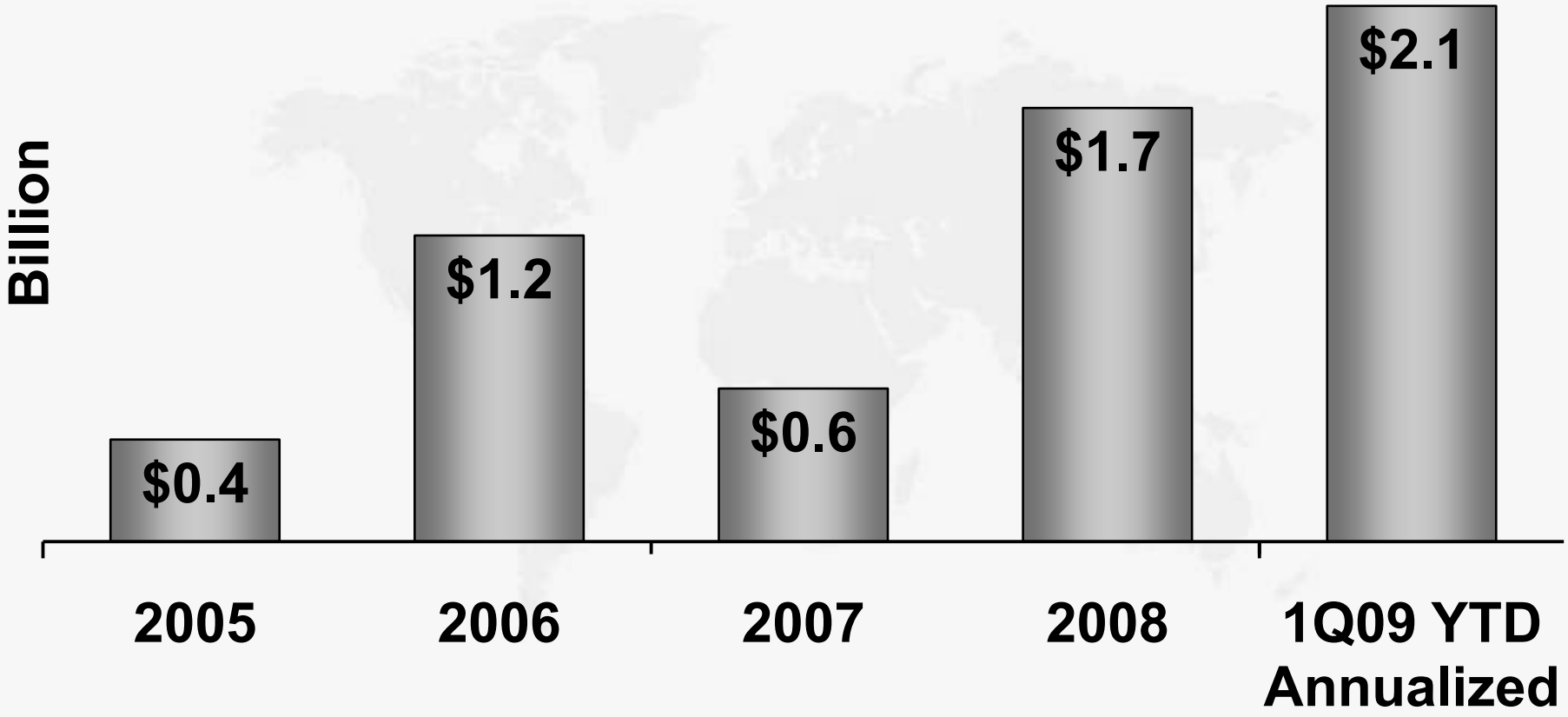


EBITDA before special items including discontinued operations

IP Transformation

Increasing Free Cash Flow



Free cash flow before dividends; 1Q09 YTD annualized excludes $145 million in alternative fuel mixture tax credits

IP Transformation
Summary

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- **Greater Focus**
- **Strengthened Core Businesses**
  - Lower-Cost Assets
  - Improved Results
- **Replaced Forest Resources Earnings**
- **Generated Record Free Cash Flow**
- **Strategic Investments in Emerging Markets**

2009 Performance Update

World Changed in the Last Six Months

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	2005 – 3Q08	4Q08 – May 09 YTD
Volumes	Steady	Declined Significantly
Prices	Increasing	Eroded Slowly
Input Costs	Significant Increases	Cost Relief
Cost Reduction	Steady Progress	Increased Progress
Operations	Good	Excellent
Market Downtime	Very Limited	20% – 30%
Free Cash Flow	Mixed	Good

2009 Performance Update

Transformation Driving Improved Results

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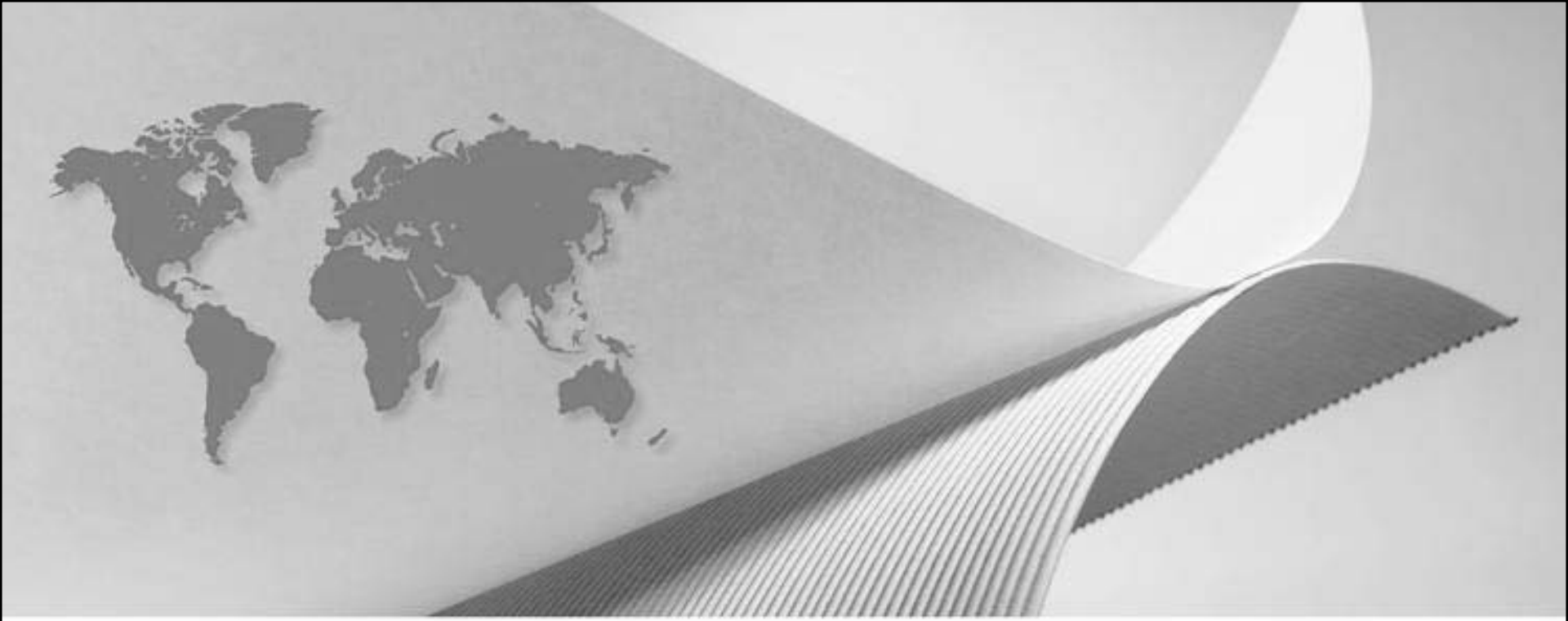
- **Strong Free Cash Flow**
- **Improved Margins**
  - **North American Industrial Packaging**
  - **North American Printing Papers**
- **Improving Balance Sheet**
- **Ability to Generate Higher Returns**



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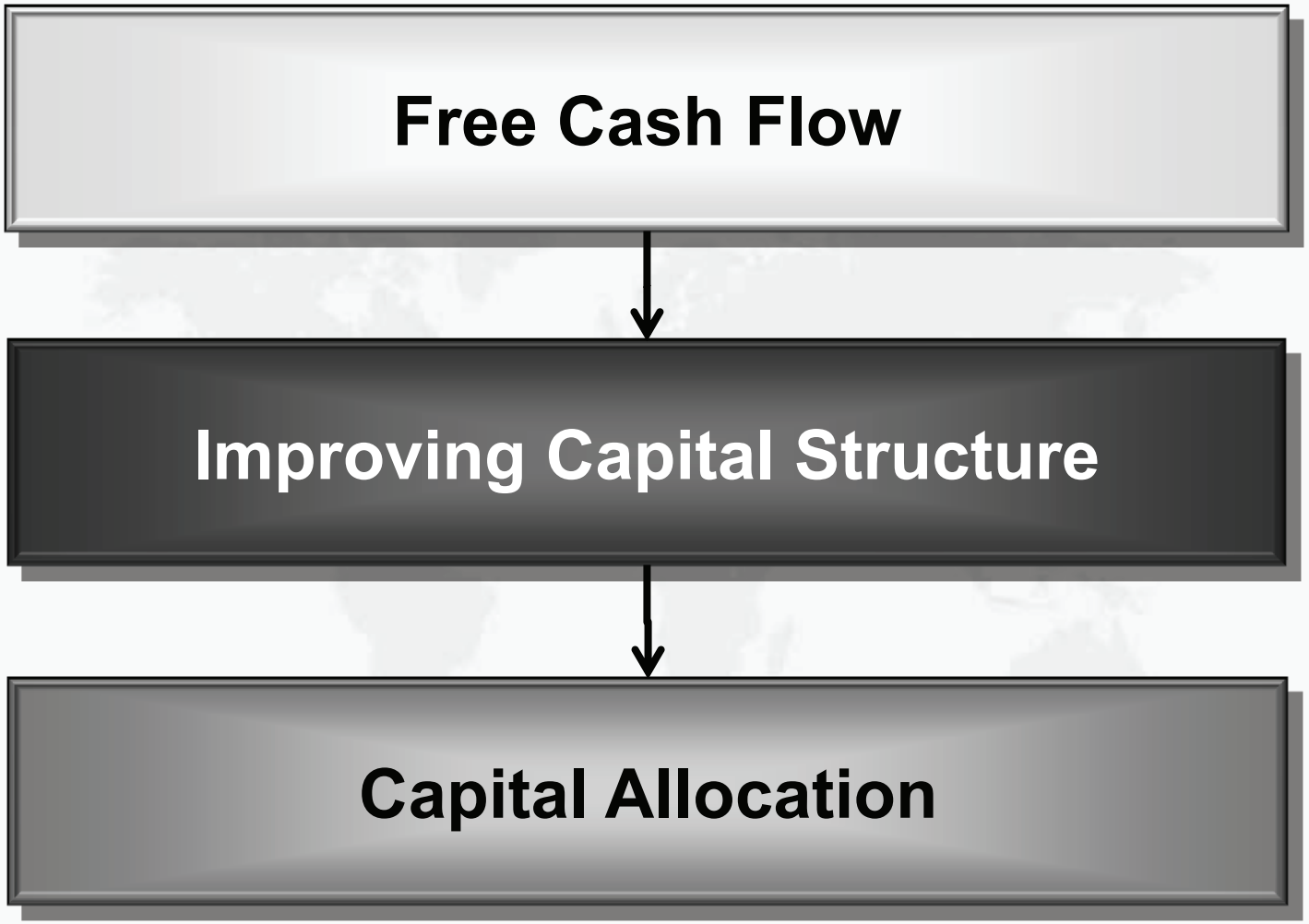
Financial Update & Direction

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

Agenda


Free Cash Flow
Improving Capital Structure
Capital Allocation

Increasing Free Cash Flow
Fewer, Larger, Lower-Cost Mills

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	Manufacturing Cost Position	
	1st Quartile	2nd Quartile
NA - Containerboard	60%	20%
NA - Uncoated Freesheet	90%	10%
NA - Coated Paperboard	100%	-
Brazil – Uncoated Freesheet	80%	20%
Russia – Softwood Market Pulp	70%	30%
China – Coated Paperboard	75%	25%

Based on Poyry's 2008 CostTrac model global cost curves at 4th quarter input costs and exchange rates

Increasing Free Cash Flow

22,000 Headcount Reductions by 2009

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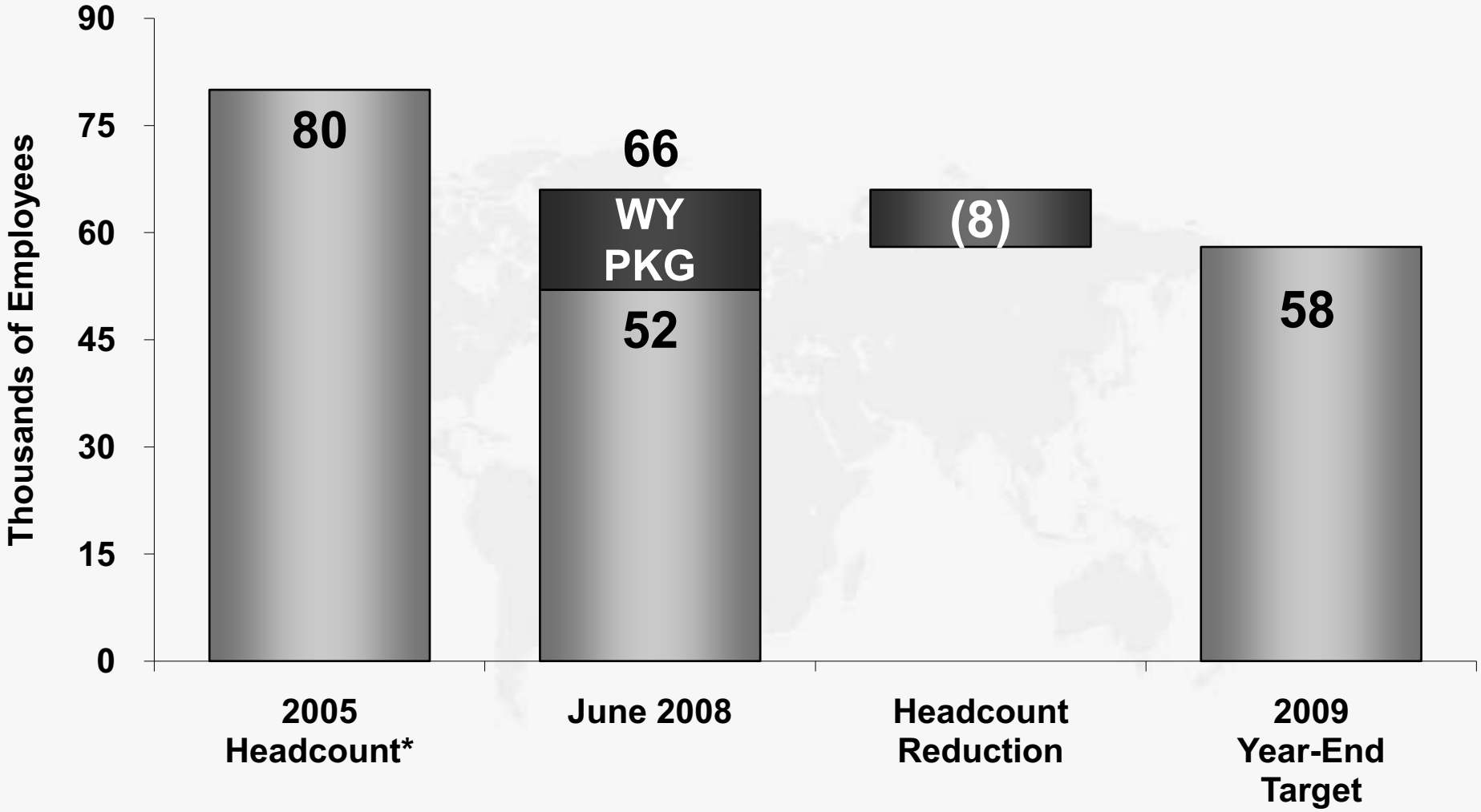

* At January 1, 2005
Excludes Ilim joint venture employees

Increasing Free Cash Flow

Overhead Cost Reduction 2008 - 2010

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	$ Million
Salaried Expense Reduction	$405
Non-Employee Savings	$65
Total with Balance of 2009-10 Projected	**$470**

Salaried expense reduction includes approximately $200 million of WY PKG integration synergies

Increasing Free Cash Flow

Reduced 2009 Input Costs of $875 Million

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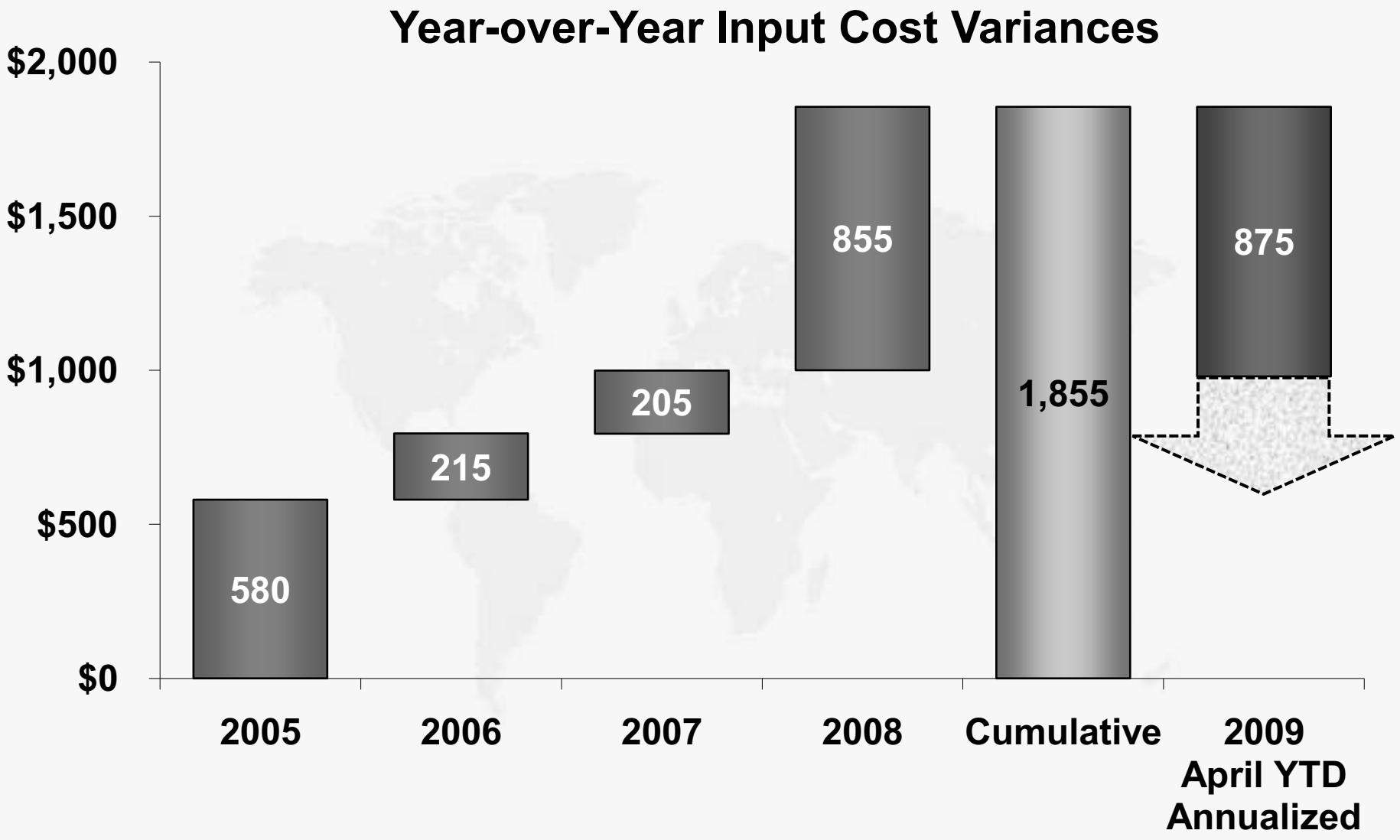

April 2009 YTD annualized input cost savings versus 2008 levels

Increasing Free Cash Flow
Reducing Capital Spending

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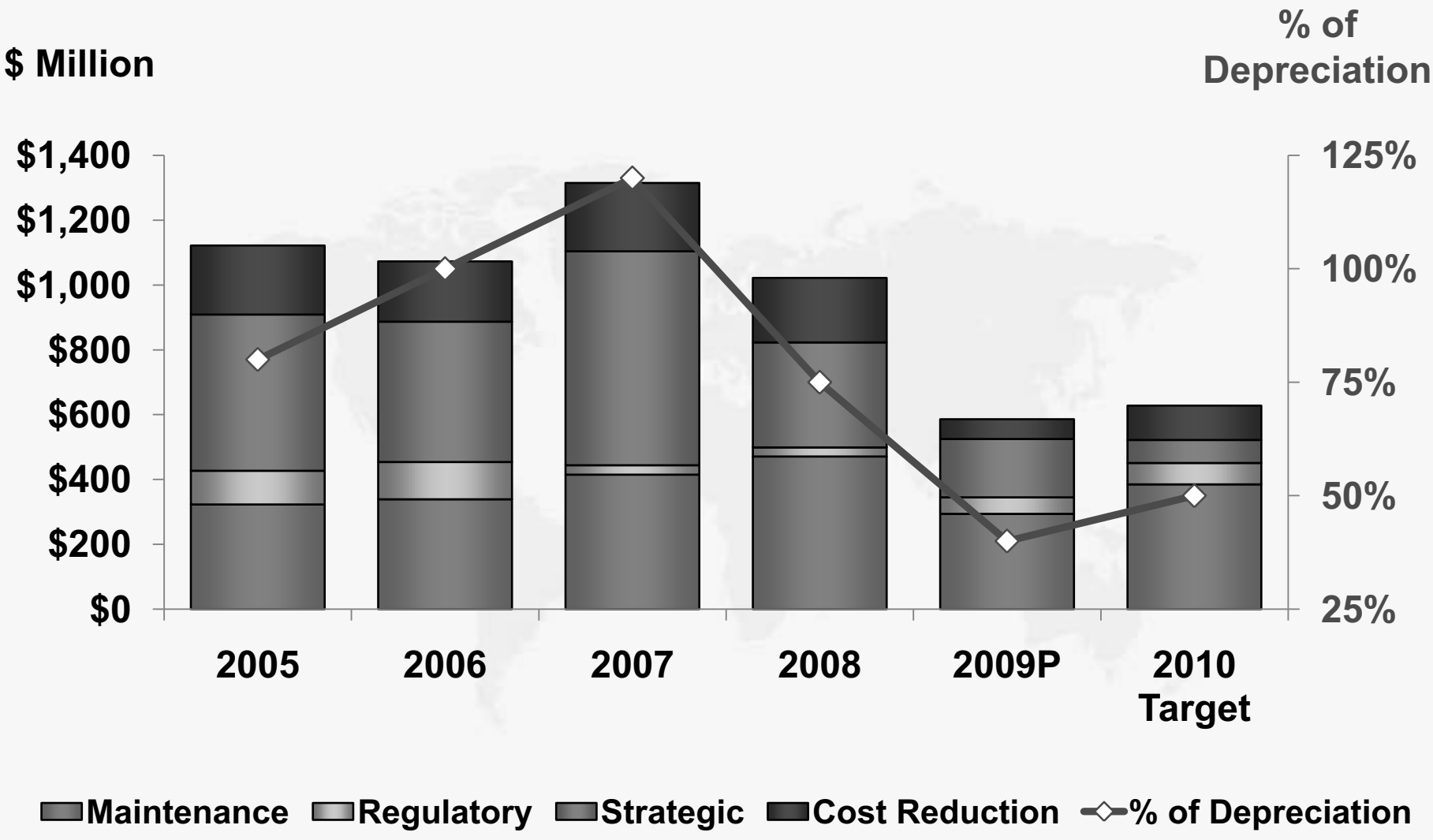

Increasing Free Cash Flow
More-Focused Capital Spending

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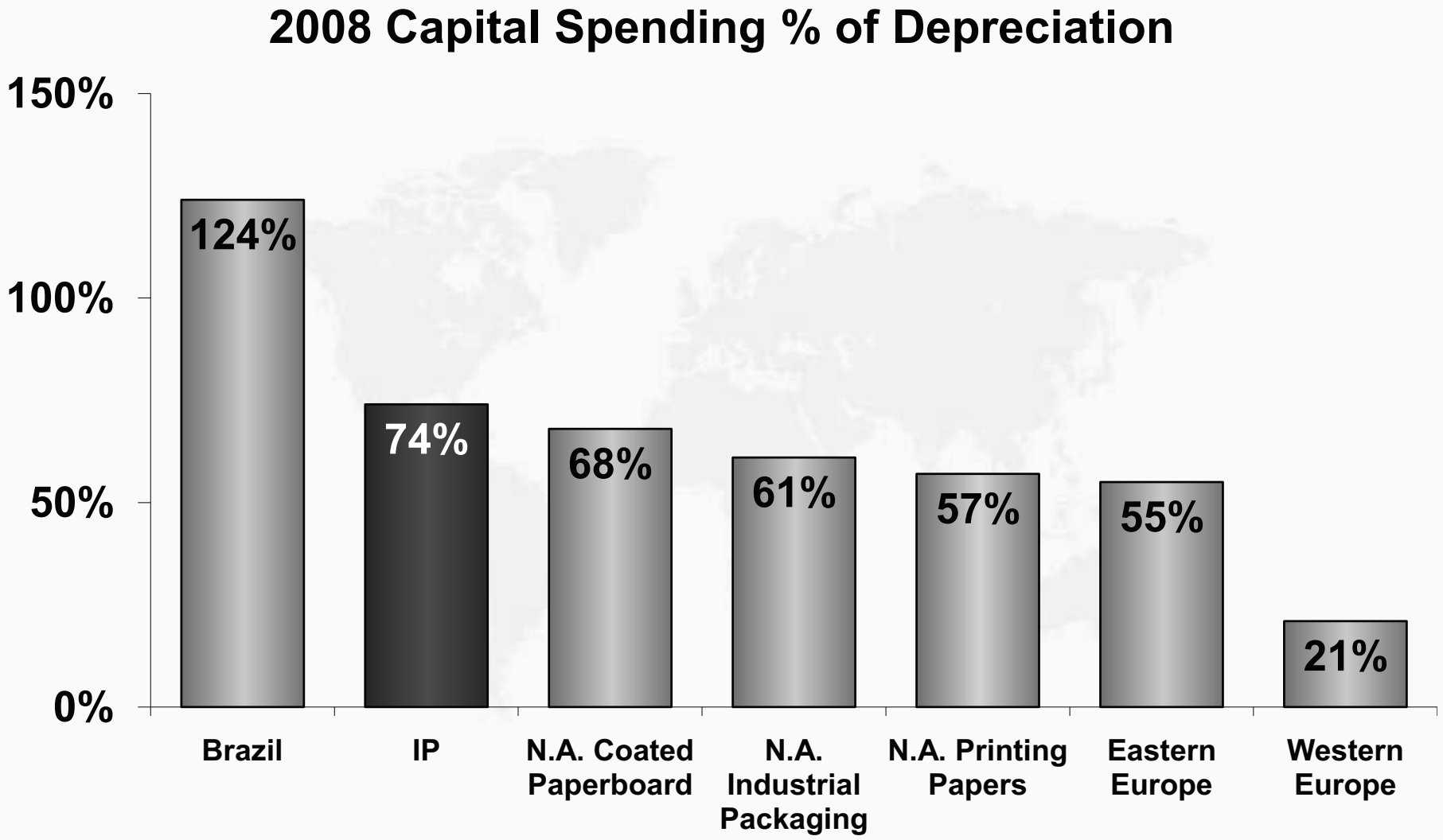

Sun joint venture capital spending in 2008 was approximately $150 million.

Increasing Free Cash Flow
Improving Global Mill Efficiency

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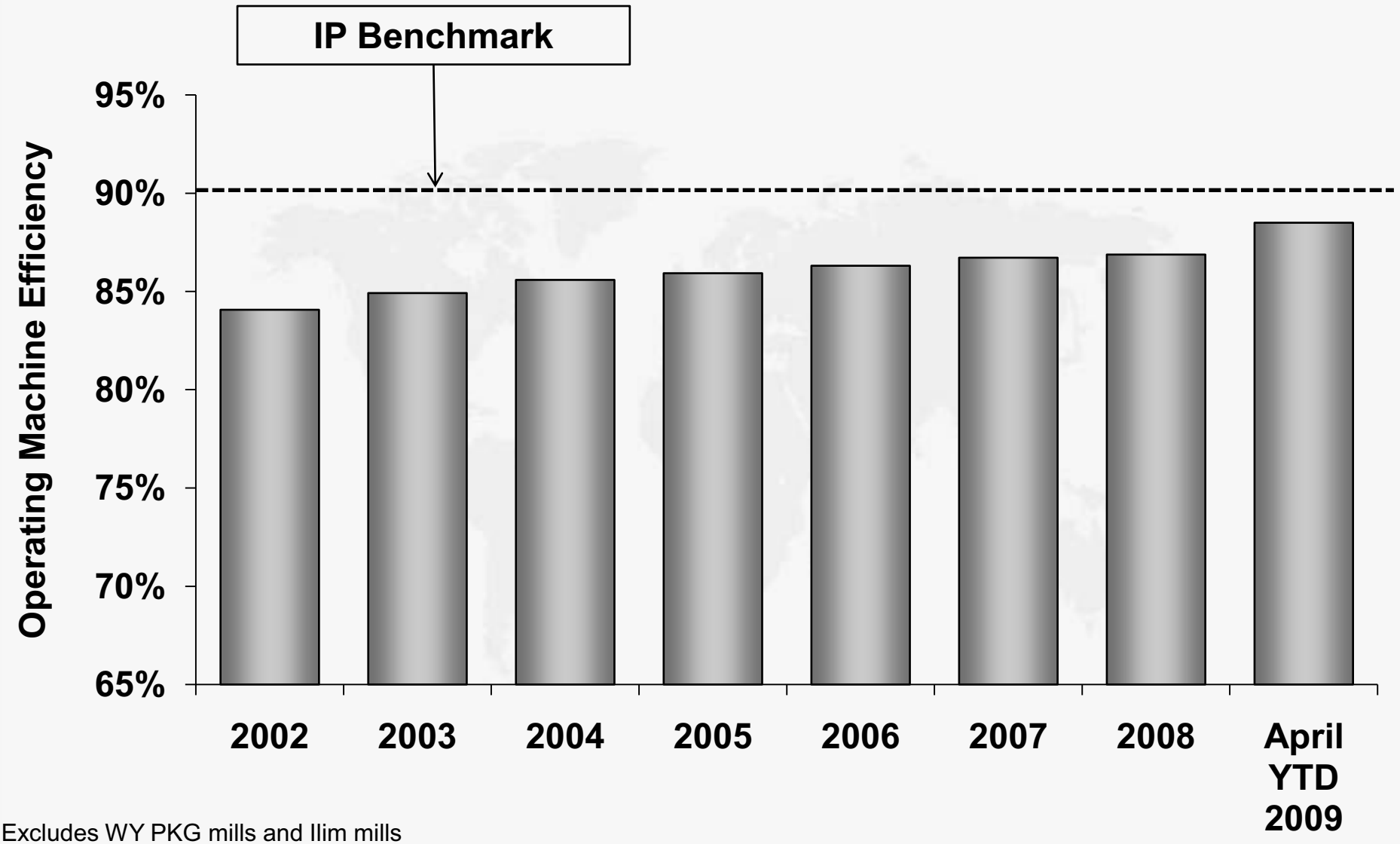

Excludes WY PKG mills and Ilim mills

Increasing Free Cash Flow
Reducing Energy Consumption

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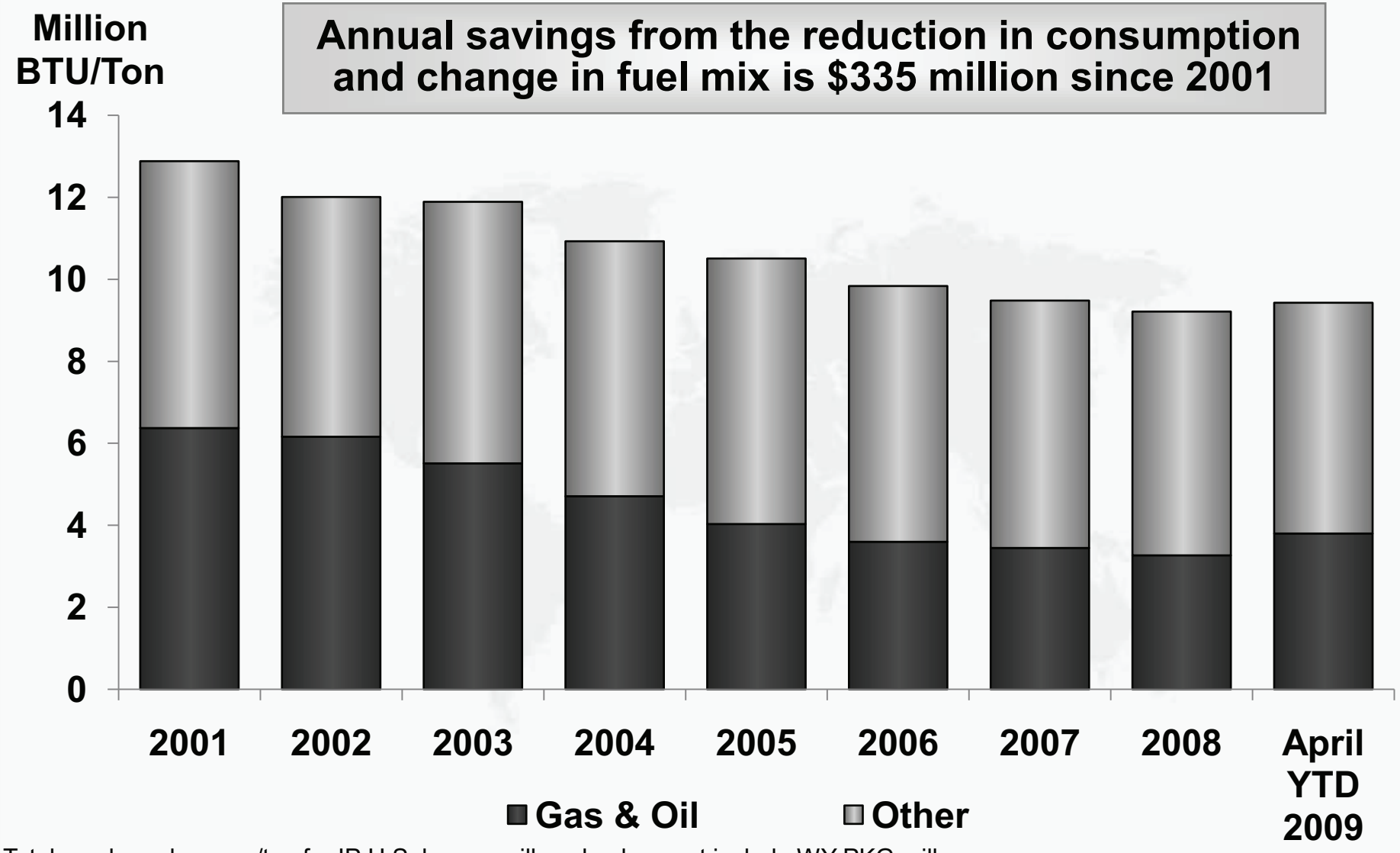
Annual savings from the reduction in consumption and change in fuel mix is $335 million since 2001



Total purchased energy/ton for IP U.S. legacy mills only; does not include WY PKG mills
"Other" includes purchased electricity and steam, coal, purchased wood waste, and other materials

Increasing Free Cash Flow

Largest Renewable Energy Generator & User

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- **70% of IP's total mill energy needs are from renewable resources**
- **Black liquor energy is clean, carbon-neutral, renewable & efficient**
- **In 2008, IP produced 6 billion kilowatt-hours of electricity from renewable energy sources**
- **Black liquor renewable energy should be treated on an equal tax basis with other sources of renewable energy**

Increasing Free Cash Flow

No Additional Fossil Fuel Used to Qualify for Credits

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Diesel fuel now consumed in recovery boilers replaces fossil fuels consumed in power boilers

Increasing Free Cash Flow

Industrial Packaging Integration Synergies

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Category	Amount ($ Million)
Reduce Salaried Headcount	$200
Optimize Mill & Box Plants	$120
Improve Box Margins	$105
Reduce Mill Freight	$40
Rationalize Box Plants	$35
Total Forecasted Synergies	> $500

Does not include $90 million in procurement savings

Increasing Free Cash Flow

Reduced Dividend to Create Financial Cushion

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Dividend Reduction

- Followed many other cash conservation efforts
- Uncertain economic conditions
- Frozen credit markets
- Managing cash conservatively
- Diverting cash to reduce debt at faster pace

Dividend Increase

- Stable economic conditions
- Liquid credit markets
- Approaching target debt-to-EBITDA ratio

Increasing Free Cash Flow
Improving in a Tough Environment

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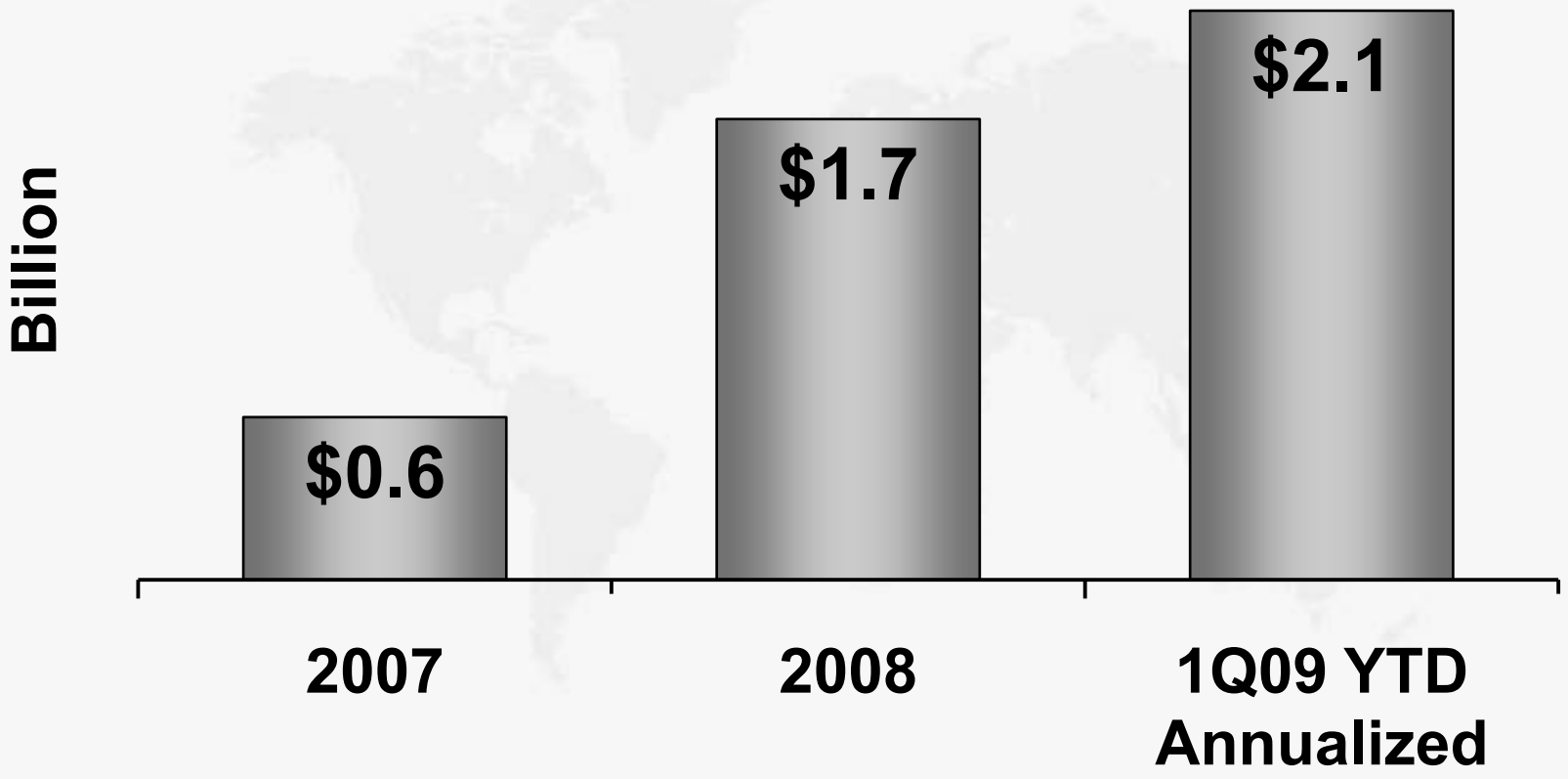

Free cash flow before dividends.
1Q09 Annualized is free cash flow before dividends, excluding $145 million impact of alternative fuel mixture tax credits.

Increasing Free Cash Flow
Significant, Continuous Progress

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- **Eliminating positions**
- **Freezing salaries**
- **Reducing operating costs**
- **Reducing capital spending**
- **Earning alternative fuel tax credits**
- **Generating greater merger synergies**

Liquidity Management & Debt Reduction

Maturities before Repayments & Refinancing

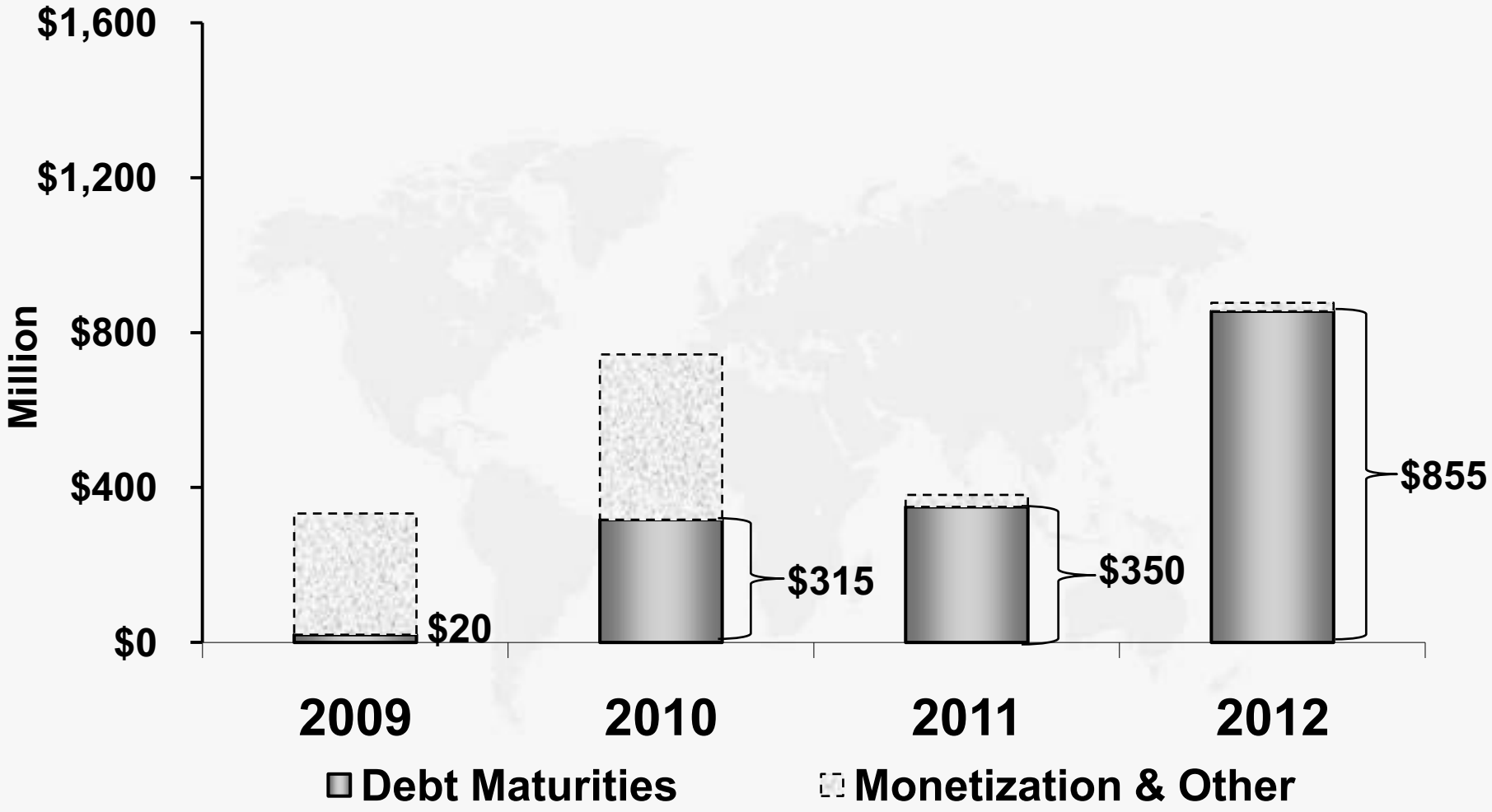


Debt maturity profile as of December 31, 2008

Monetization & Other: Intend to rollover or refinance timber monetization debt, Sun JV debt and other foreign subsidiary debt

Liquidity Management & Debt Reduction

Maturities after Repayments & Refinancing



Debt maturity profile as of May 31, 2009

Monetization & Other: Intend to rollover or refinance timber monetization debt, Sun JV debt and other foreign subsidiary debt

Liquidity Management & Debt Reduction

Maturities after Repayments & Refinancing

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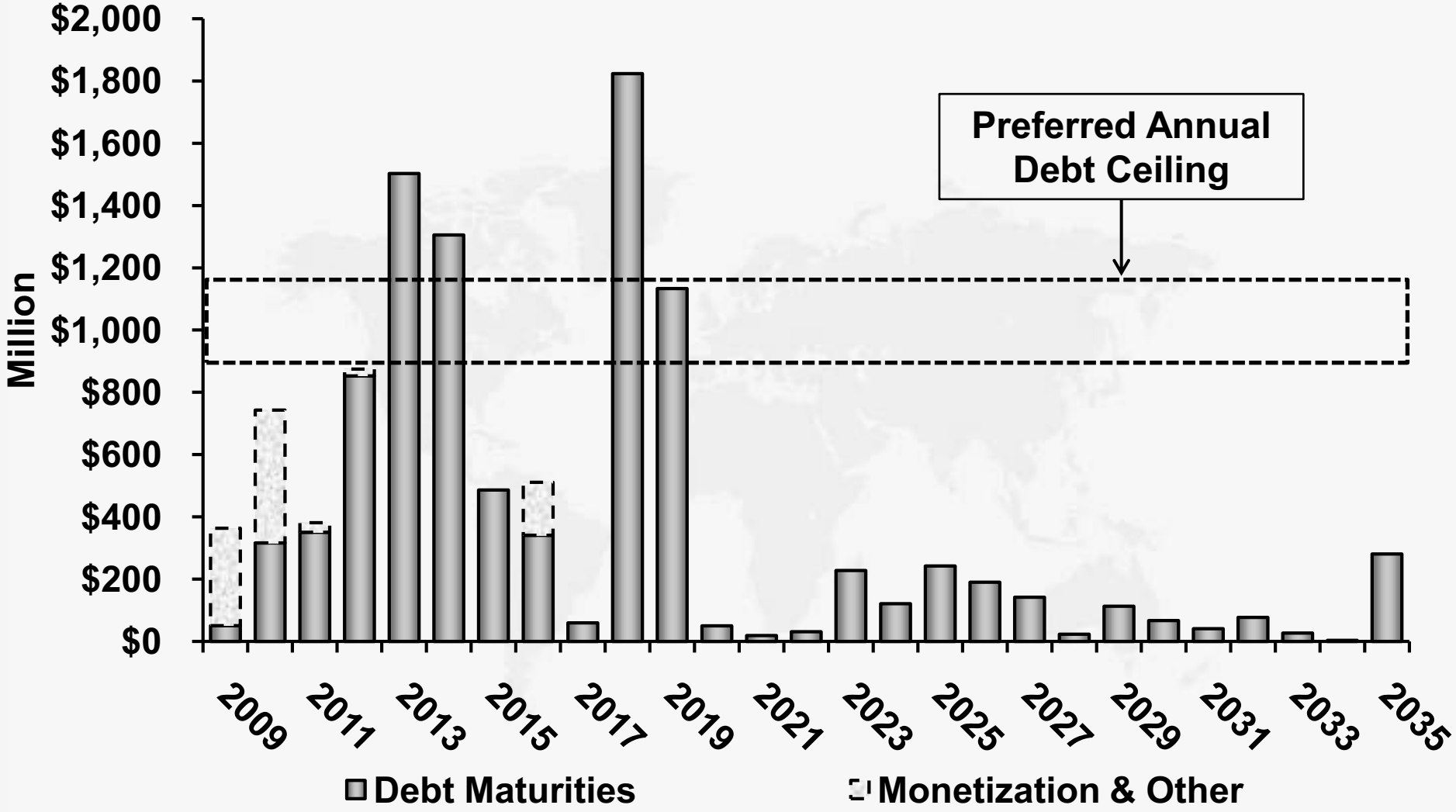

U.S. debt as of May 31, 2009; foreign debt as of April 30, 2009

Monetization & Other: Intend to rollover or refinance timber monetization debt, Sun JV debt and other foreign subsidiary debt

Liquidity Management & Debt Reduction

Credit Ratings & Debt Covenants

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	Rating	Outlook
Standard & Poor's	BBB	Negative
Moody's	Baa3	Negative

	Covenant	1Q09 Actual
Maximum Debt-to-Total Capital	60%	50.3%
Minimum Consolidated Net Worth	$9B	$11.4B

Liquidity Management & Debt Reduction

Strong Back-up Liquidity

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	Maturity	Facility	Cost
Estimated End of May Cash Balance	**-**	**$1.3 Billion**	**-**
$1.0B[1] Accounts Receivables Program	**JAN 2010**	**Zero Drawn**	**CP Rate[2] + 150 bps**
$1.5B Corporate Revolver	**MAR 2011**	**Zero Drawn**	**LIBOR + 50 to 60 bps**
Total Cash & Committed Facilities		**$3.8 Billion**	**-**

Cost includes commitment fees

[1] $950 million available at April 30, 2009 based on eligible receivable balances

[2] Conduit's rate

Liquidity Management & Debt Reduction

$1.8 Billion Reduction in 10 Months

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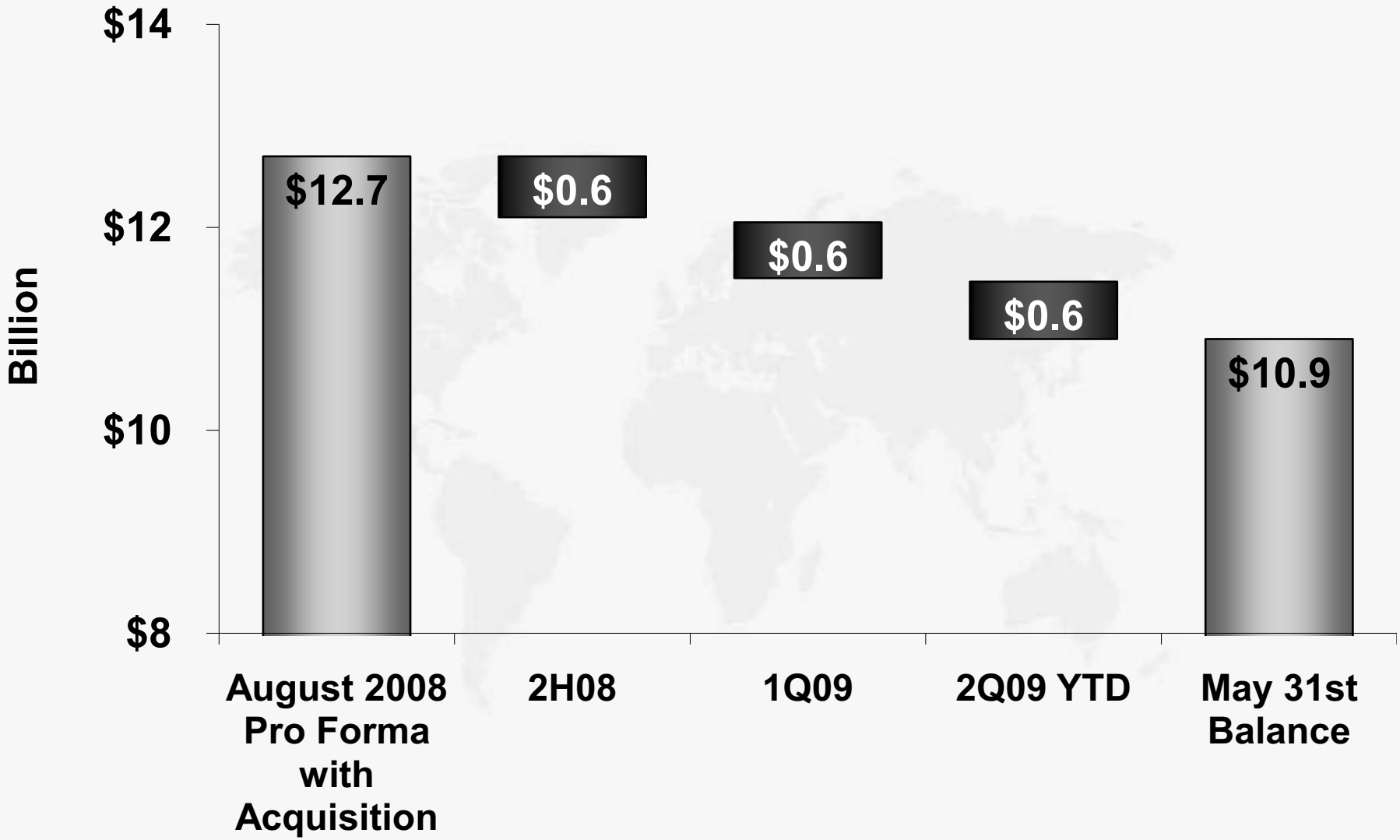

Liquidity Management & Pension Funding

No Required Cash Contributions in 2009/10

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Assumptions	1995 – 2008 Actual Average	January 1, 2009
Return on Assets	8.9%	8.25%
Discount Rate	6.8%	8.15%

Contributions	2009	2010
Fund-to-Minimum	$0	$0

Liquidity Management & Pension Funding

Historical Asset Return Rates

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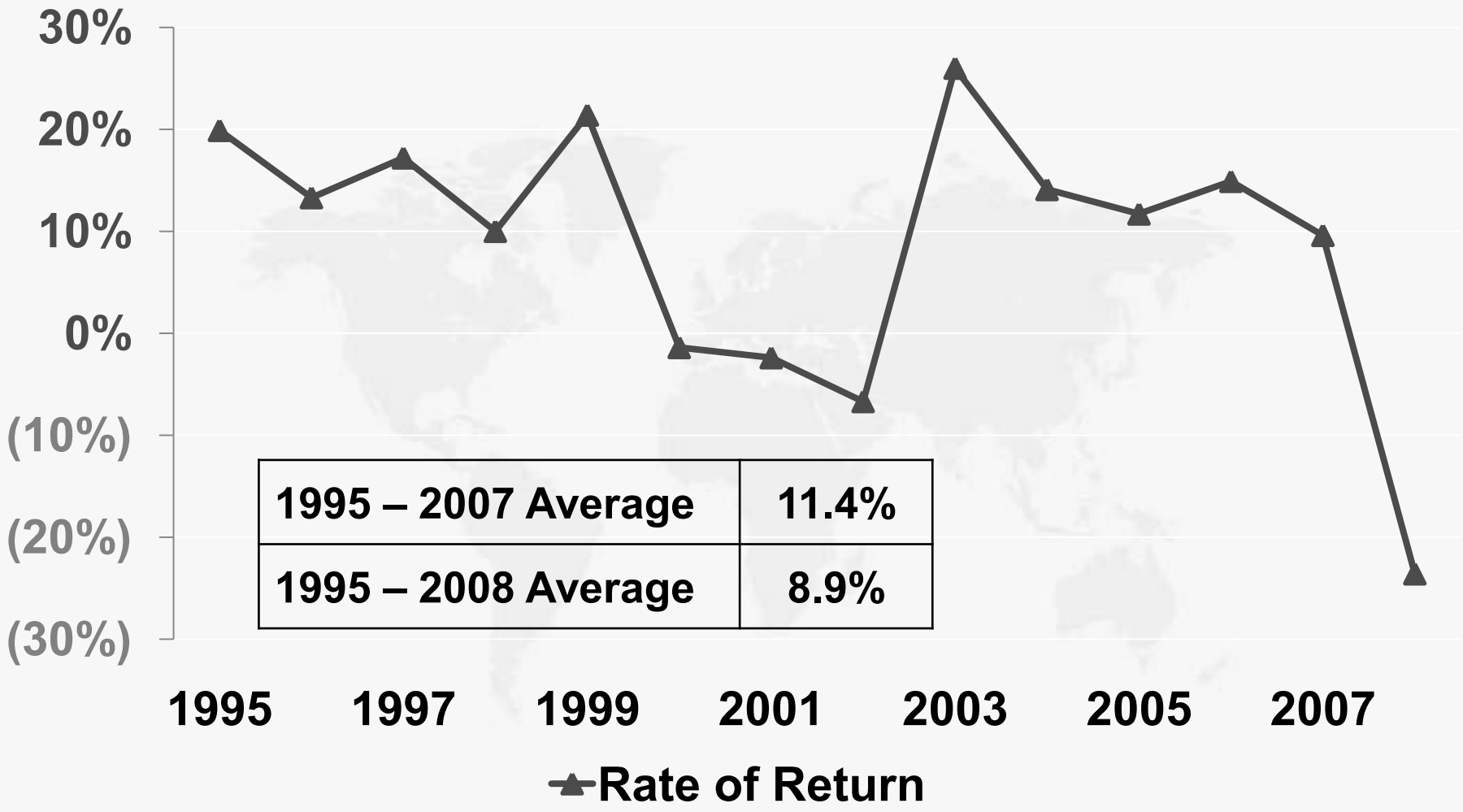

1995 – 2007 Average	11.4%
1995 – 2008 Average	8.9%

Liquidity Management & Pension Funding

Historical Discount Rates

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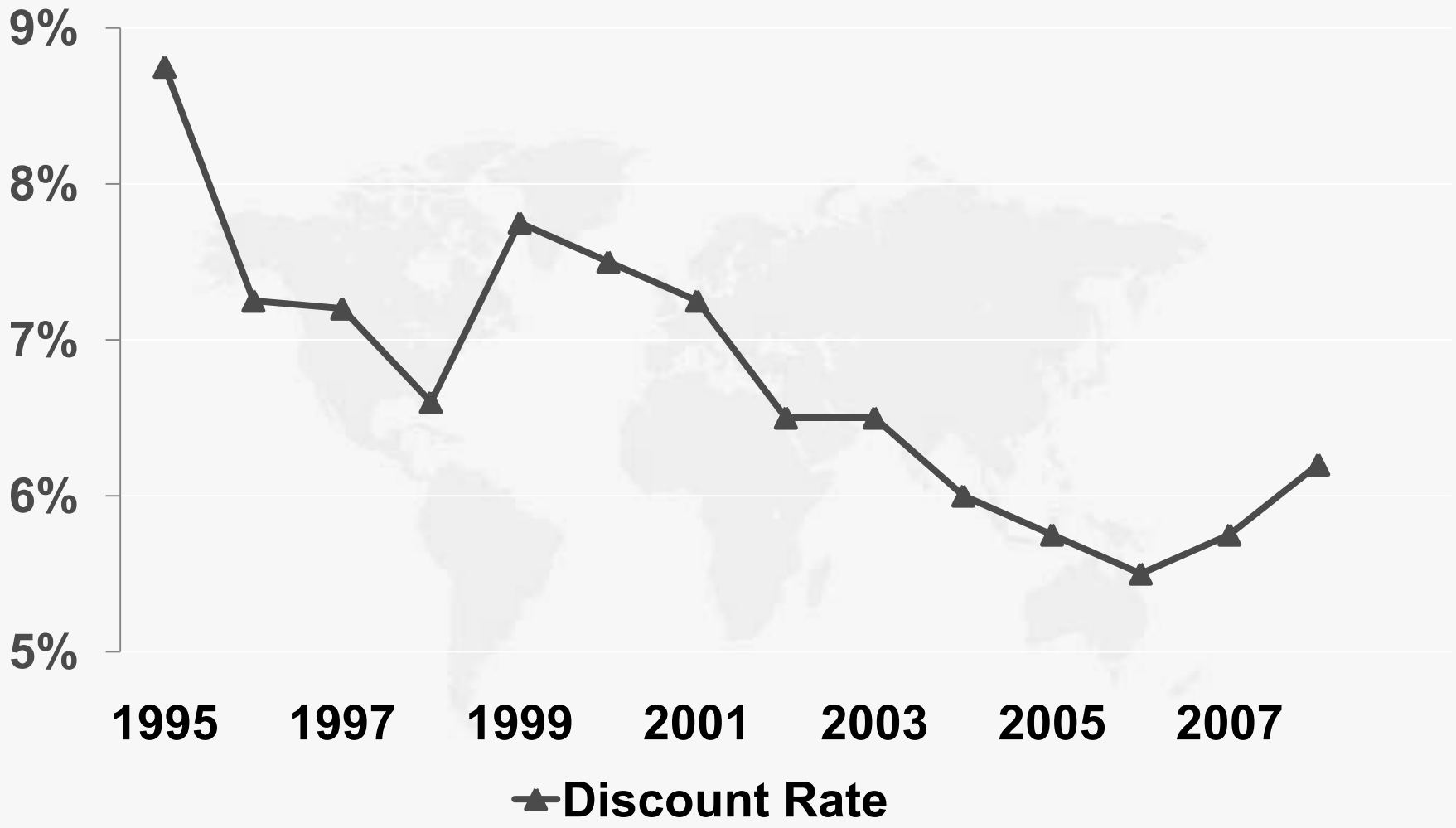

Free Cash Flow, Liquidity & Debt Reduction

Efforts Producing Results

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- **Generated 1Q09 FCF of $520 million***
- **Reduced debt by $1.2 billion in 2009YTD**
- **Reduced & extended 2009-12 maturities**

* Excludes $145 million of alternative fuel mixture credits

Liquidity Management & Debt Reduction
Guidelines

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- **Total Debt-to-EBITDA Target of < 3X**
- **Limit maturities to ~ $1B per year**
- **Minimum cash & backup liquidity of ~20% of debt**

Total debt includes estimated pension liabilities & operating leases

Risk Assessment
Improving our Process

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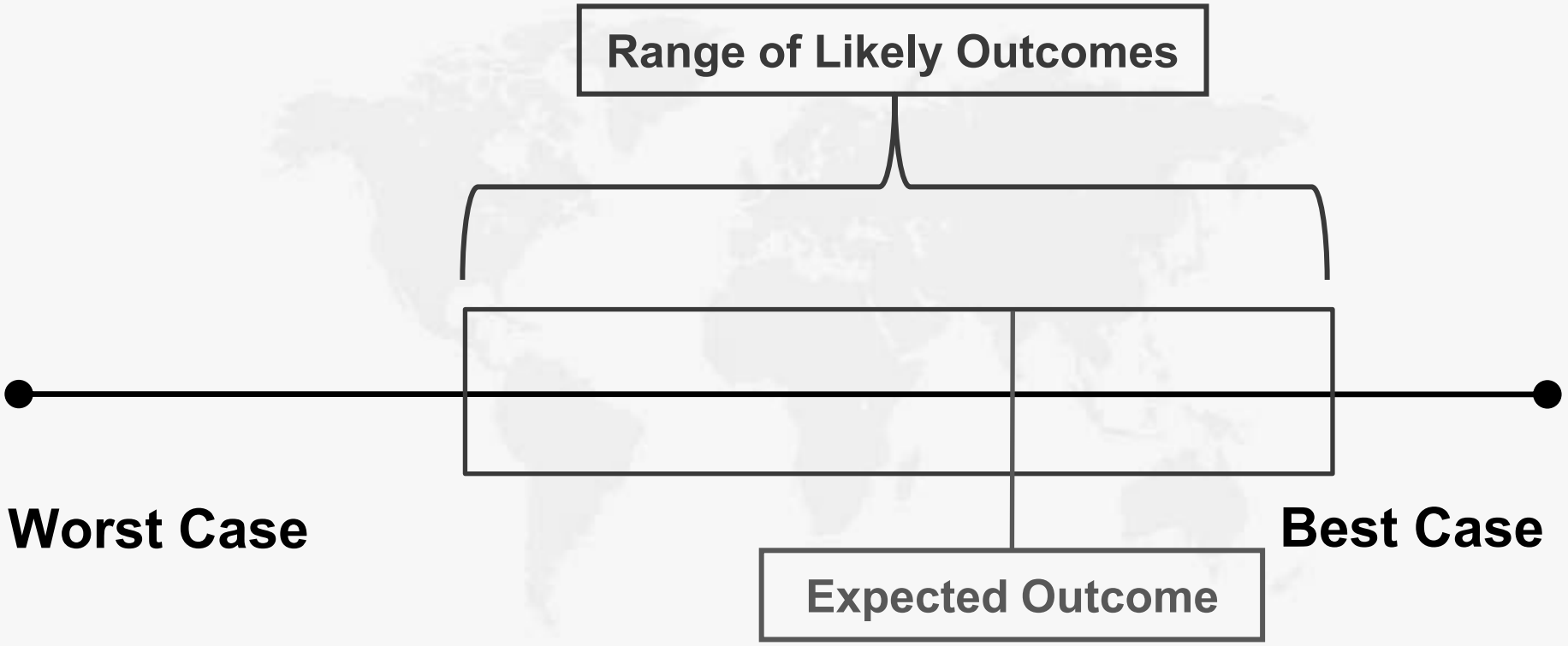
Total Range of Potential Outcomes



Risk Assessment
Improving our Process

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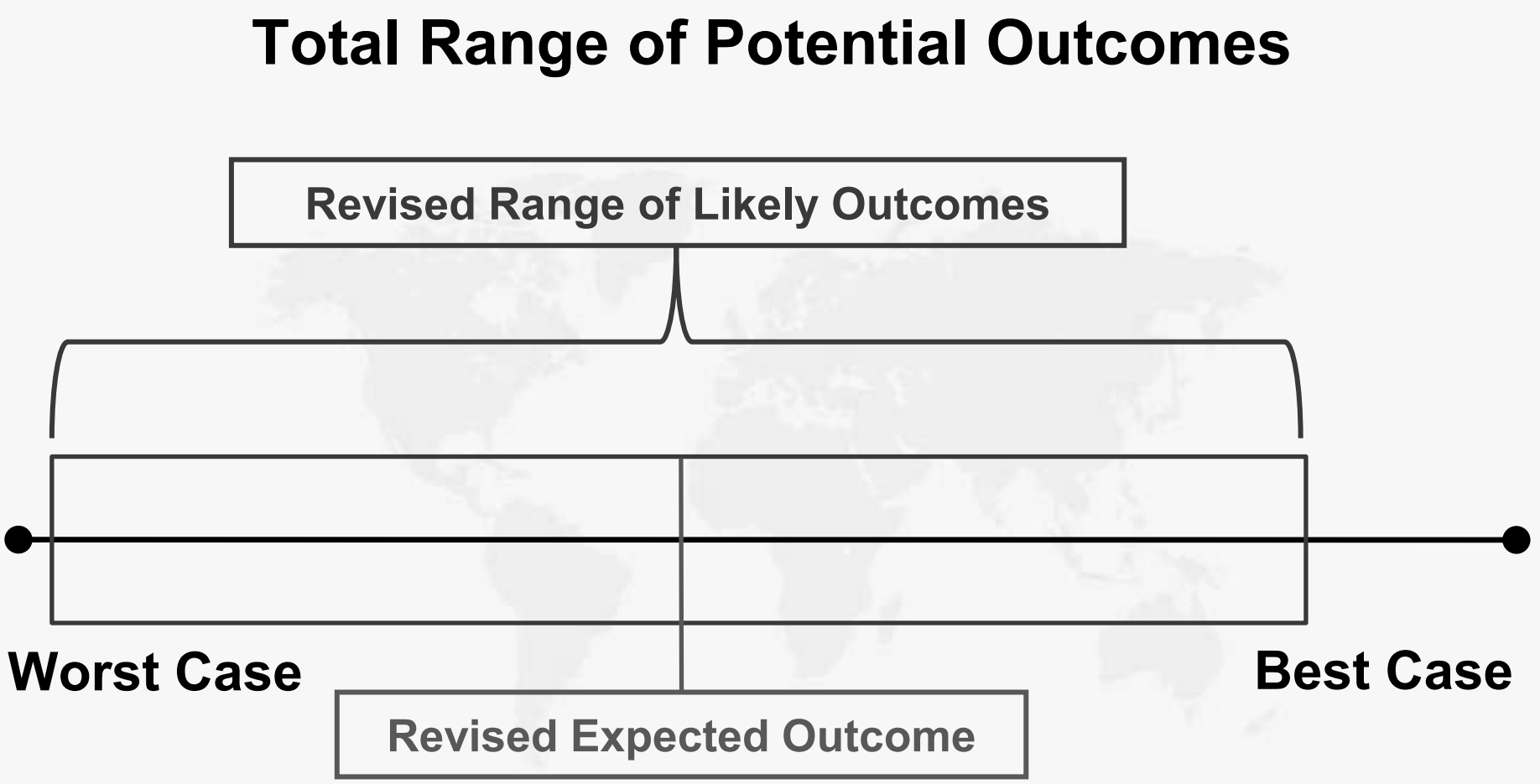

Capital Allocation

Current Focus on Debt Reduction

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Pursue Total Debt-to-EBITDA Ratio of < 3X

Balance Use of Cash to Maximize Shareowner Value with Appropriate Risk

Total debt includes estimated pension liabilities & operating leases

Cash Flow & Debt Reduction Outlook

Positioning for Stronger Cash Flow, Earnings

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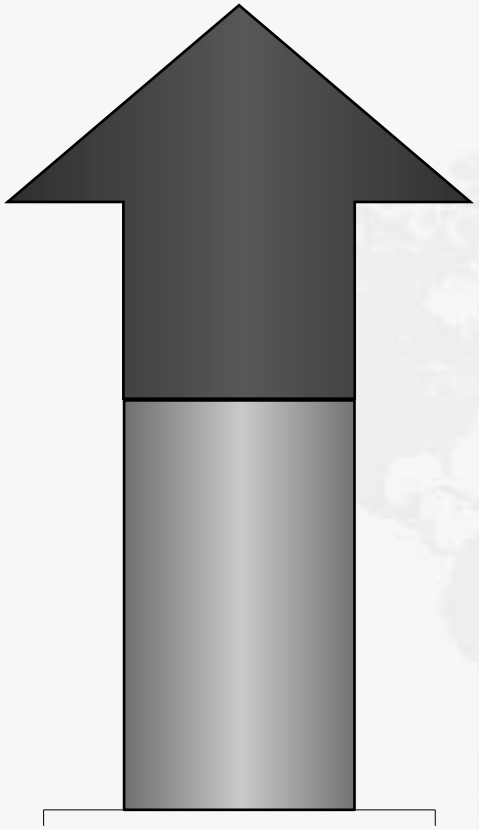
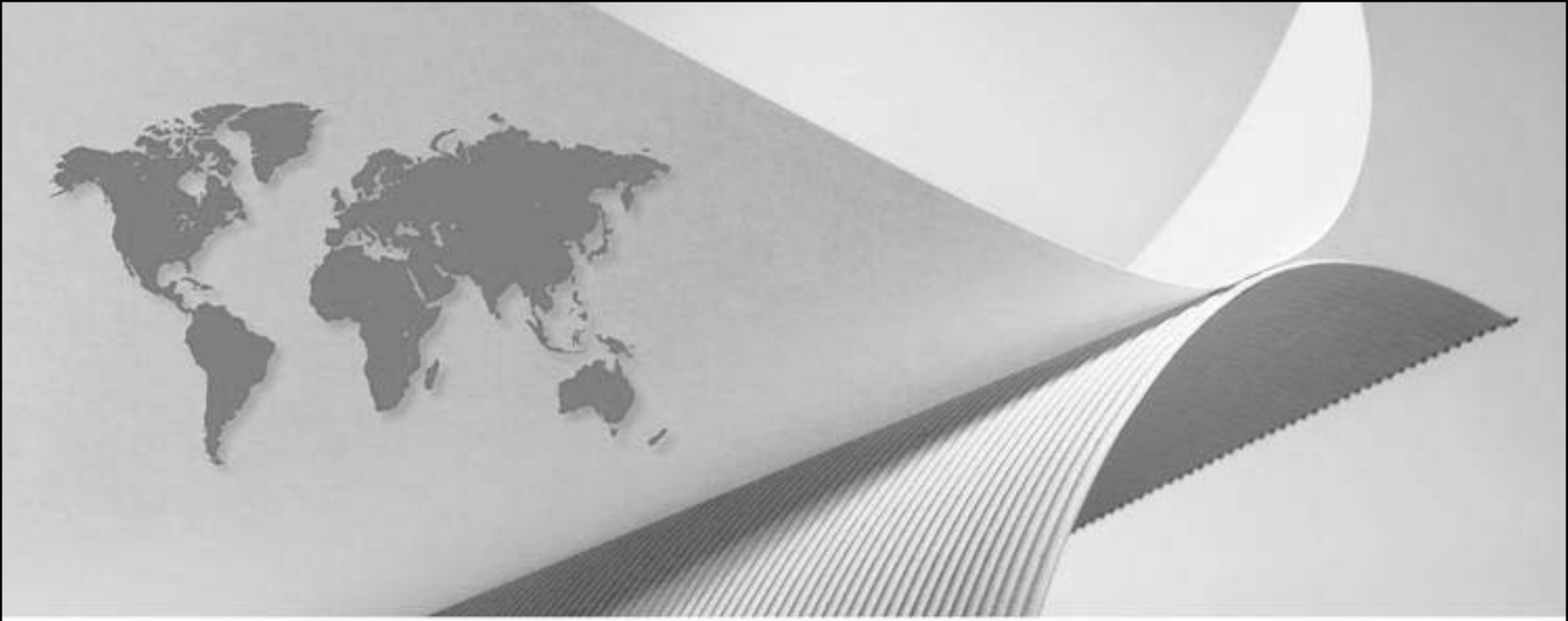


Cash Flow
& Earnings

- Incremental Synergies
- Cost Reductions
- Lower Interest Expense
- Improved Margins
- Increased Volumes
- Reduced Downtime Costs



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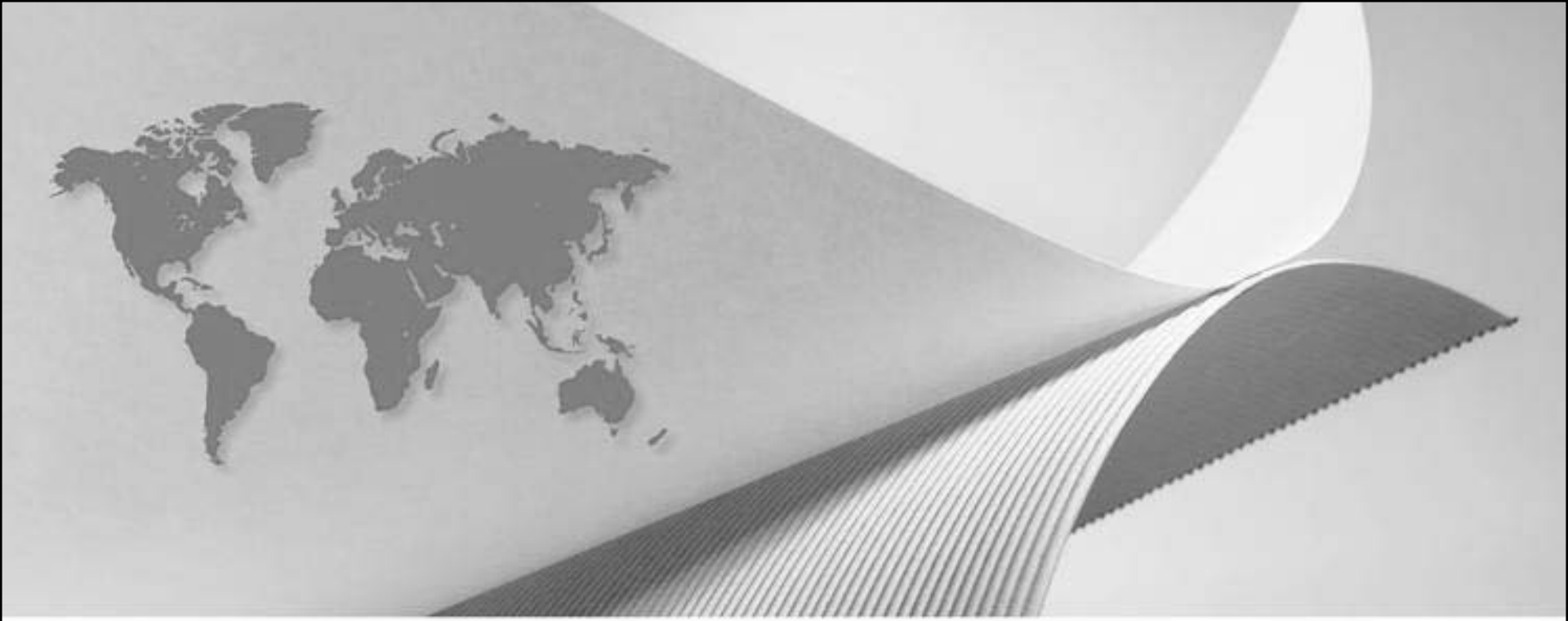

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North America Industrial Packaging

Carol L. Roberts,
Senior Vice President

Agenda

- Containerboard Industry
- IP Strategy & Execution
  - Weyerhaeuser Packaging Integration
  - Low-Cost Mills
  - Profitable Box Plants
  - Market Access & Supply Management
- Financial Performance

North American Containerboard Industry
Consolidated Supply Positions

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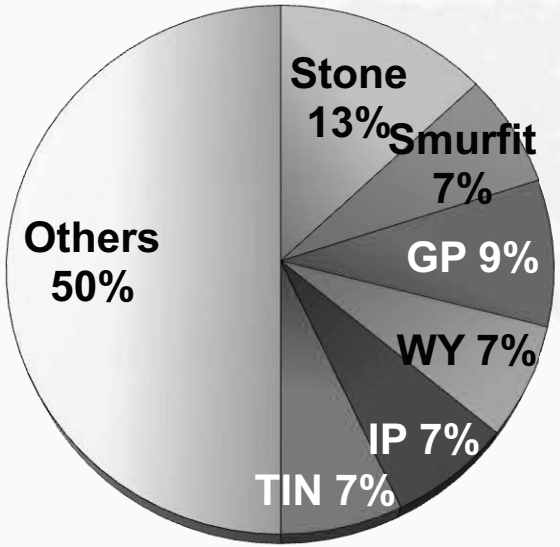
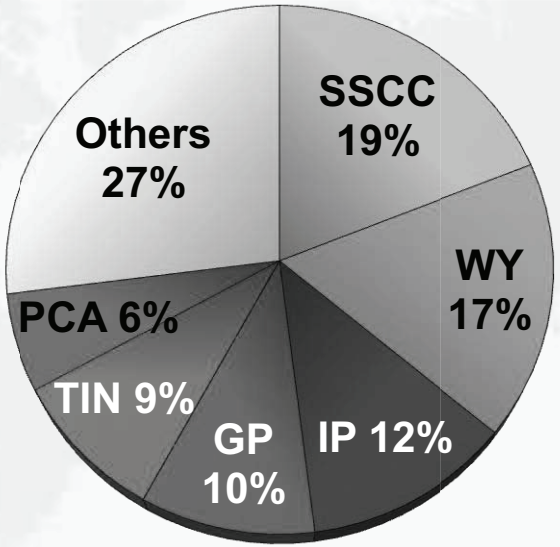
1995



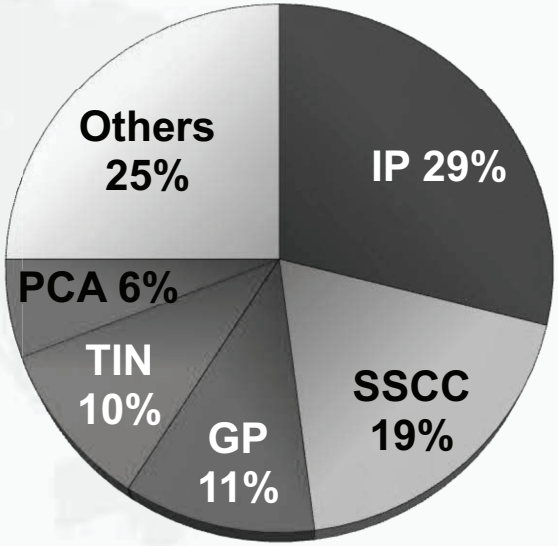
Top 5 = 43%

2005



Top 5 = 67%

2008



Top 5 = 75%

Source: SEC Filings, RISI, IP Analysis

Global Containerboard Industry

Box Demand Growing with Global GDP

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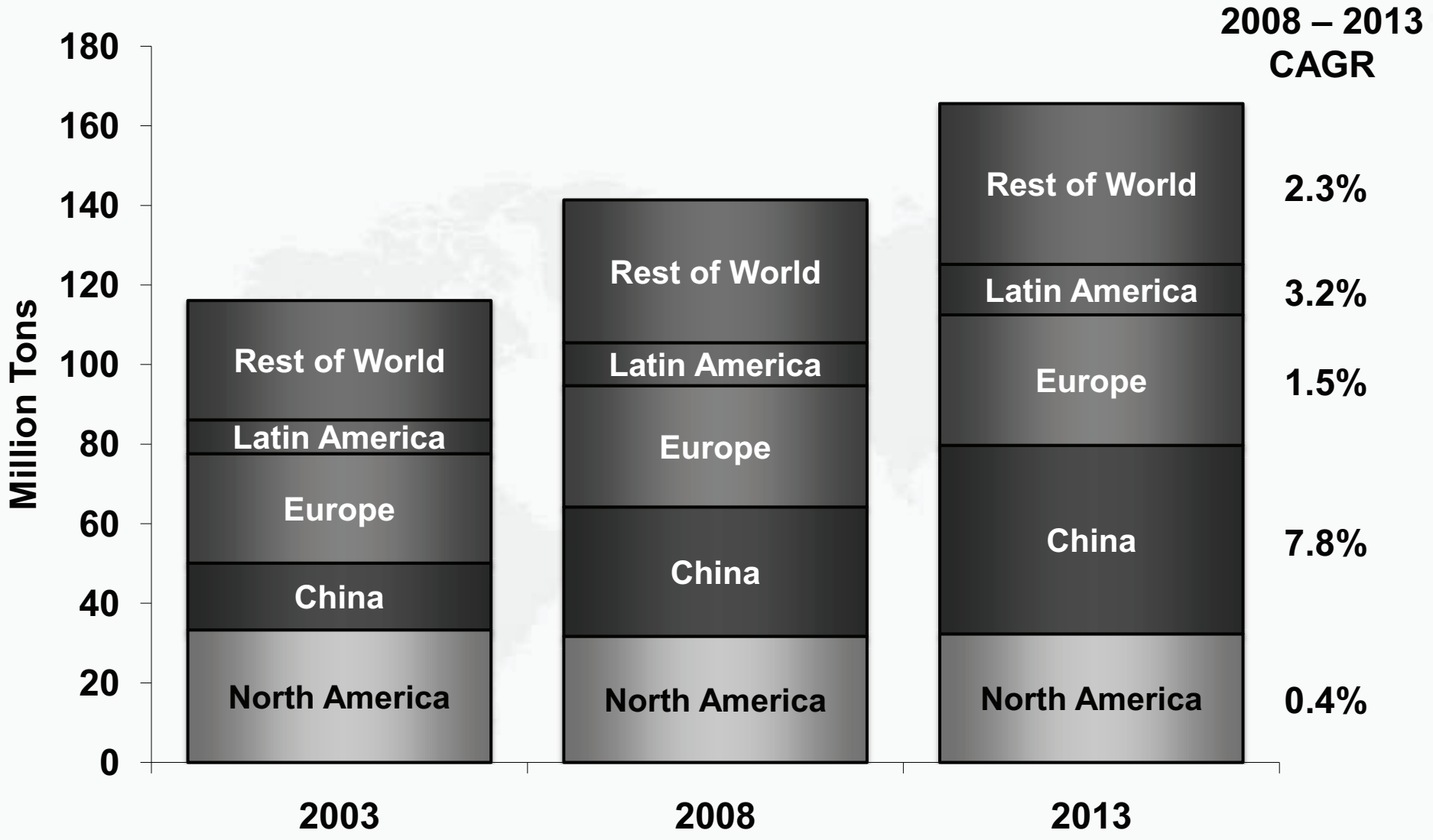

Source: RISI April 2009 Forecast

Global Containerboard Industry

North America Plays Key Role Supplying Growing Regions

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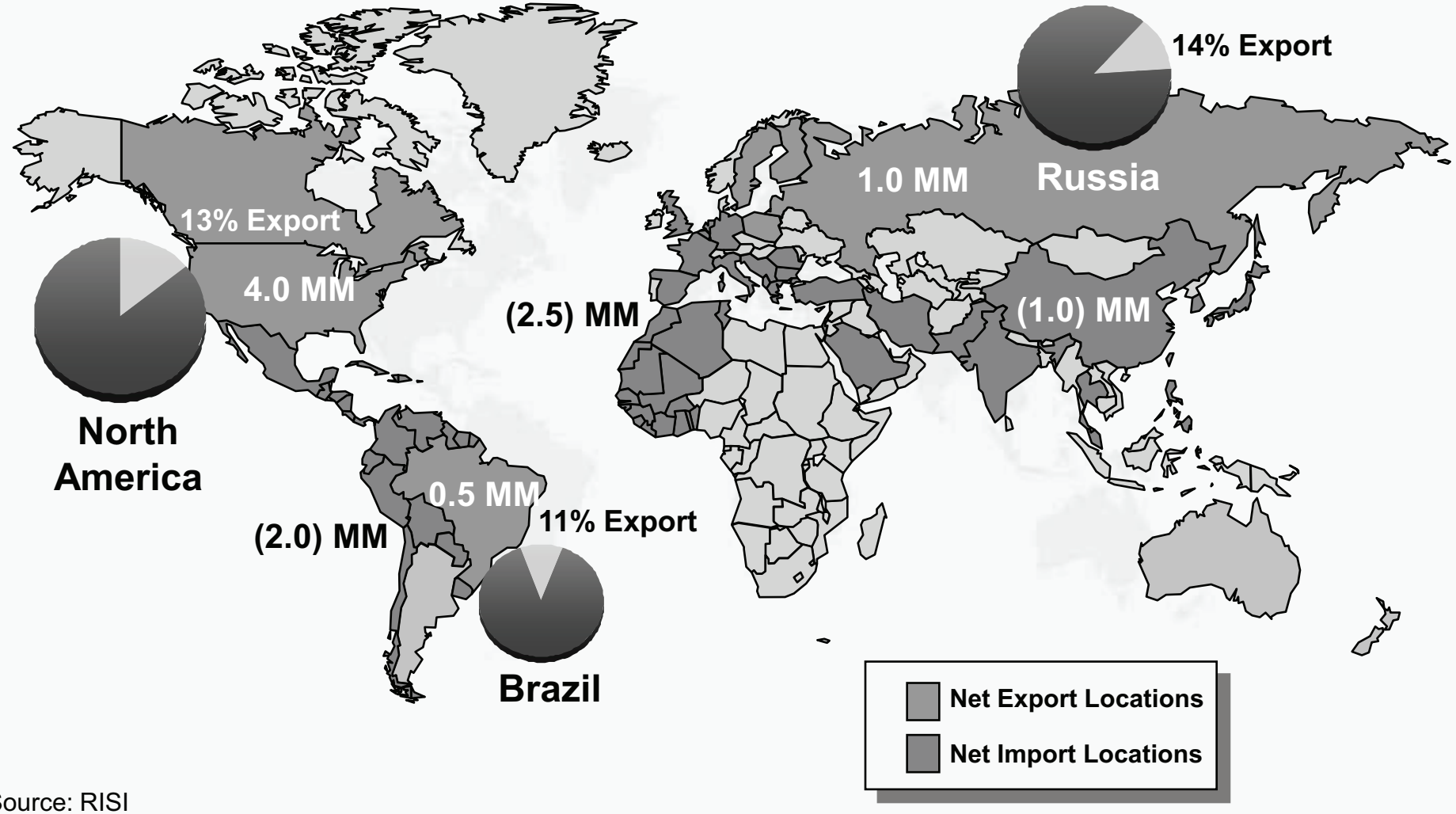
Virgin Containerboard Trade Flows



Source: RISI

IP Strategy & Execution

Positioning to Generate Strong Free Cash Flow

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Vision	**Become the premier North American producer of containerboard & corrugated packaging**
Mission	**Generate strong free cash flow & cost-of-capital returns**

IP Strategy & Execution

Positioning to Generate Strong Free Cash Flow

INTERNATIONAL PAPER

- **Greater synergies at faster rates**
- **World-class, low-cost mill system**
- **Competitive, profitable box business**
- **Optimize capacity & market access**
- **Maximize free cash flow**

IP Strategy & Execution

Significant Increase in EBITDA and Margins

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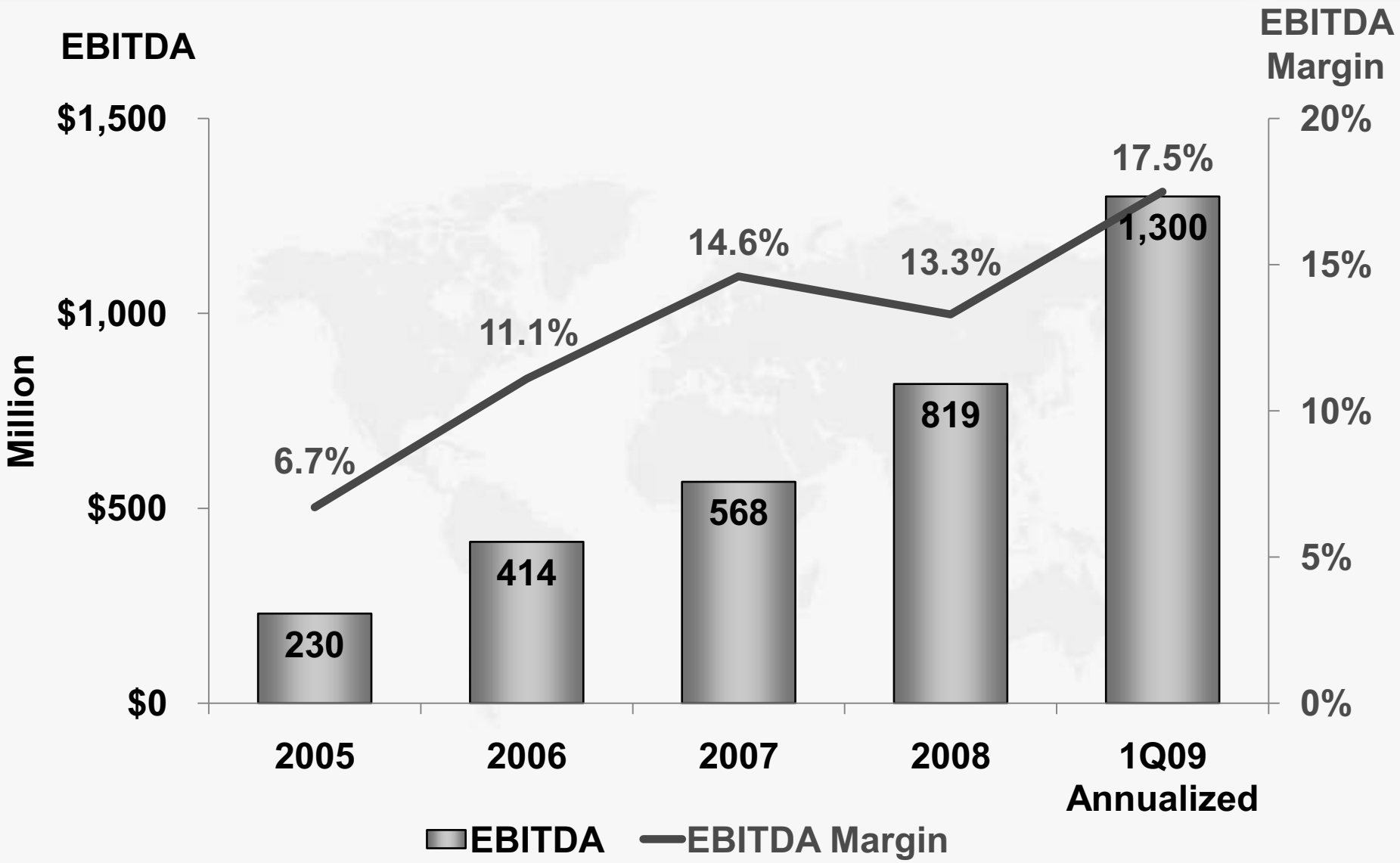

IP Strategy & Execution

Acquisition Exceeding Expectations

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Target	Status
Good Strategic Fit	• Enhanced containerboard & box businesses
Improves Core Businesses	• Premier North American & global positions
Low Integration Risk	• Executing well and quickly
Significant Synergies	• More benefits at faster pace
Quality Assets	• Low-cost, expanded capability & flexibility • Outstanding people
Cash Accretive	• Strong cash flow

IP Strategy & Execution
Synergies Exceeding Original Target

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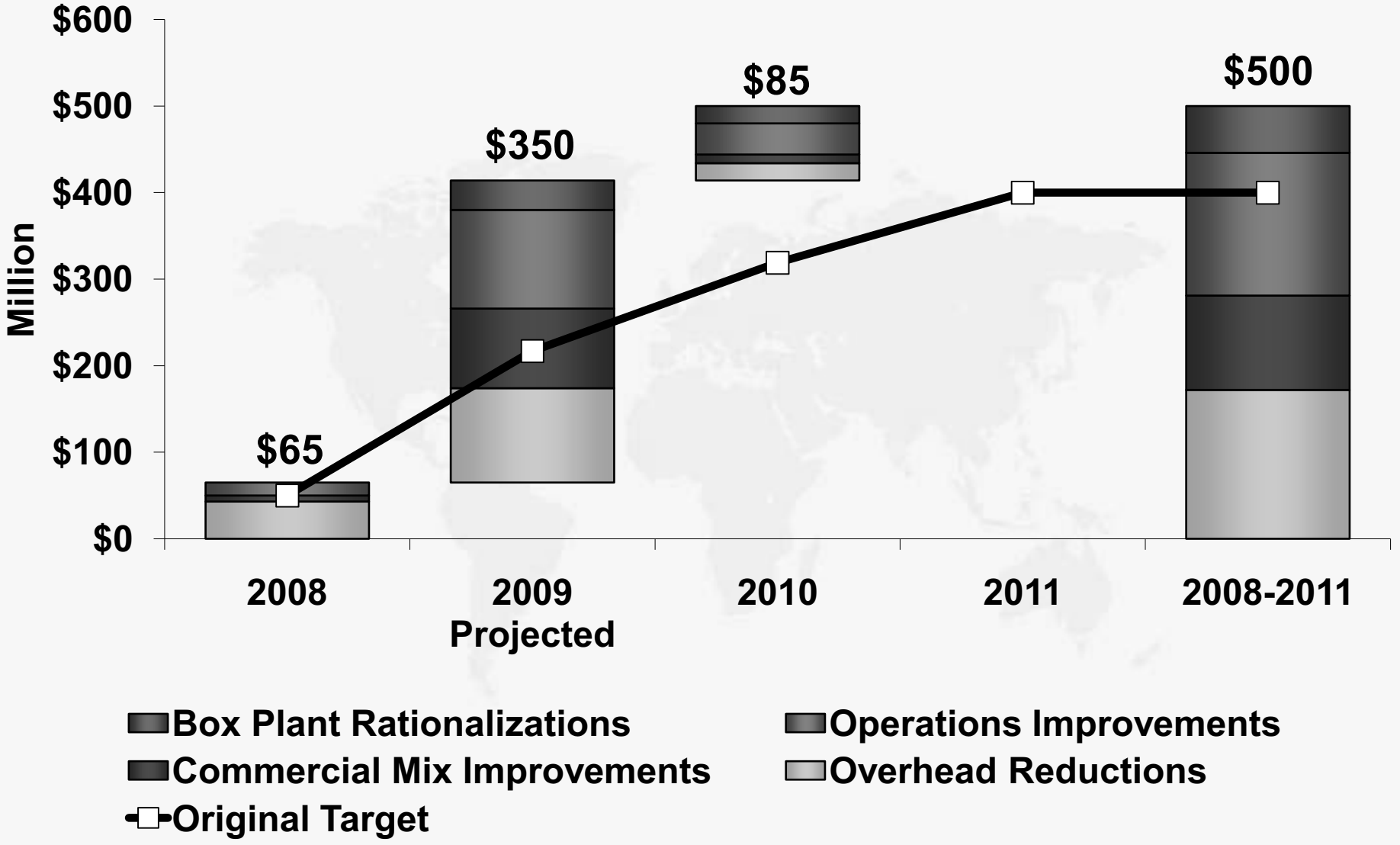

Does not include $90 million in procurement synergies

IP Strategy & Execution

Line of Sight to $500 Million in Synergies

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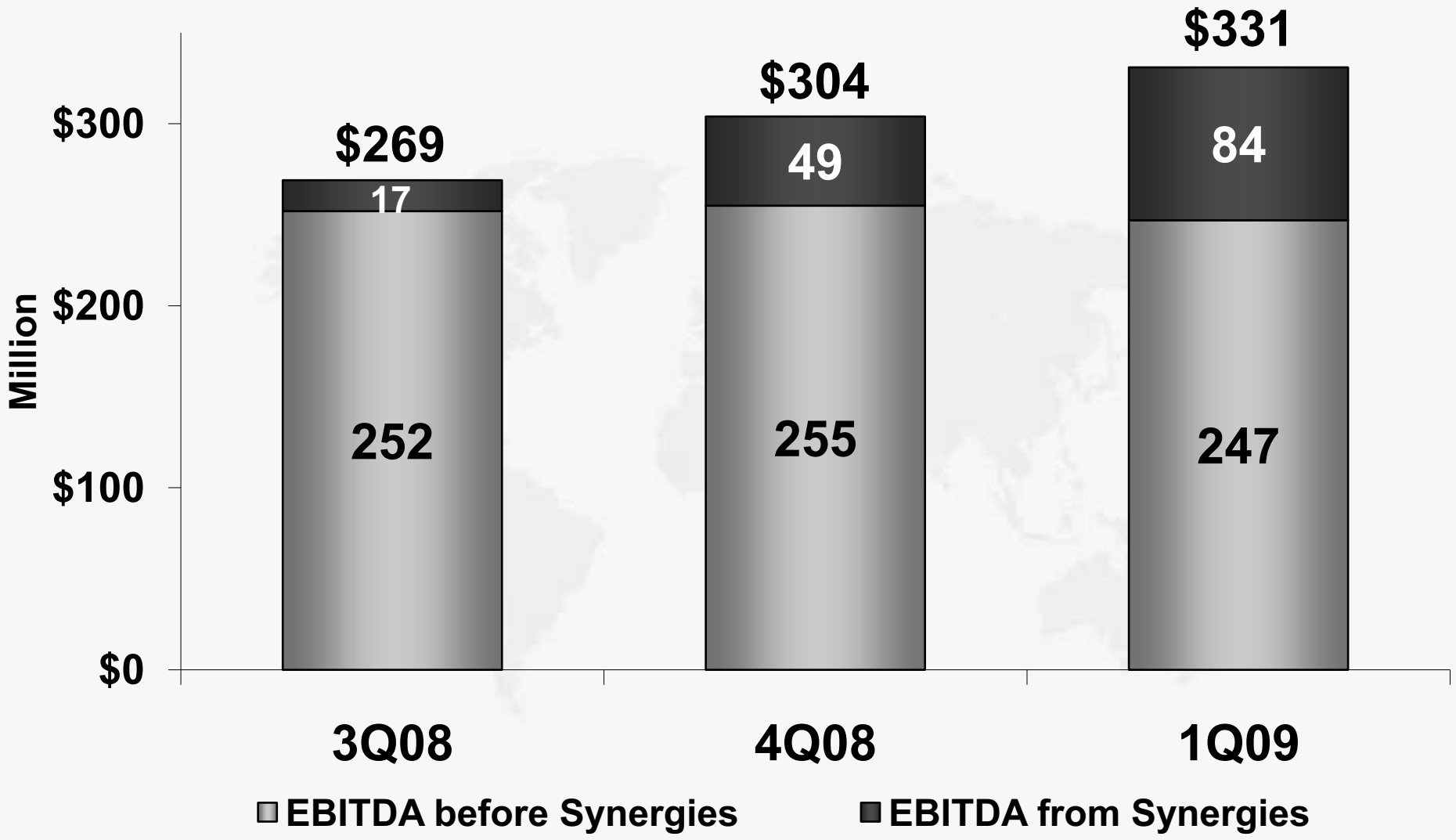
Category	Synergies ($ Million)	Comments
Salaried Headcount Reductions	$200	· Reduced business & corporate headcount by 26%
Mill & Box Plant Operations	$120	· Improved reliability · Increased efficiency · Reduced hourly headcount
Box Margins	$105	· Commercial improvements · Mix improvement · Right-weighting
Mill Freight Savings	$40	· Fewer total miles · Increased weight/load by 15-20%
Box Plant Rationalizations	$35	· 13 plant closures (12 box, 1 sheet) · 96% sales volume retained · Hourly headcount

Excludes $90 million in procurement synergies

IP Strategy & Execution

Delivering Synergies to Bottom Line



Earnings before special items.

IP Strategy & Execution

Increased Mill Capacity and Flexibility

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	2005	May 2008	May 2009[1]
# of Mills	8	6	14
# of Containerboard Machines	13	11	24
Average Capacity (Thousand Tons per Mill)	610	870	790
Mill Headcount	2,800	2,500	4,500
Total Capacity (Million Tons)	4.9	5.0	11.1
Capacity (Tons per Mill Employee)	1,700	2,000	2,500
Recycled as % of Total Capacity	20%	16%	38%

[1] Excludes Mexican mill and Valliant #3 machine.

IP Strategy & Execution

80% of Capacity in 1st & 2nd Quartiles

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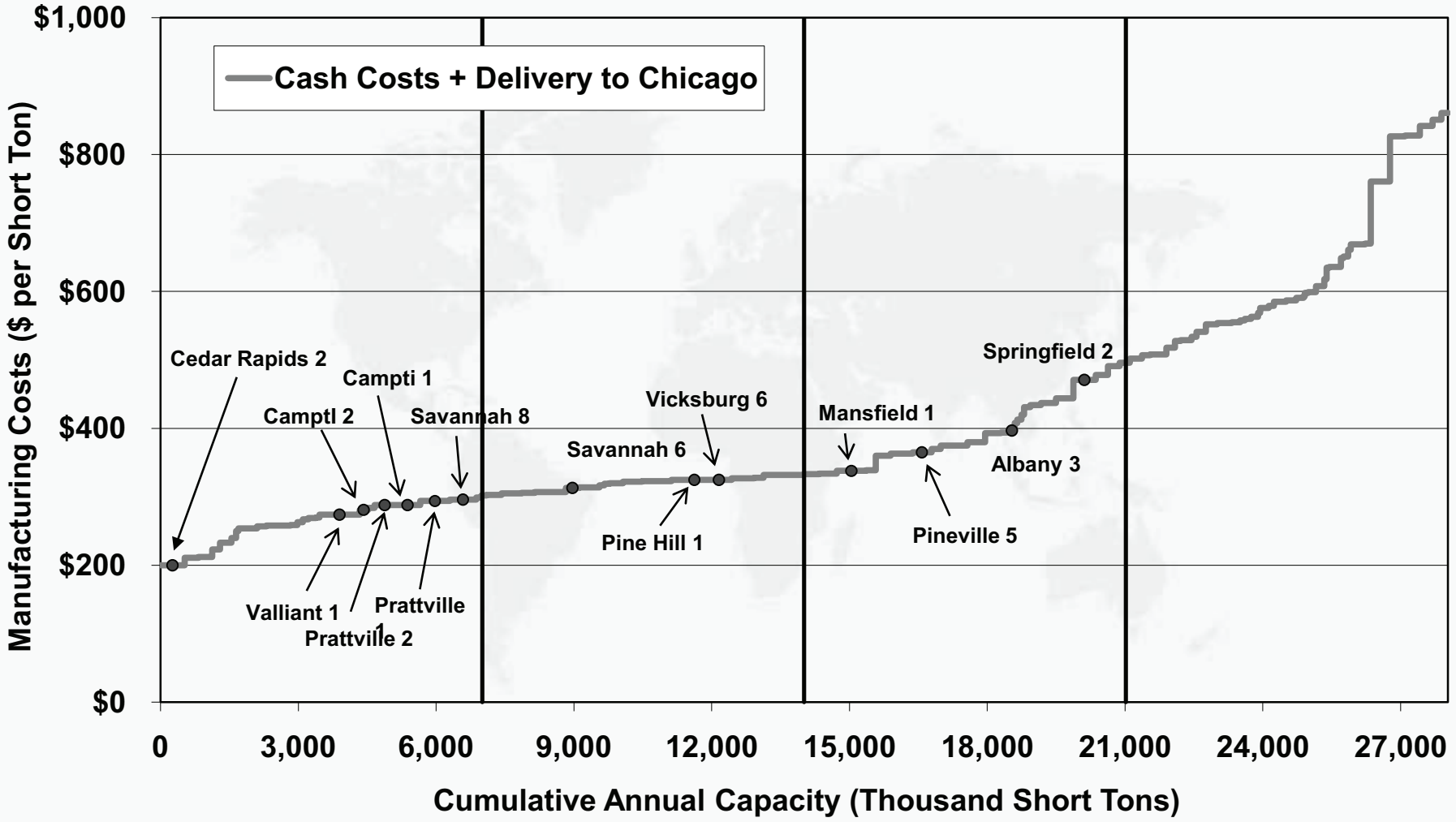
Identified $200MM incremental improvement over next 3 years



Source: Poyry's 2008 42# Global Kraft Linerboard CostTrac model at 4th quarter input costs and exchange rates.

IP Strategy & Execution

Well-Positioned in Attractive Customer Segments

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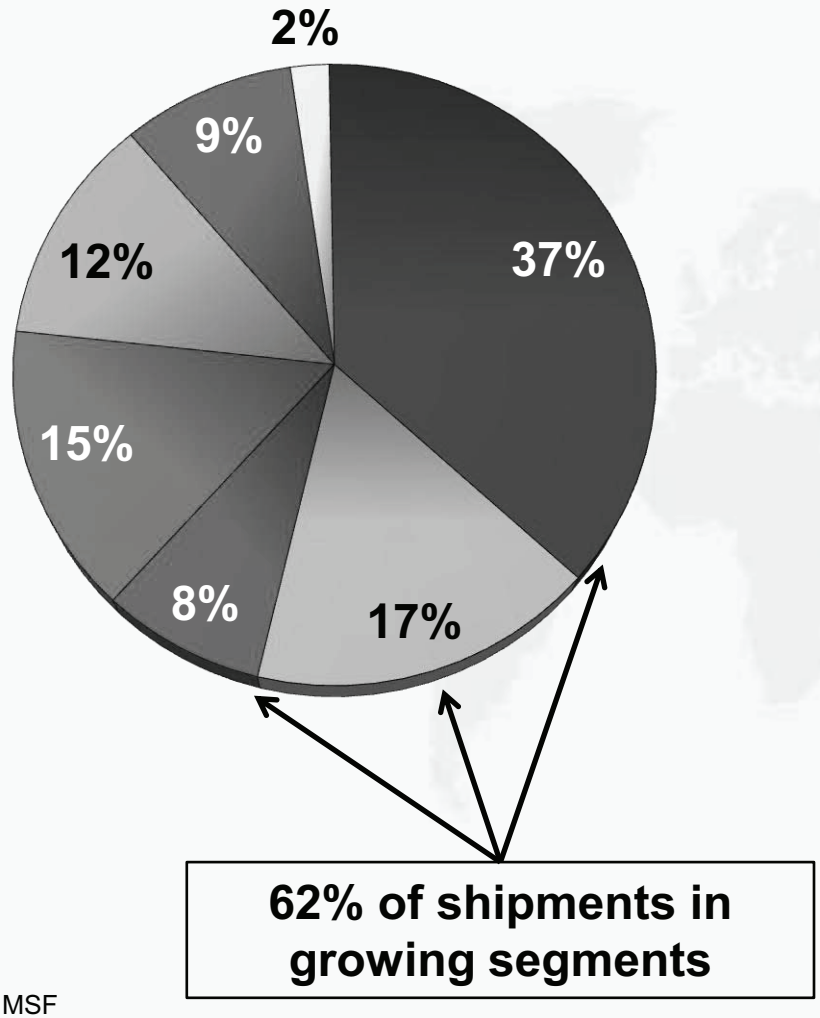
IP Box Shipments by Segment



Box shipments in MSF
Source: Fibre Box Association, IP Analysis

IP Strategy & Execution

7% Productivity Improvement since Acquisition

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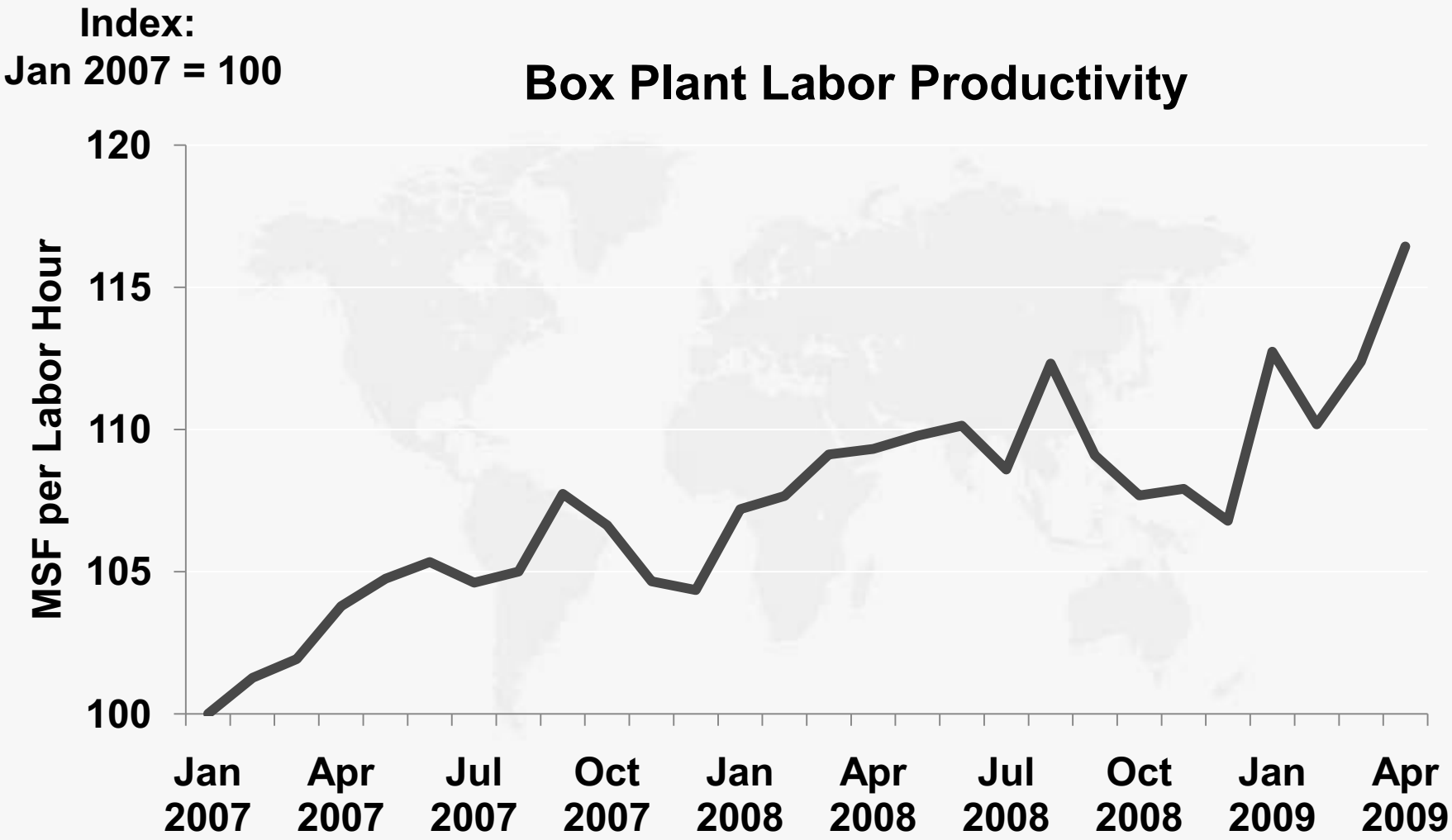

IP Strategy & Execution

Continuing to Outperform Industry and Competitors

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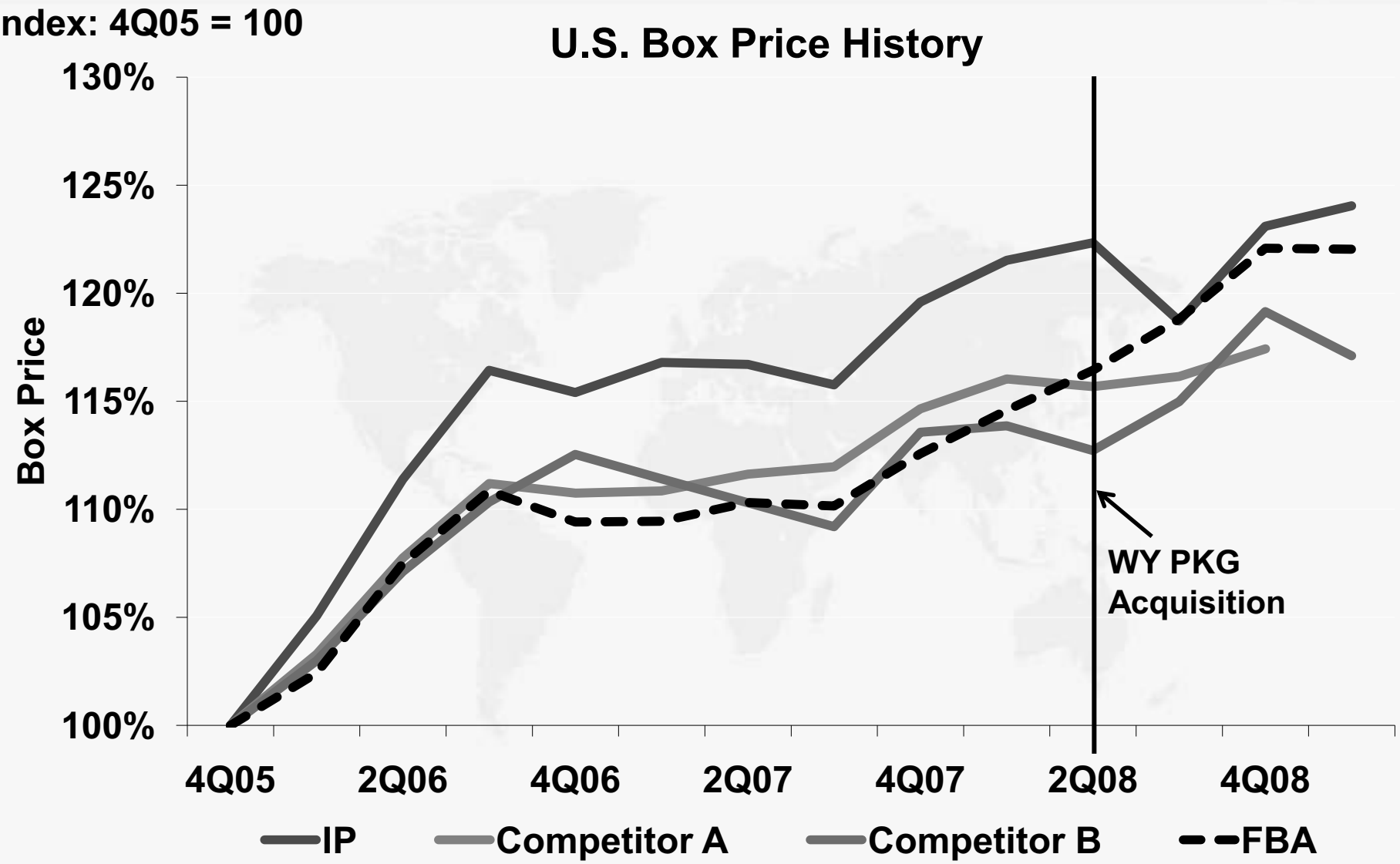

IP's price is for Fibre Box Association facilities.

Source: Competitors' earnings calls, press releases, and SEC Filings, FBA

IP Strategy & Execution
Successful Box Plant Rationalizations

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# of Box Plants Closed[1]	**8**
Customer Retention[2]	**96%**
S&A Reduction ($ Million)	**$20**
Variable Cost Reduction ($ Million)	**$15**
Synergy EBITDA Impact ($ Million)	**$35**

[1] Excludes closures of 5 plants that were announced on April 3rd, which are still operating today
[2] Box plant rationalizations

IP Strategy & Execution

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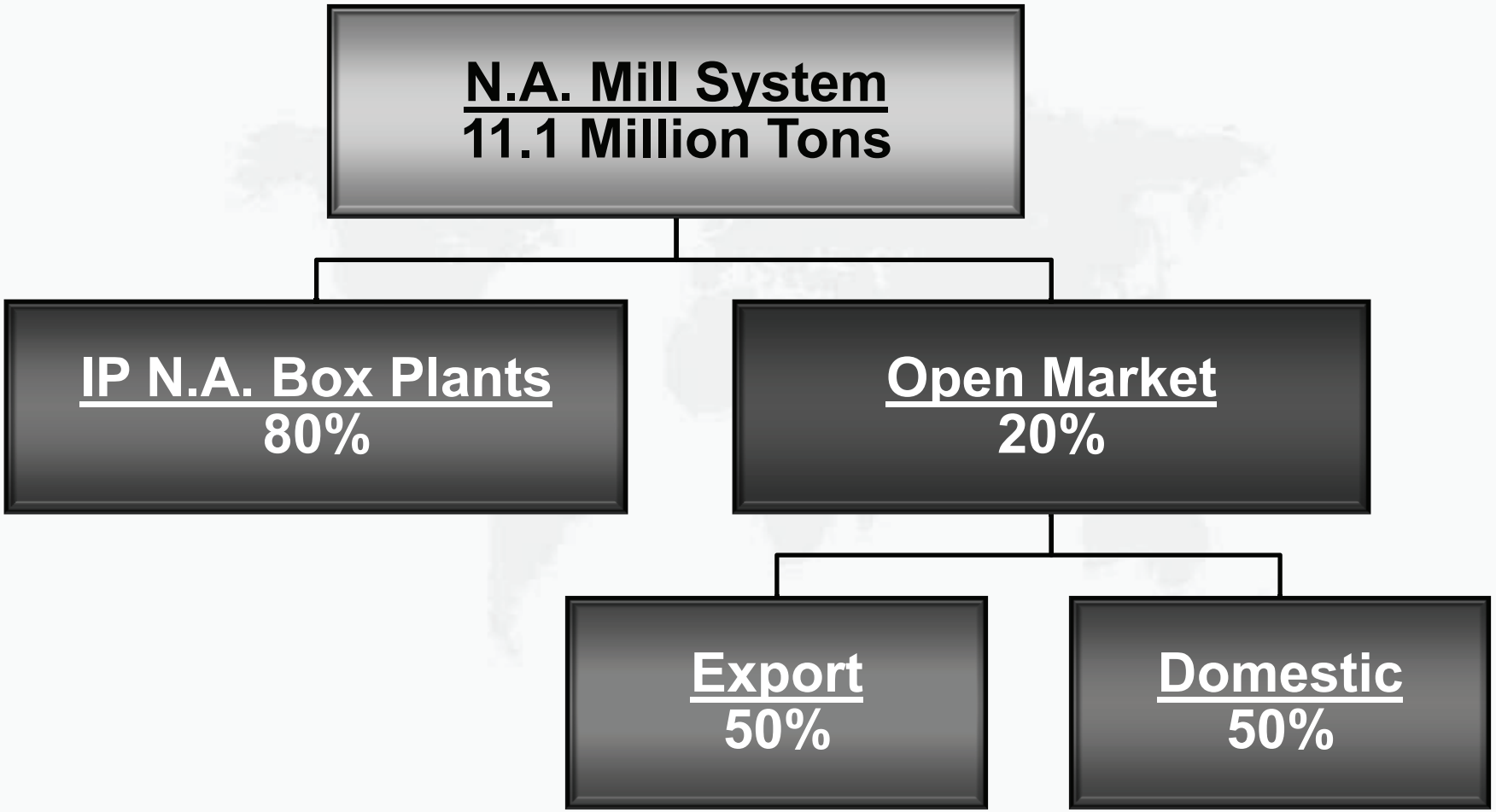
IP's market access provides choices for maximizing value



IP Strategy & Execution

Matching Supply to Customer Demand

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	3Q08	4Q08	1Q09
Lack-of-Order Downtime (Thousand Tons)	**35**	**640**	**730**
Inventory Change (Thousand Tons)	**—**	**(75)**	**(110)**
Cost of Downtime[1] ($ Million)	**$5**	**$75**	**$95**

Earnings Potential from Incremental Volume



[1] Unabsorbed fixed cost

Excludes lost tons at Vicksburg Mill, Valliant #3 and maintenance downtime of 50K, 89K, and 177K in the last three quarters respectively.

IP Strategy & Execution

IP Profit More Sensitive to Price than Volume

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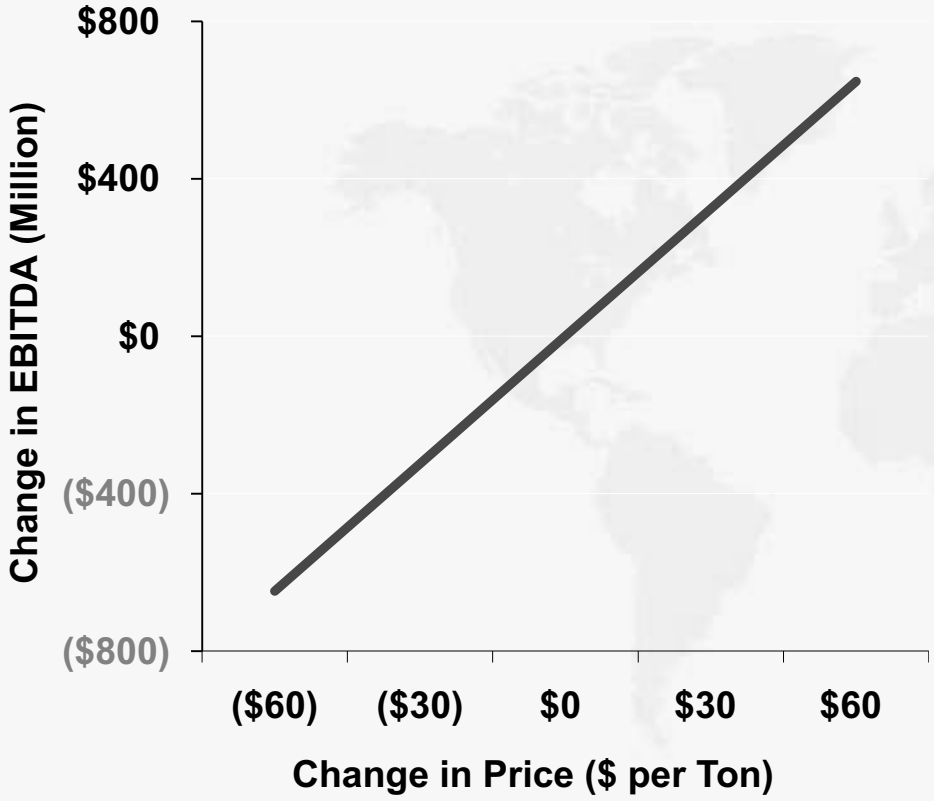
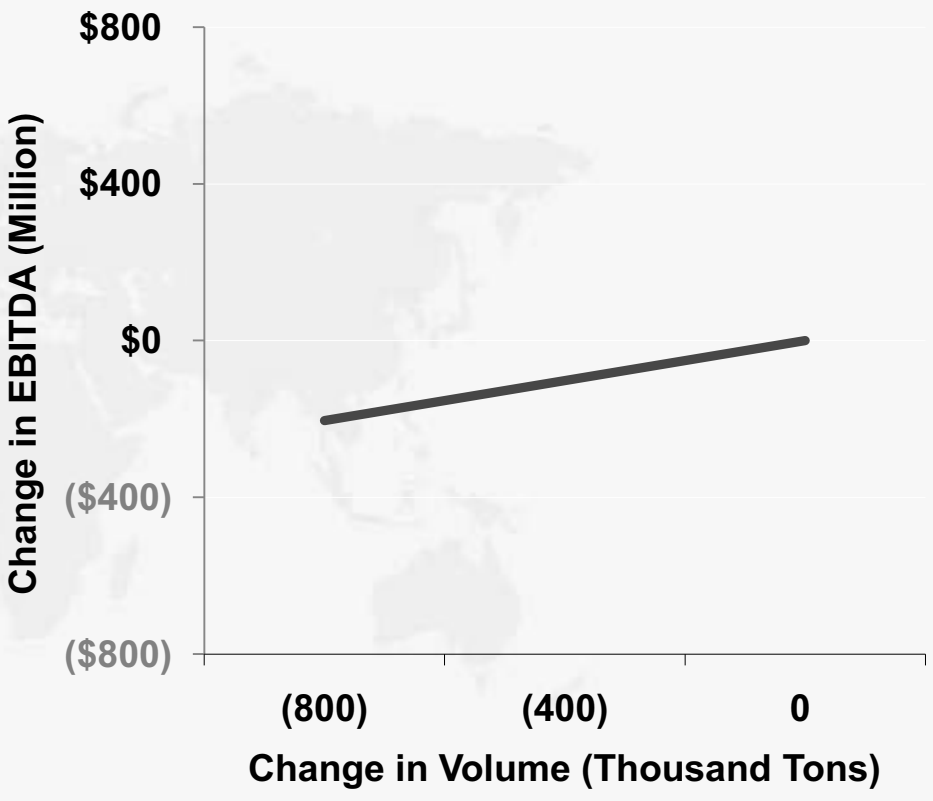
IP Profit Impact from Change in Price



IP Profit Impact from Change in Volume



Financial Performance
Outperforming Competitors in 1Q09

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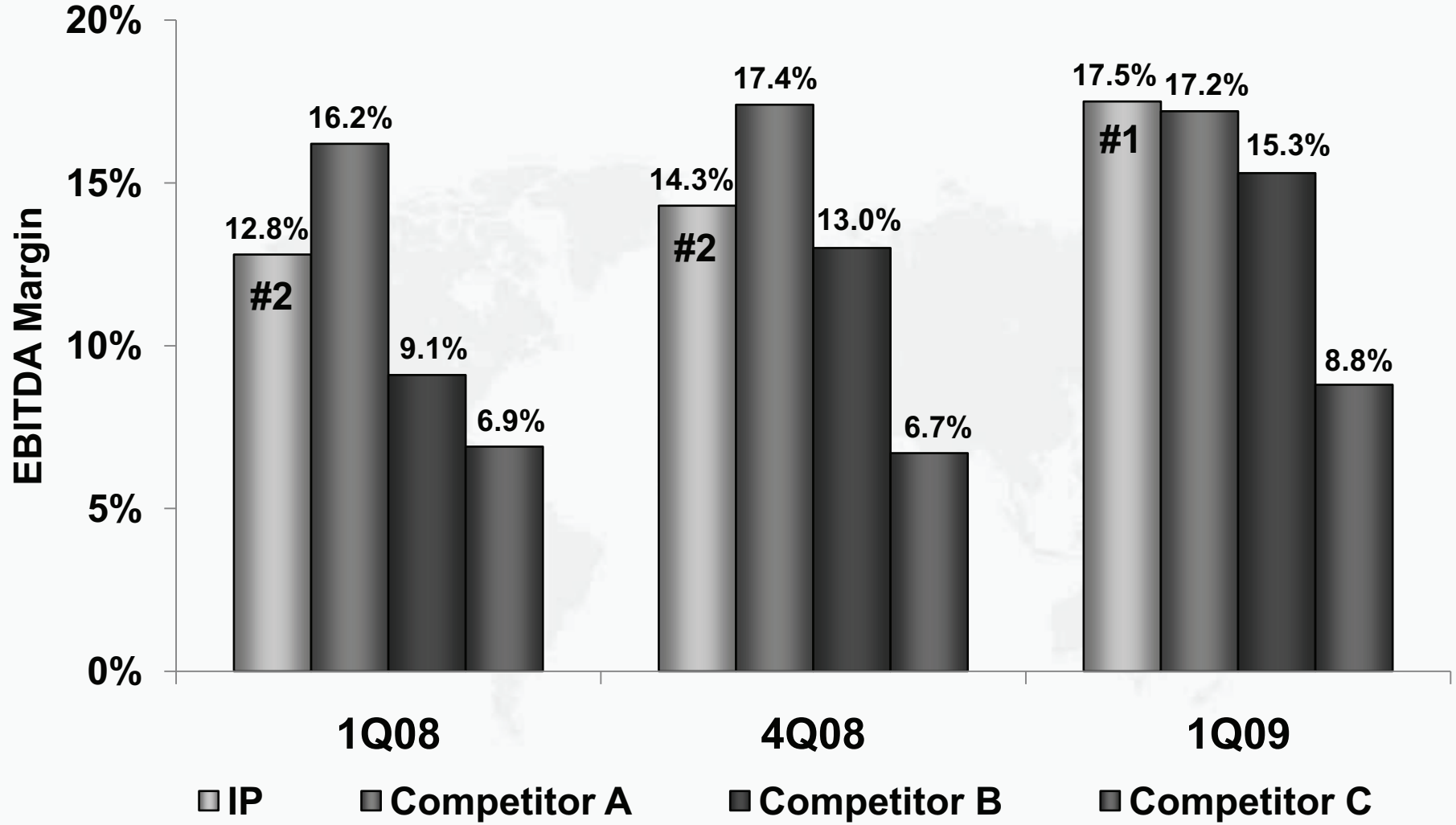
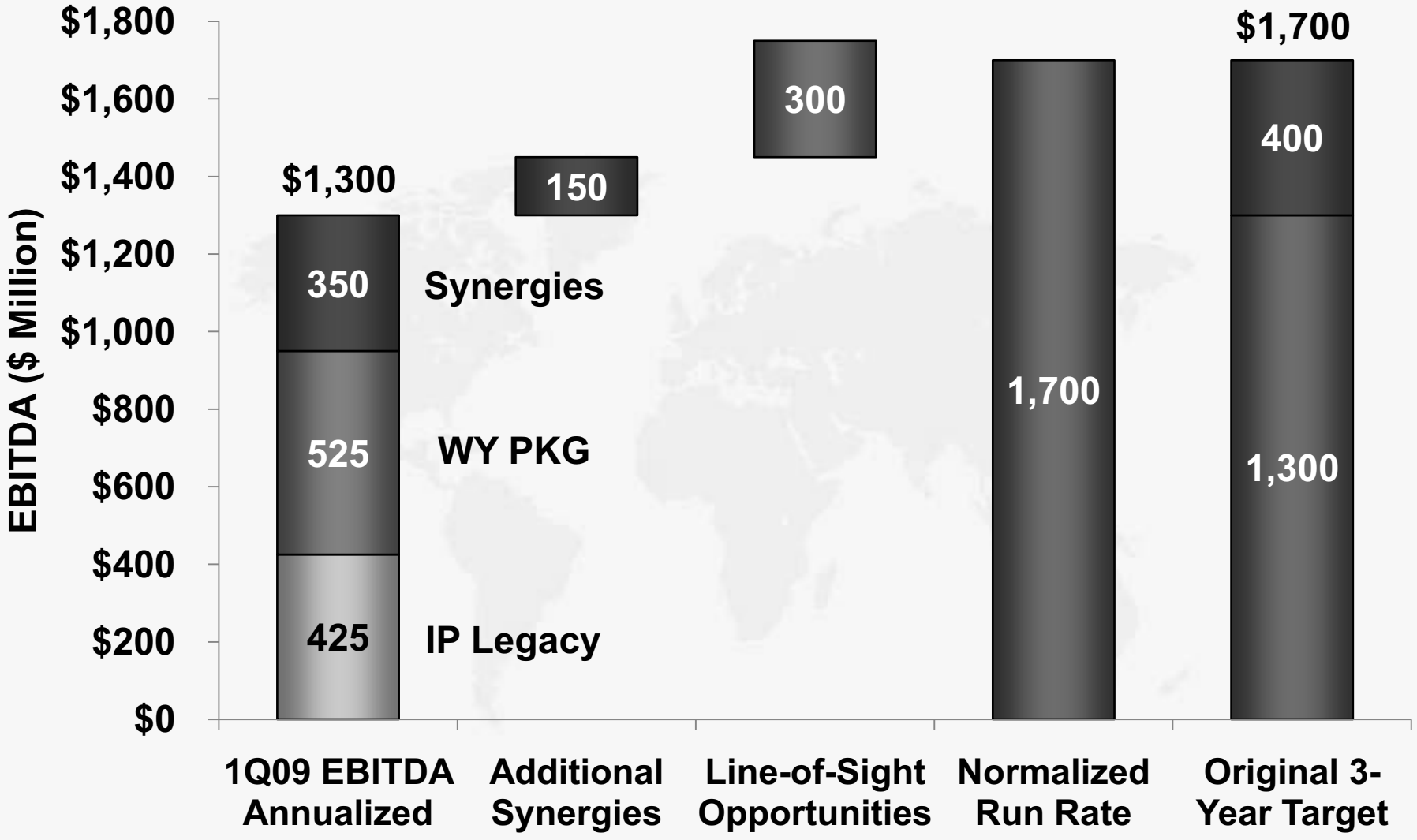


IP EBITDA margins based on North American Industrial Packaging operating profit before special items
Competitor EBITDA margins obtained from public filings and IP analysis

Financial Performance
Line-of-Sight to Reach the Target



Excludes special items

IP North American Industrial Packaging
Generating Strong Free Cash Flow

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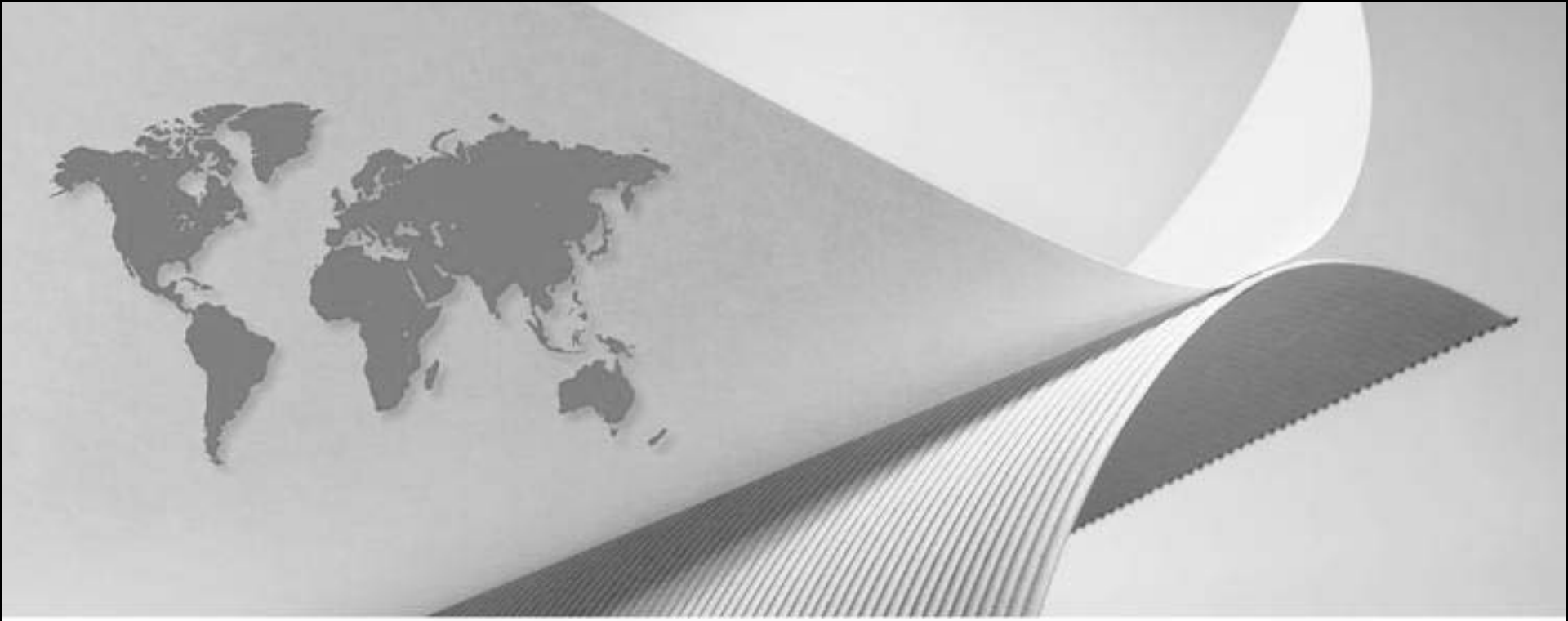
- **Strategic acquisition exceeding expectations**
- **Greater synergies at faster pace**
- **Strong free cash flow**
- **Line-of-sight to significant upside potential**
- **Pursuing cost-of-capital returns**



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INTERNATIONAL PAPER

Printing & Communications Papers

H. Wayne Brafford
Senior Vice President

Agenda
Transformation Challenges

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- **Maximizing Free Cash Flow**
- **Understanding Demand**
- **Managing Supply**
- **Generating Strong Results**

Maximizing Free Cash Flow

Margin Improvement despite Declining Demand

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	2001-05 Average	2006	2007	2008	1Q09 Run Rate
Pulp & Paper Shipments (Million Tons)	**5.5**	**5.0**	**5.0**	**4.7**	**3.8**
EBITDA ($ Billion)	**$0.4**	**$0.6**	**$0.8**	**$0.7**	**$0.5**
Pulp & Paper EBITDA Margin	**10%**	**15%**	**19%**	**16%**	**14%**
Paper-Only EBITDA Margin	**11%**	**17%**	**19%**	**19%**	**19%**

Maximizing Free Cash Flow
Strategy

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- **Maintain low-cost position**
- **Continue manufacturing excellence**
- **Reduce overhead and headcount**
- **Reduce capital spending & working capital**
- **Innovate cost-effectively**

Maximizing Free Cash Flow
Fewer, Larger, Low-Cost Mills

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	2000	2005	2009
# of Mills	**12**	**9**	**6**
# of Pulp & Paper Machines	**43**	**24**	**19**
Average Capacity (Tons/Day)	**400**	**600**	**650**
Headcount	**13,000**	**7,700**	**6,200**
Total Pulp & Paper Capacity (Million Tons)	**6.2**	**5.2**	**4.4**
Capacity per Employee	**475**	**675**	**710**

Maximizing Free Cash Flow
IP Commodity Mills Well-Positioned

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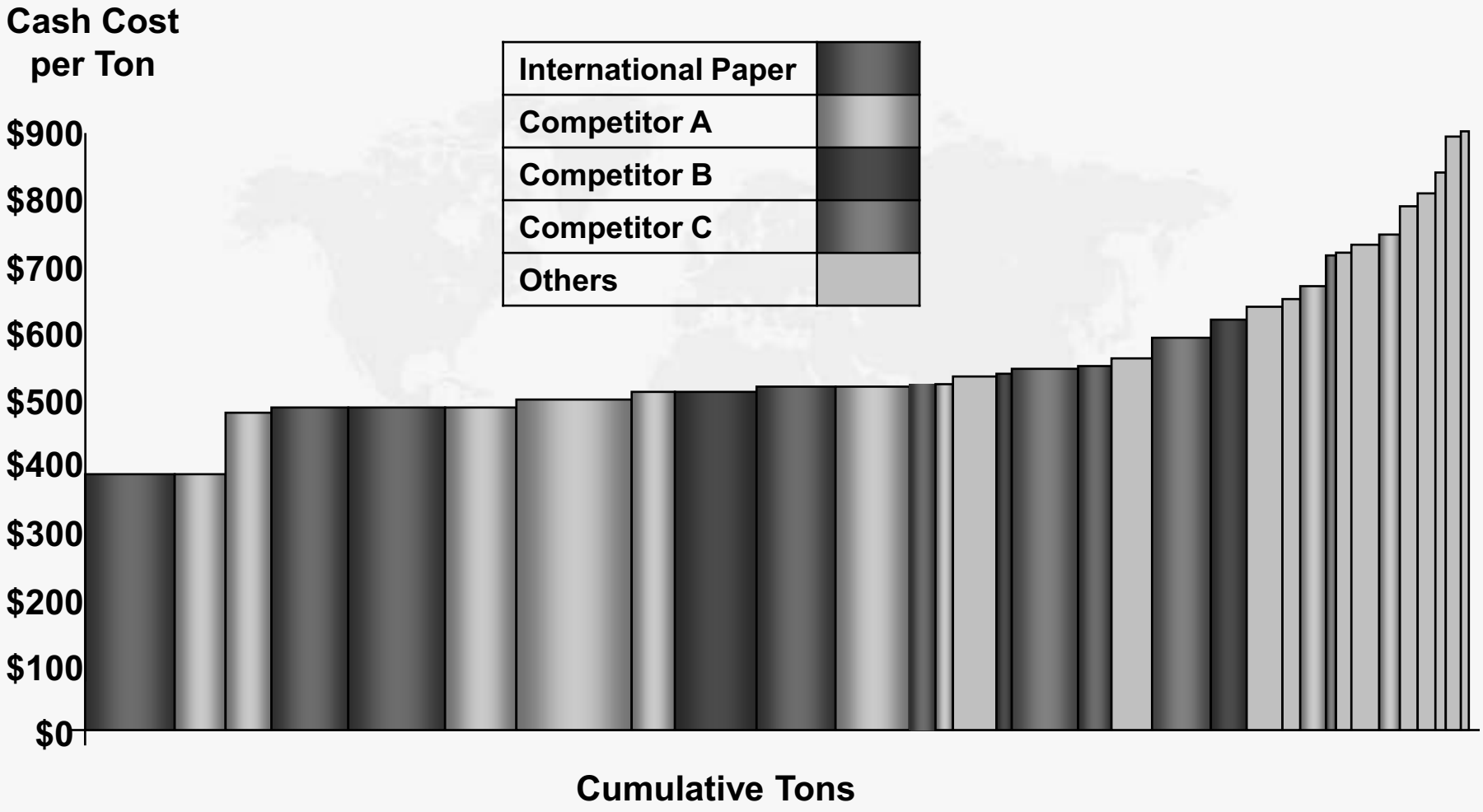
4Q08 North American Cash Cost Curve for UFS Rolls



Source: Poyry, IP Technology, P&C Strategic Planning

Maximizing Free Cash Flow
Continuous Cost Reduction

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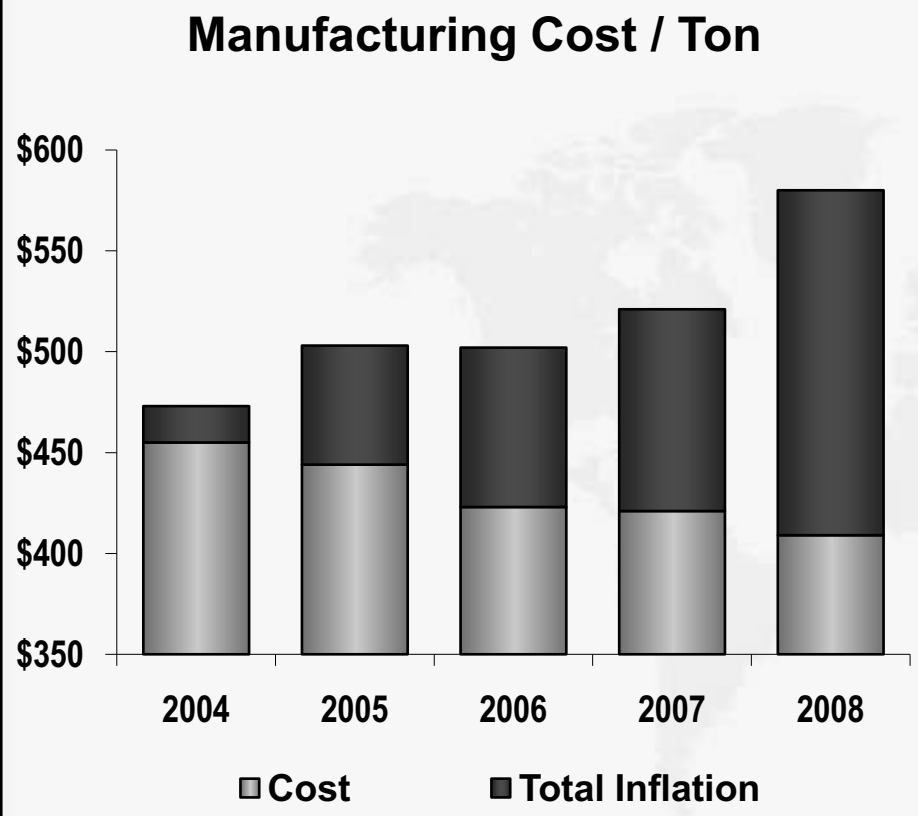

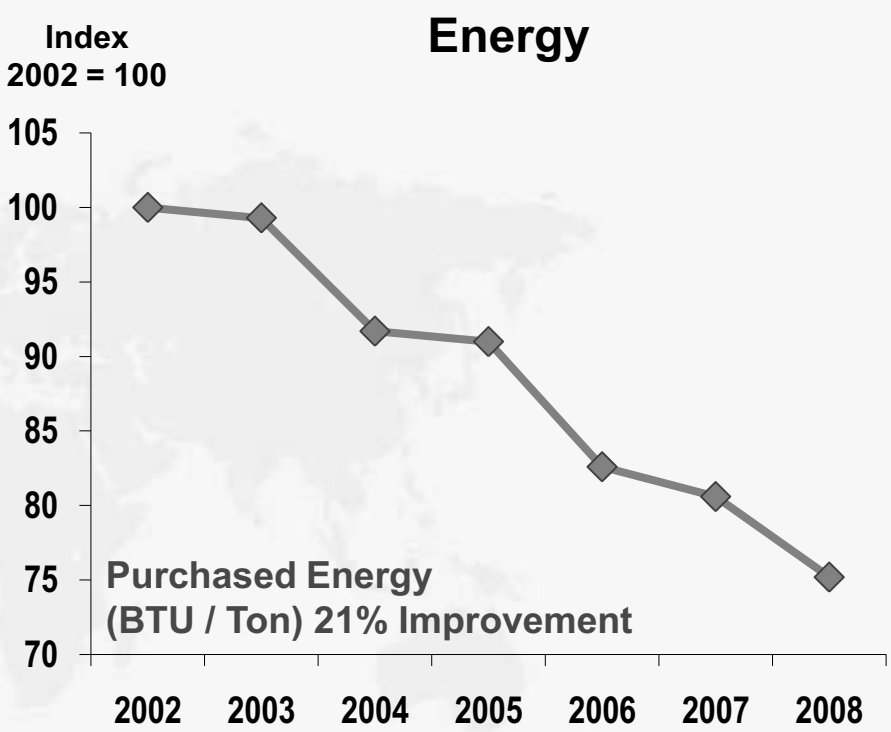

Maximizing Free Cash Flow

Driving Lower Overhead & Headcount

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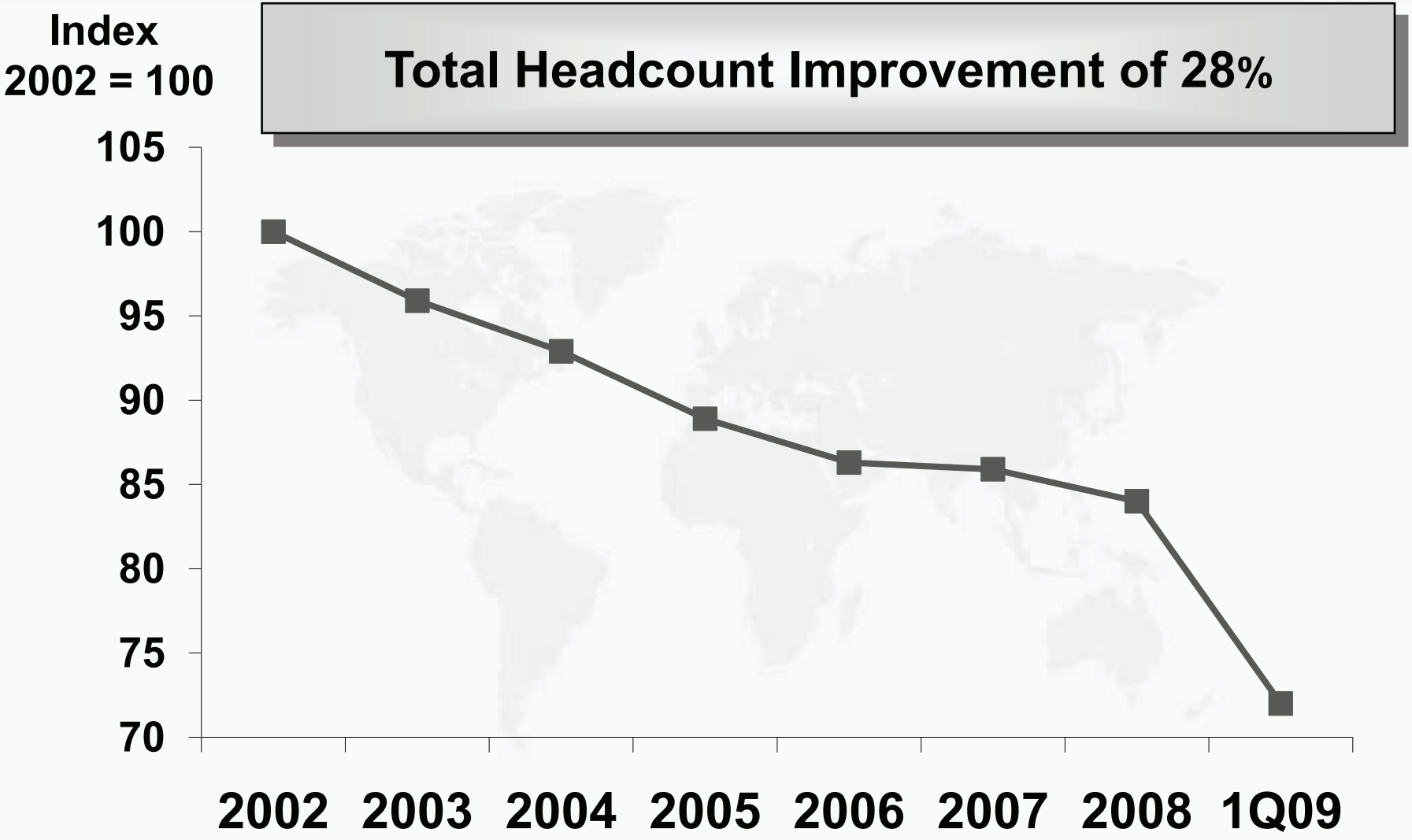
Total Headcount Improvement of 28%



Maximizing Free Cash Flow
Reducing Working Capital & Capex

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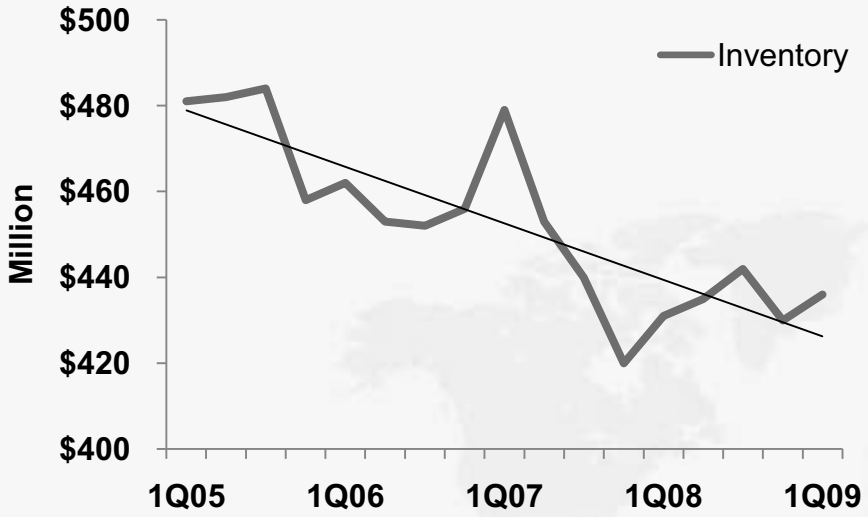

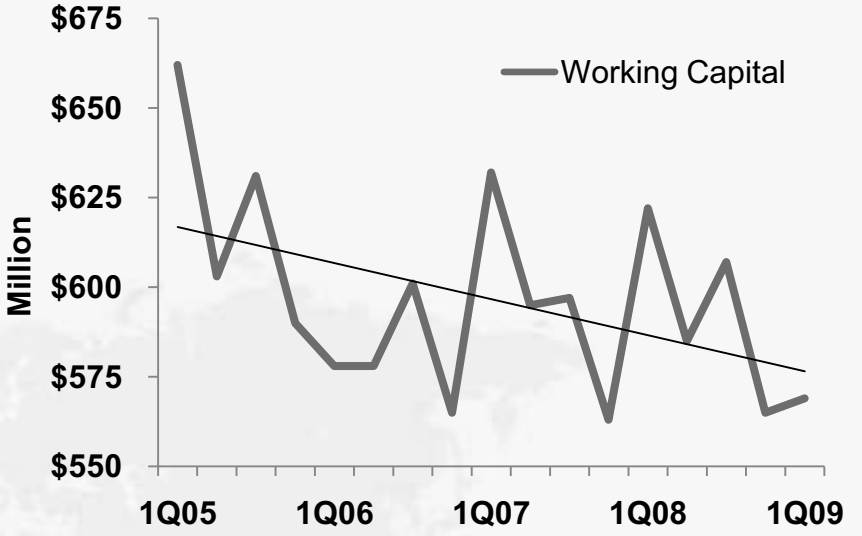

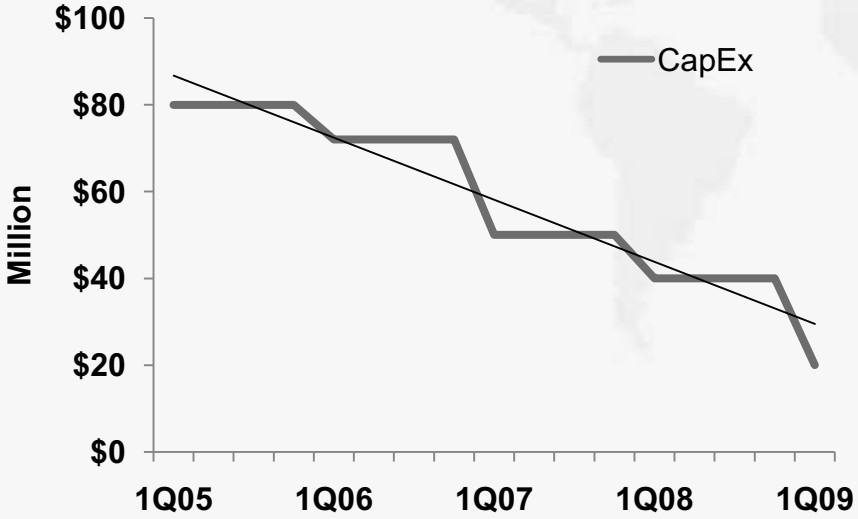

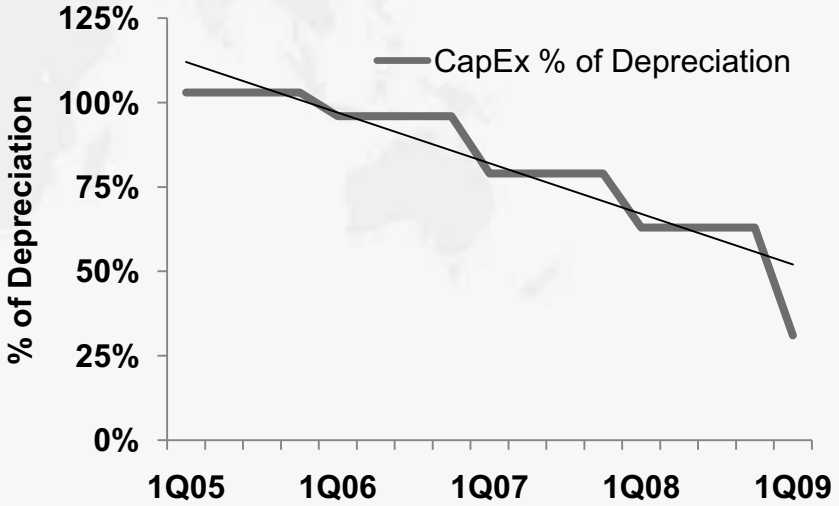

Maximizing Free Cash Flow
Ongoing Commitment to Innovation

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Products

- **VIP**
- **ColorLok**

Brands

- **Hammermill – North America**
- **Hewlett-Packard – Global**

Understanding Demand

N.A. UFS Purchases vs. GDP

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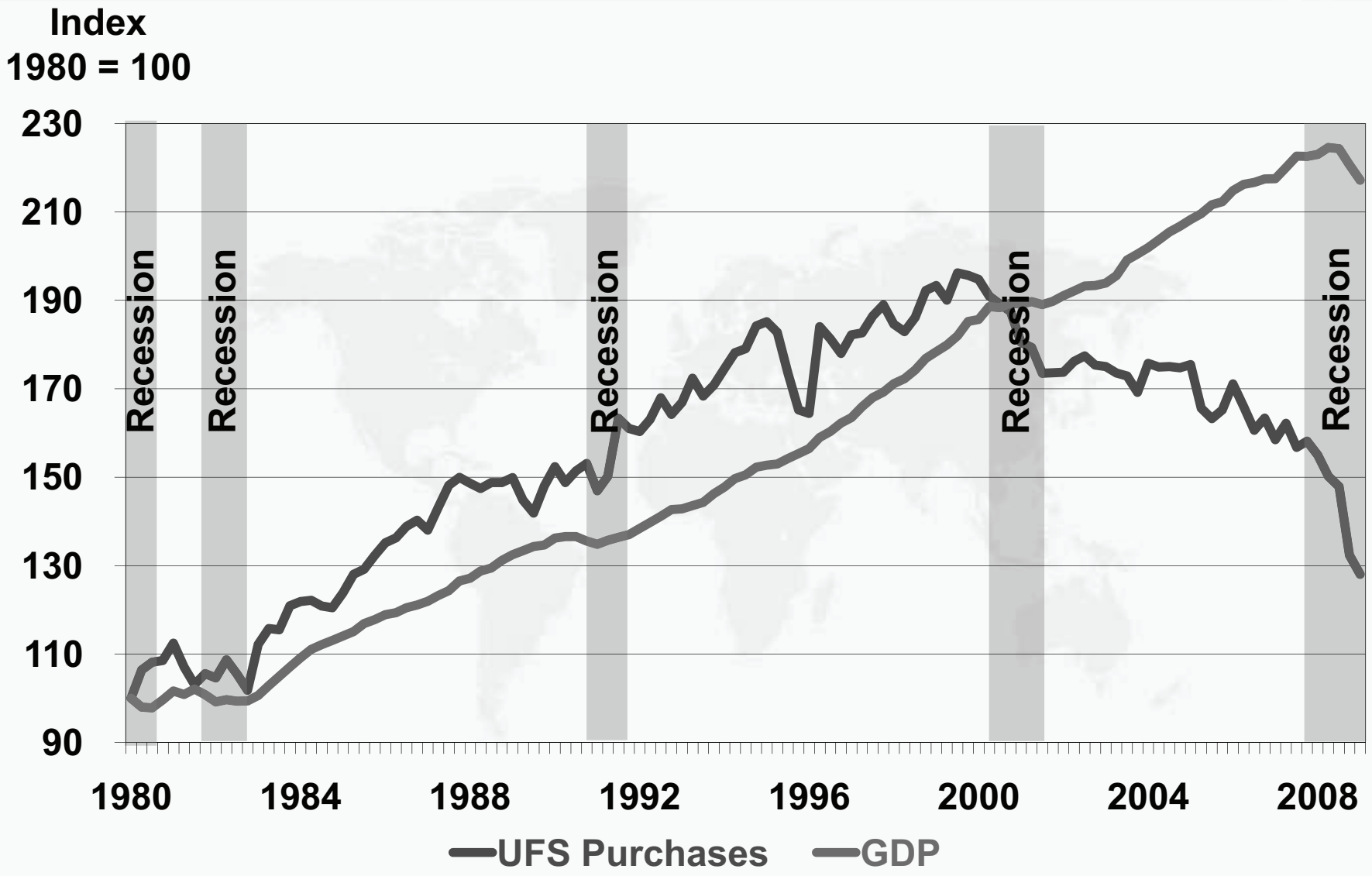

Source: AF&PA, PPPC, BEA, IP Strategic Planning

Understanding Demand
UFS End Use Indicators

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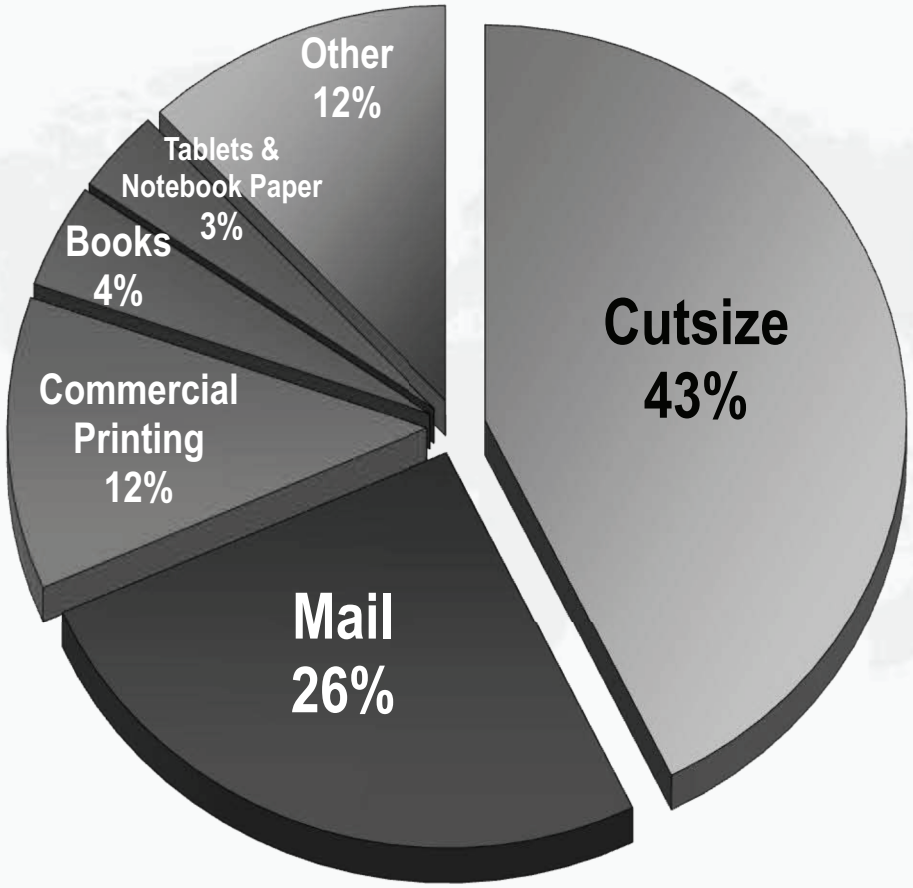
Cutsize & Mail Represent the Majority of UFS



Source: AF&PA, PPPC, IP Strategic Planning.

Understanding Demand

Weak Economy Accelerating Mail Decline

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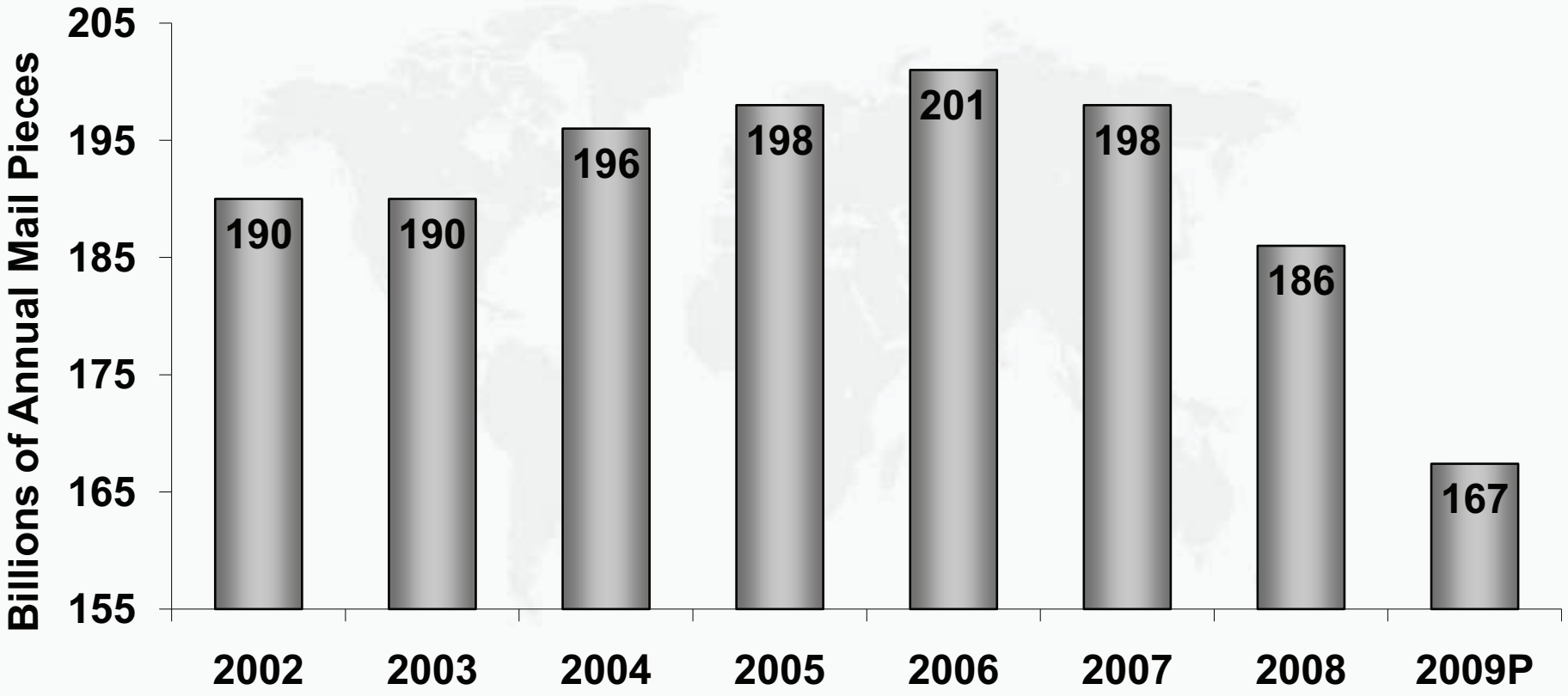
2008 Mail Volume Down 6%

2009 Projected Mail Volume Down 10%



Source: USPS, IP Strategic Planning

Understanding Demand

Financial Services > 50% of Mail

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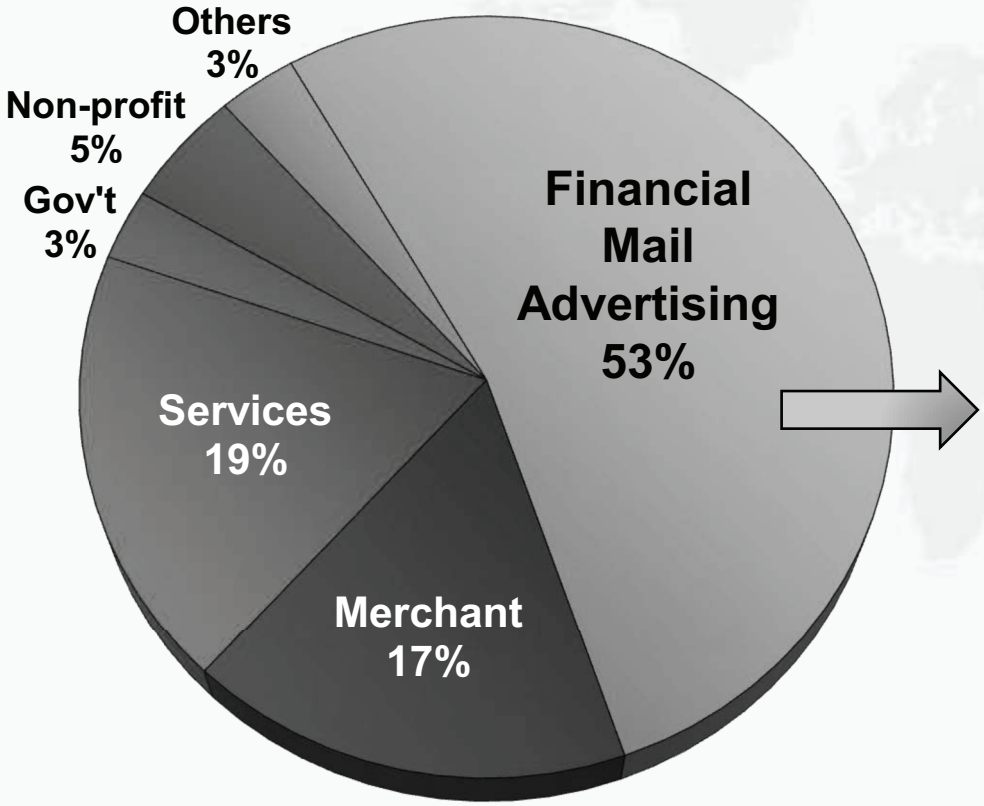
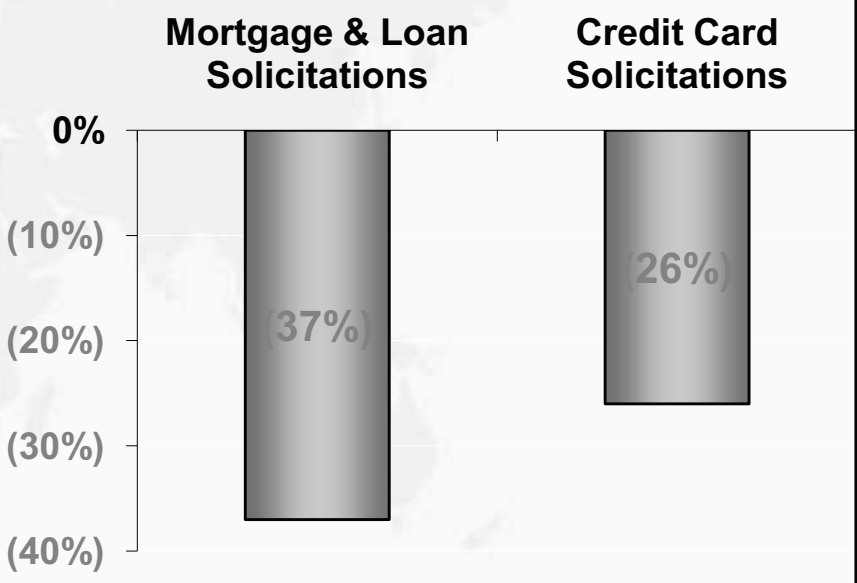
All Mail Down (6%), But Especially Financial Ad Mail

2007 Business Mail Pieces



Financial Ad Mail
2008 vs. 2007



Source: 2008 USPS Household Diary Study and 2008 Revenue, Pieces, Weight Report, Mintel Compremedia

Understanding Demand
UFS Cutsize Consumption

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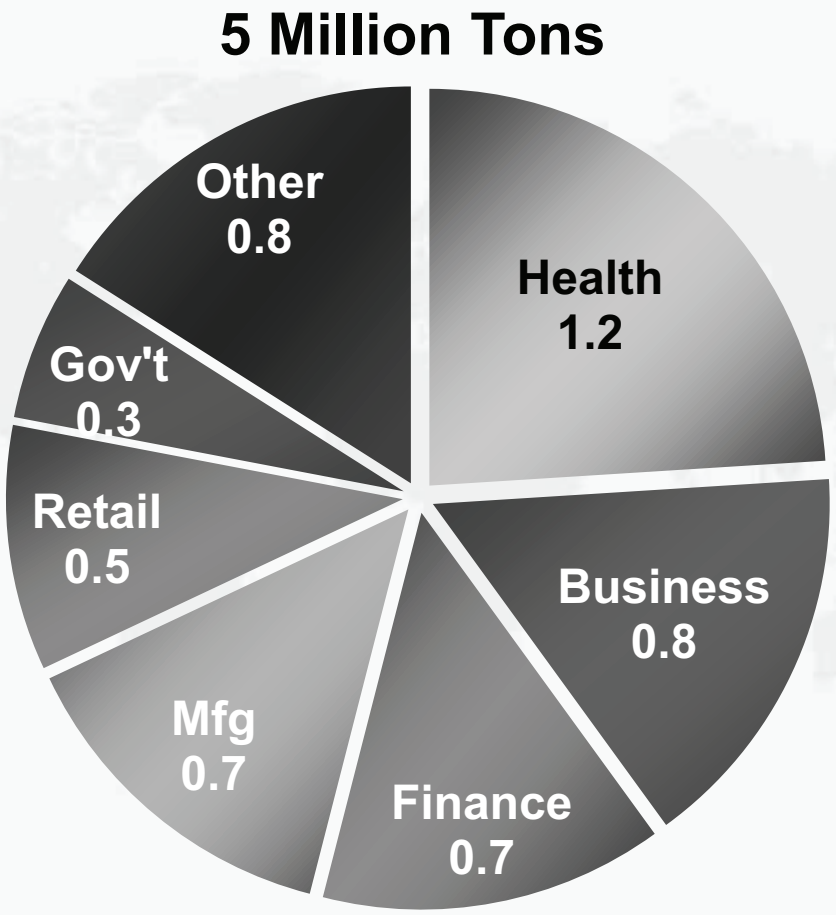
UFS Cutsize Driven By White Collar Industries



Source: AF&PA, 2006 InfoTrends, 2007 BLS Employment Forecast

Understanding Demand

Consumption per WCW Suggests 1.7% Decline

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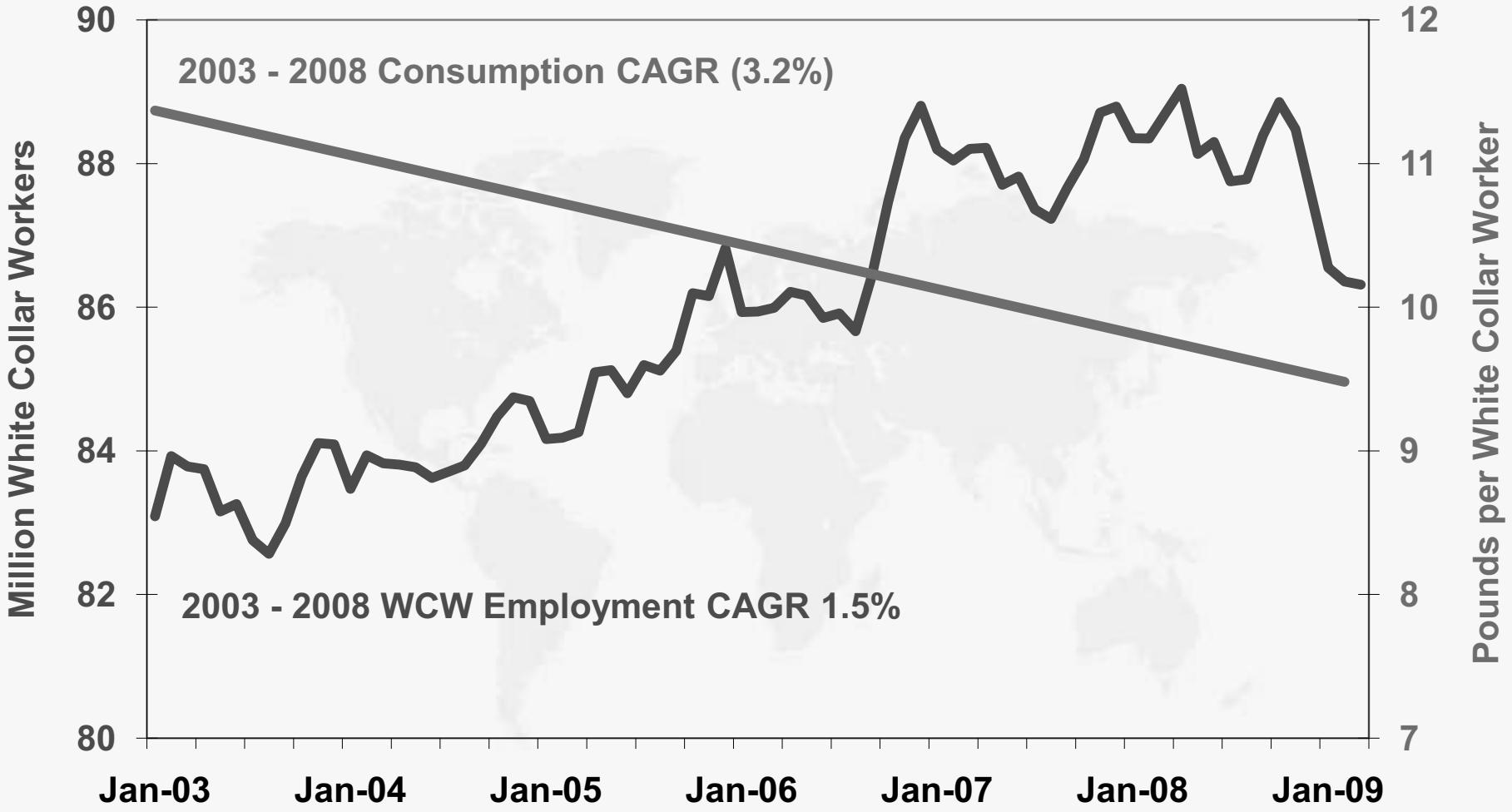

Source: AF&PA, US Census Bureau, IP Strategic Planning

Understanding Demand

>2/3 of Current Decline Likely Driven by the Economy

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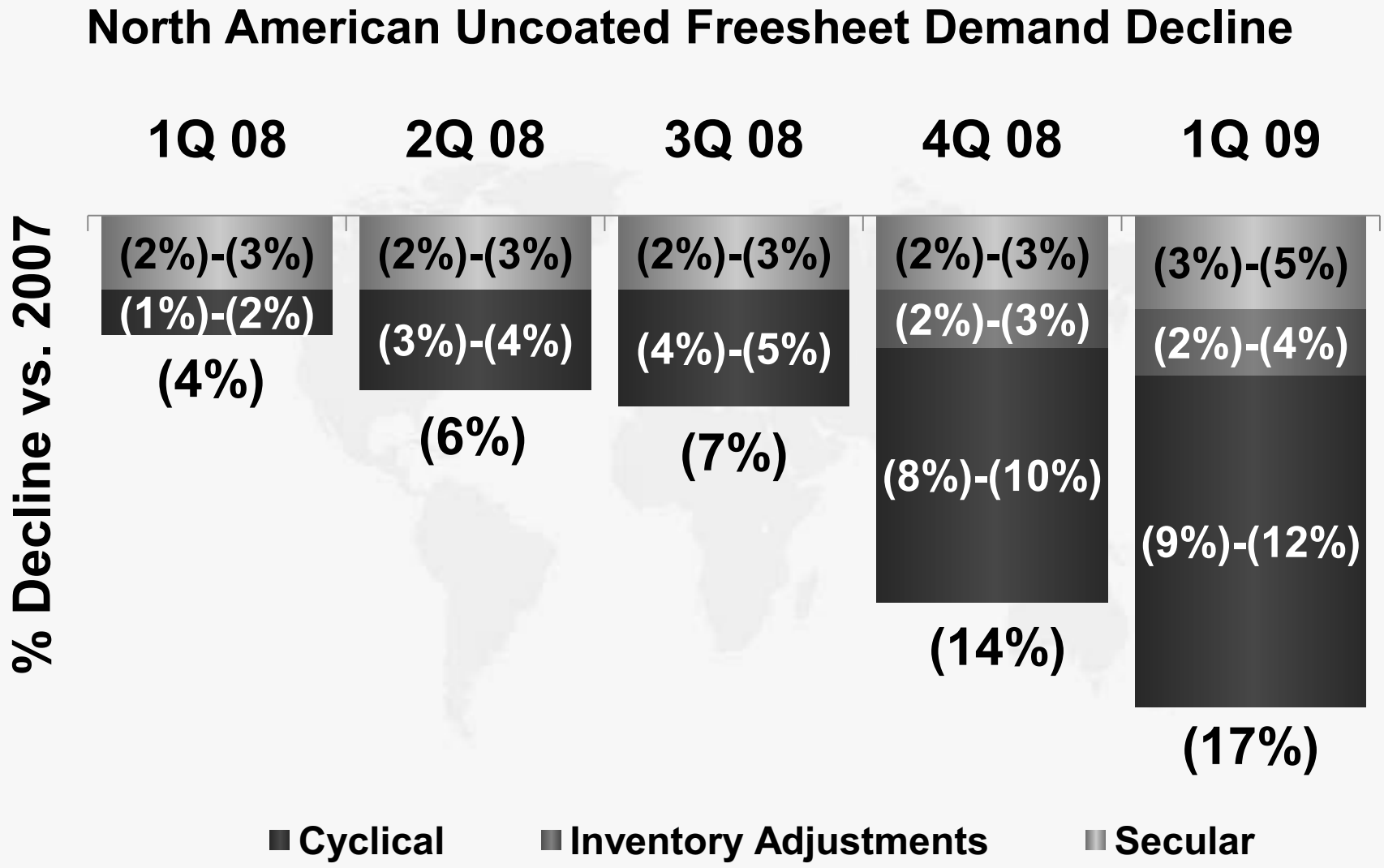

Source: AF&PA, PPPC, NPTA, EMA, IP Strategic Planning.

Understanding Demand

Growth Rates Slowing Across All Regions

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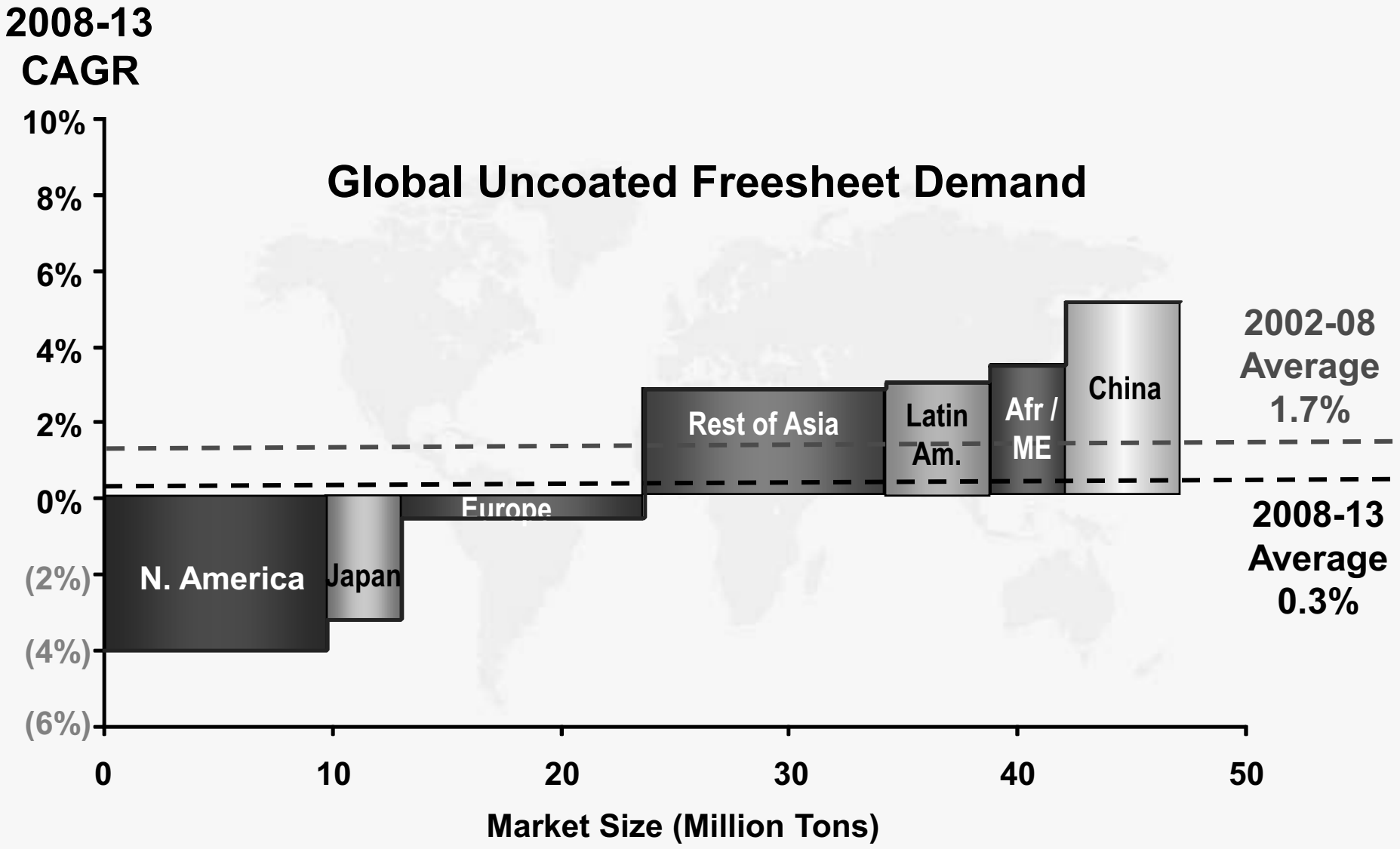

Source: Poyry Consulting, RISI, PPPC, IP Strategic Planning, IP Europe, IP Brazil, IP Asia

Understanding Demand
N.A. Consumption Adjusting

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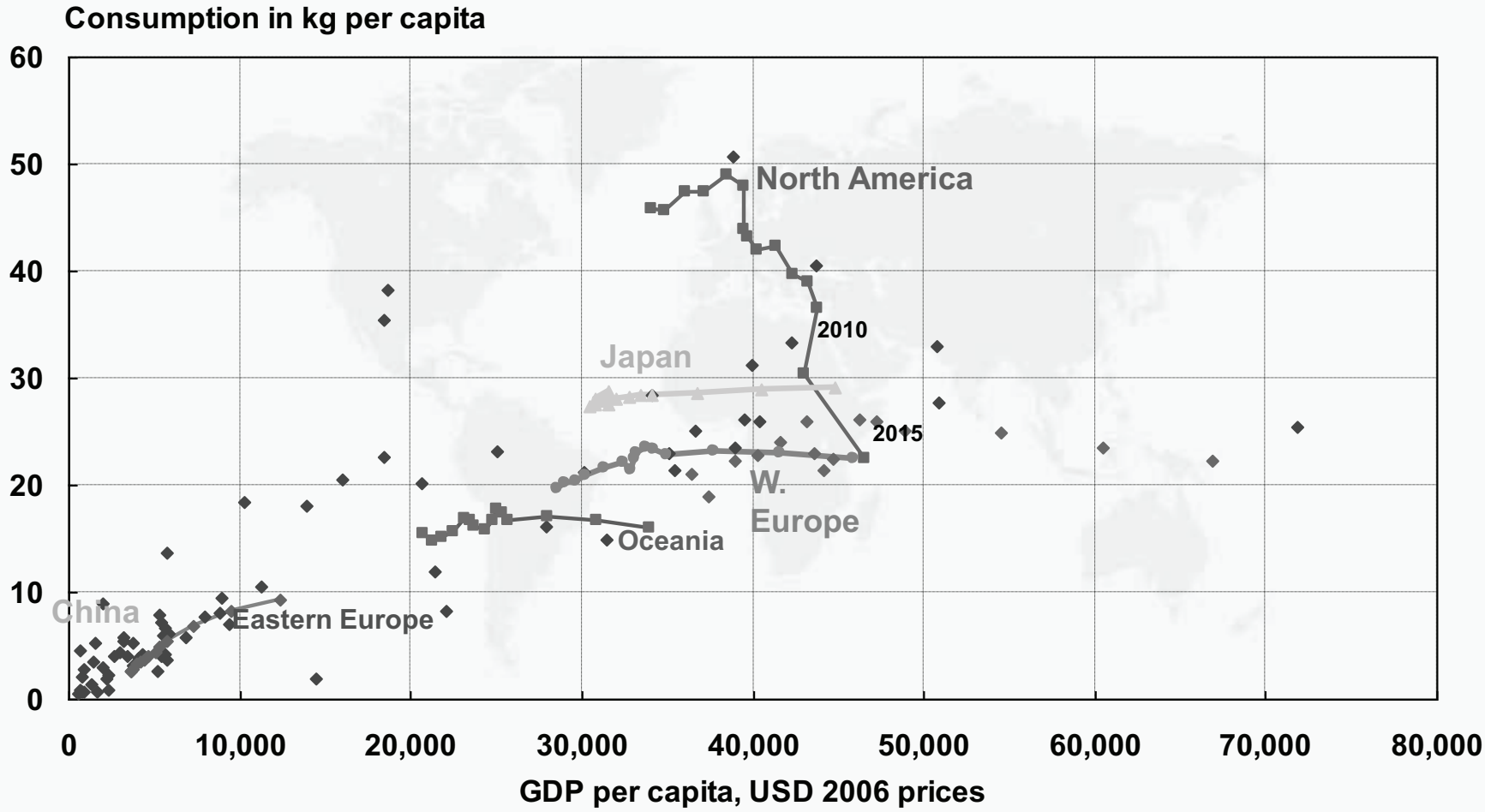
At Western Europe's per capita consumption, North American demand will be 9 million tons/year



Source: Poyry Consulting, regional times series 1995 – 2006 plus forecasts through 2015

Managing Supply
Structural Changes

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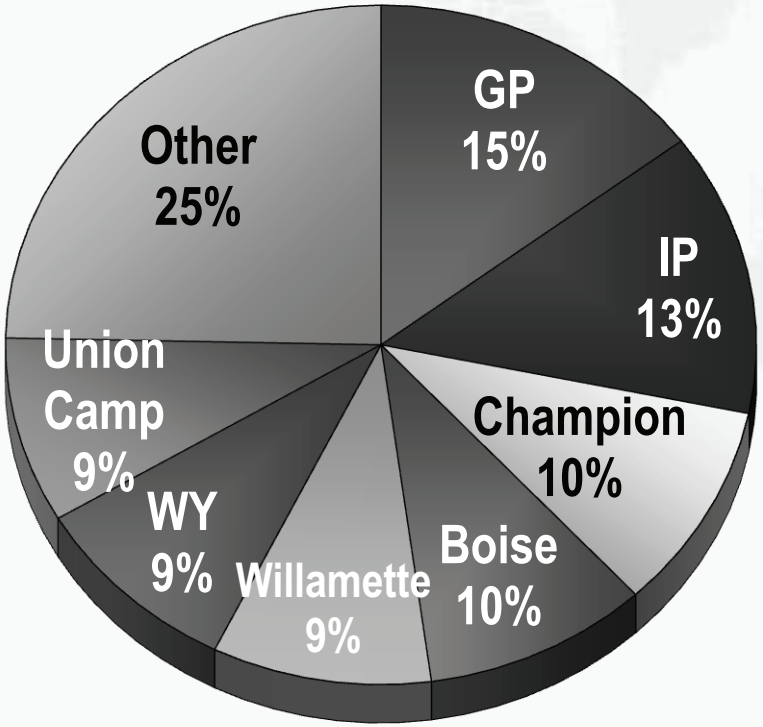
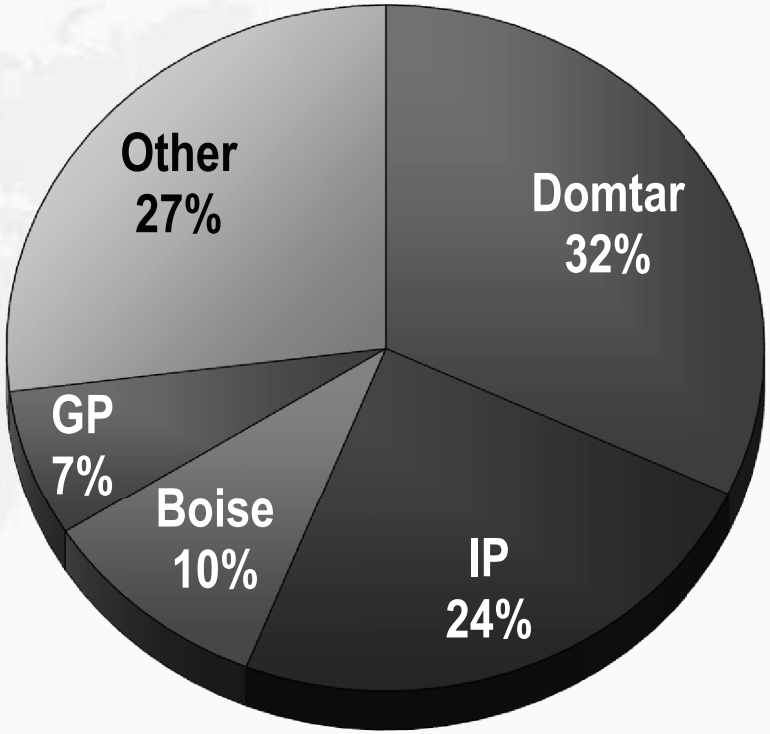
1998 Producer Position
Top 2 = 28%
Top 4 = 48%



2008 Producer Position
Top 2 = 56%
Top 4 = 73%



1998 Source: Poyry Consulting, IP Strategic Planning

2008 Source: RISI

Managing Supply
2000-2009

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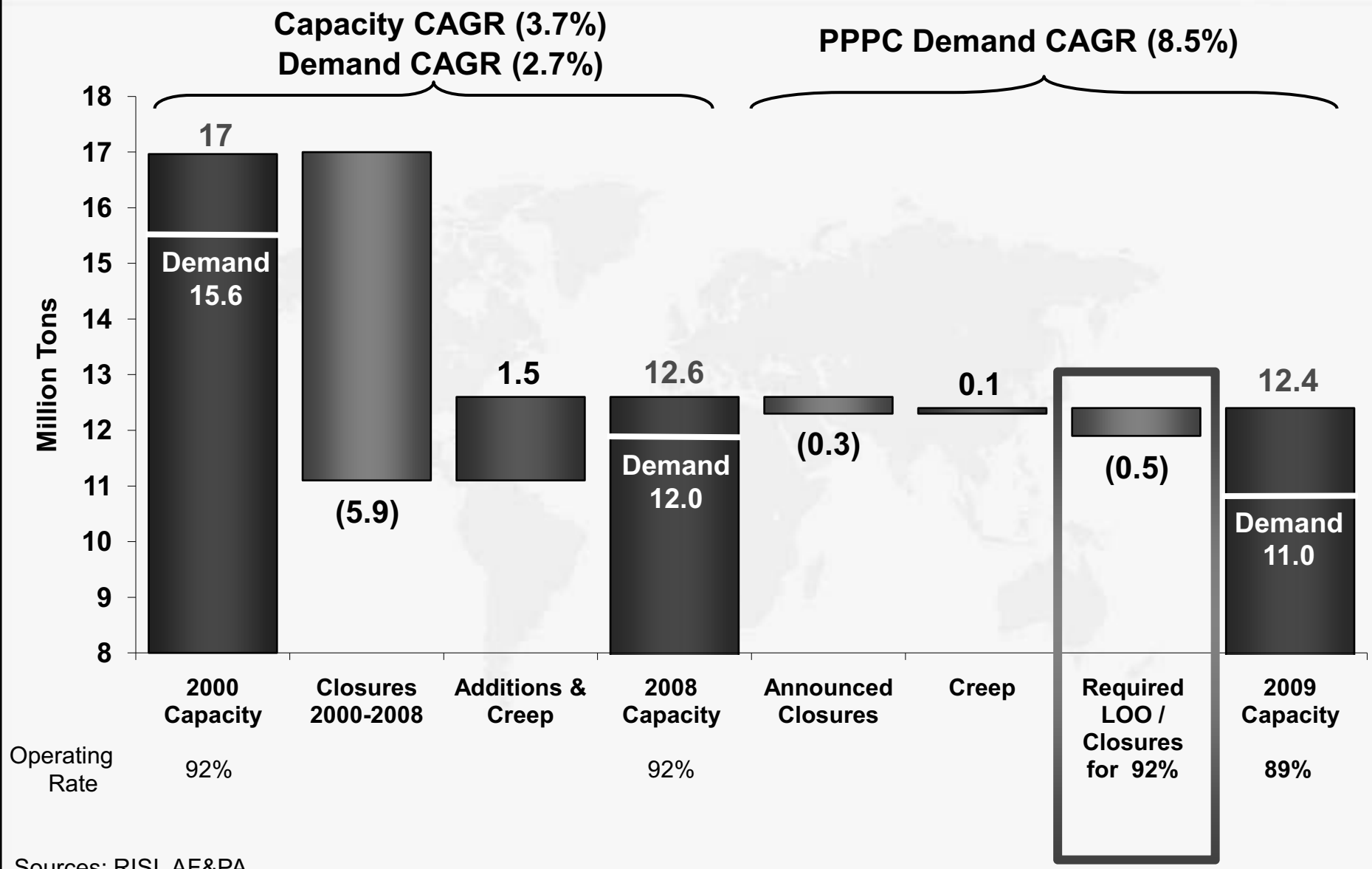

Sources: RISI, AF&PA

Managing Supply

IP Profit More Sensitive to Price than Volume

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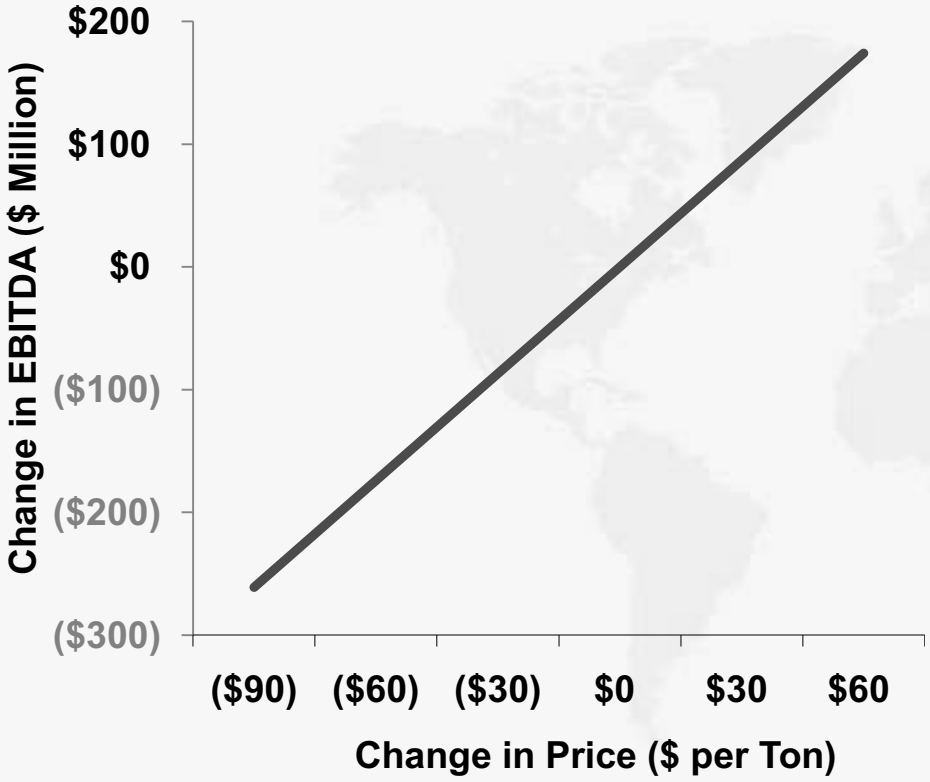
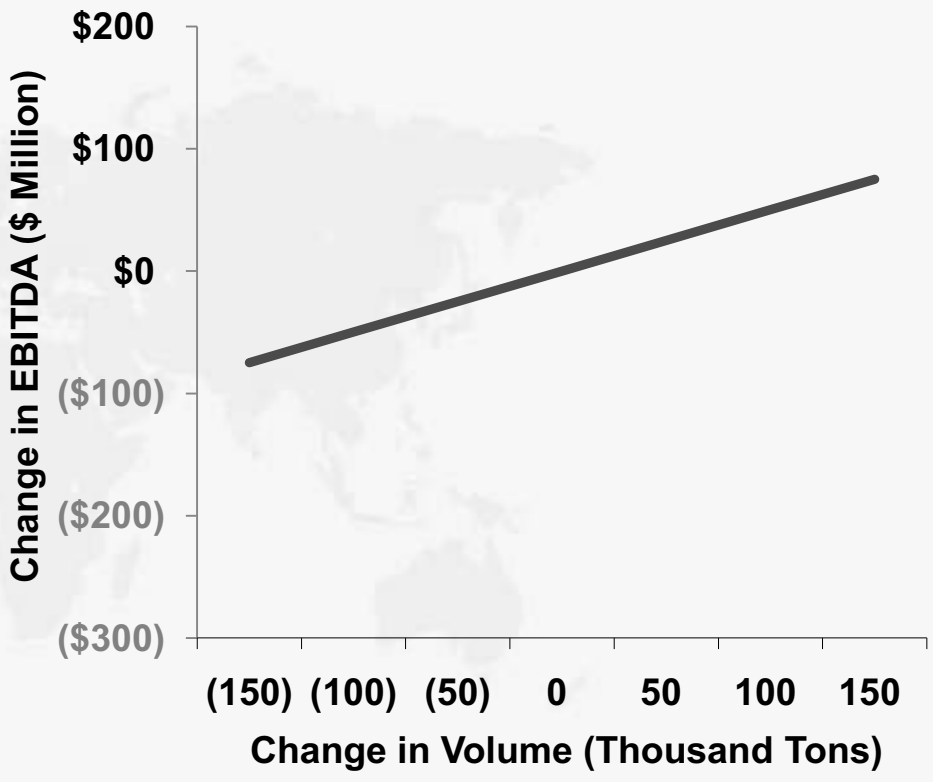
IP Profit Impact from Change in Price



IP Profit Impact from Change in Volume



Managing Supply

Matching Supply with Customer Demand

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	3Q08	4Q08	1Q09
Paper (All Grades) Lack-of-Order Downtime (Thousand Tons)	**5**	**127**	**152**
Inventory Change (Thousand Tons)	**(30)**	**(1)**	**(4)**
Cost of Downtime[1] ($ Million)	**$1**	**$24**	**$36**

[1] Unabsorbed fixed cost

Managing Supply

N.A. Cutsize Price vs. UFS Consumption

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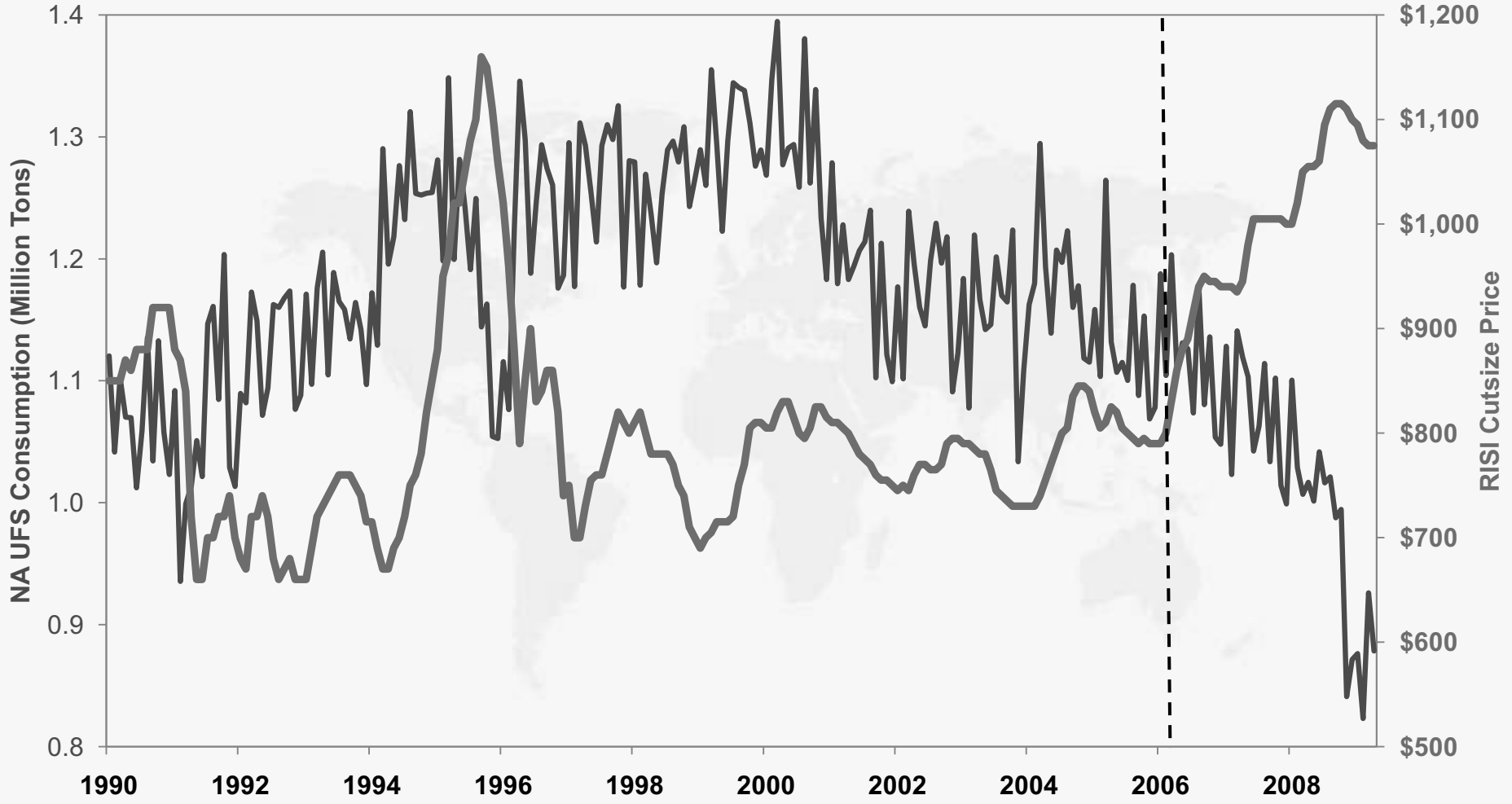

Source: RISI, AF&PA, PPPC, IP Strategic Planning

Generating Strong Results

Strategy Driving Strong EBITDA & Cash Flow

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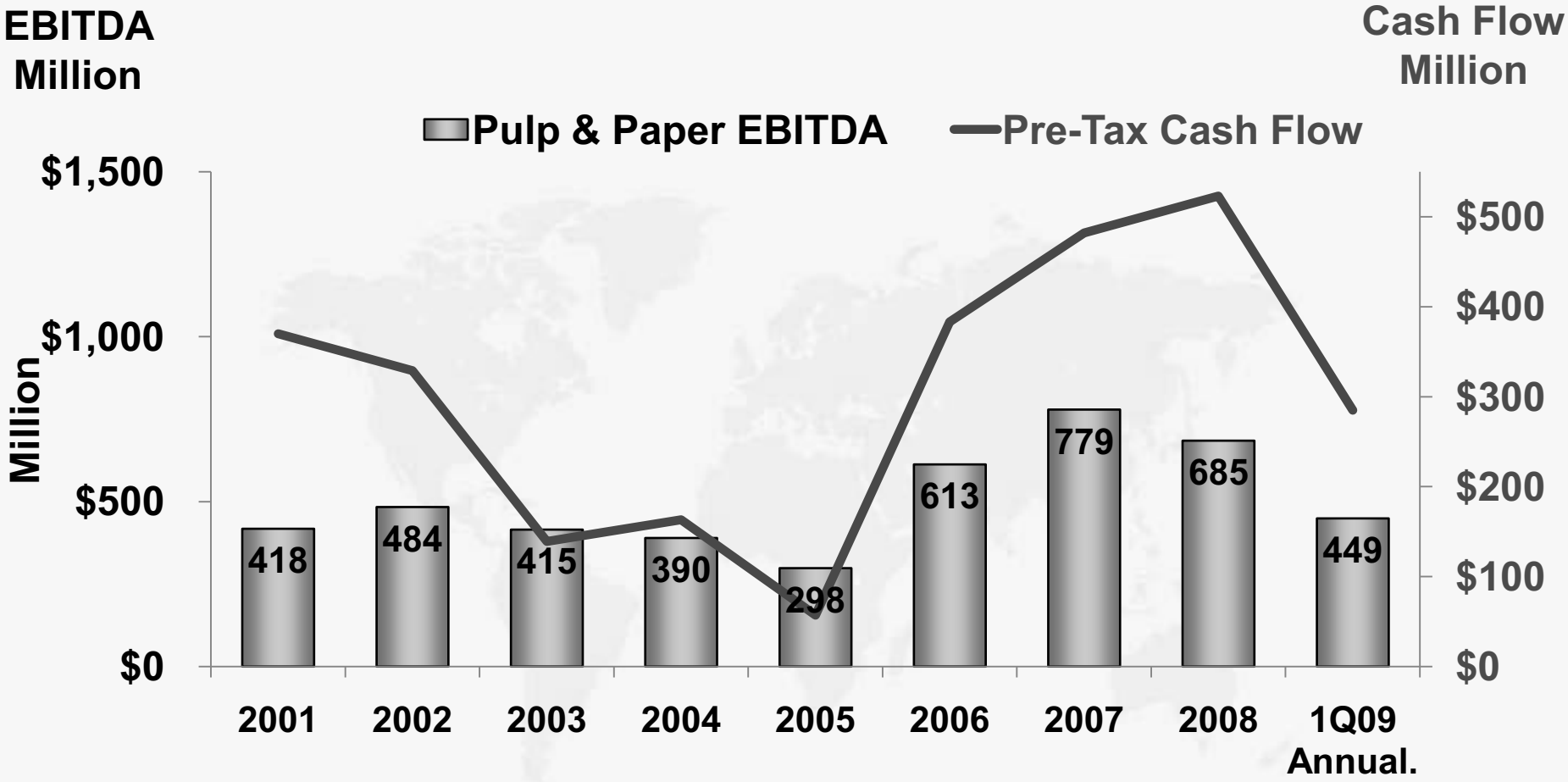

Paper-Only EBITDA %	12%	15%	12%	11%	9%	17%	19%	19%	19%
Paper-Only EBITDA/Ton	$102	$118	$93	$83	$70	$142	$170	$189	$187

Generating Strong Results
Transformation Successful

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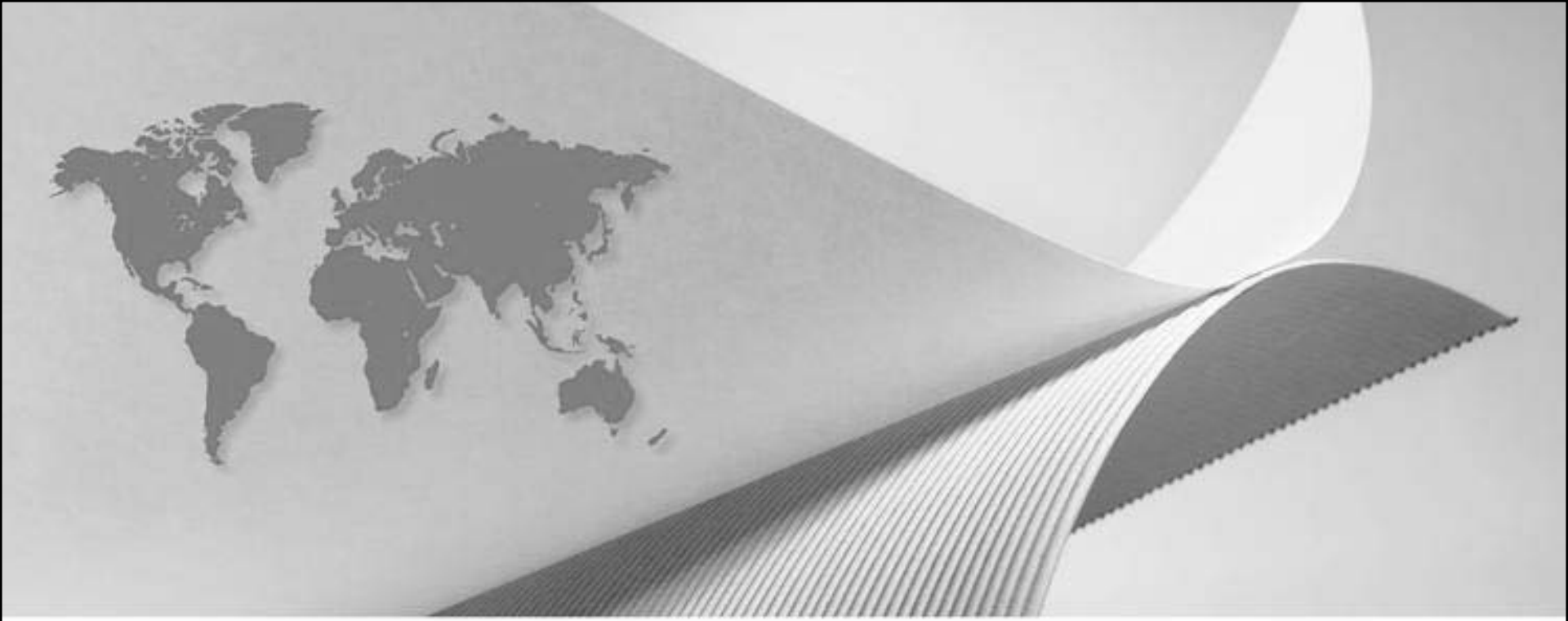
- **Delivering Free Cash Flow**
- **Managing Supply to Customer Demand**
- **Managing Low-Cost Performance**
- **Generating Strong Returns**



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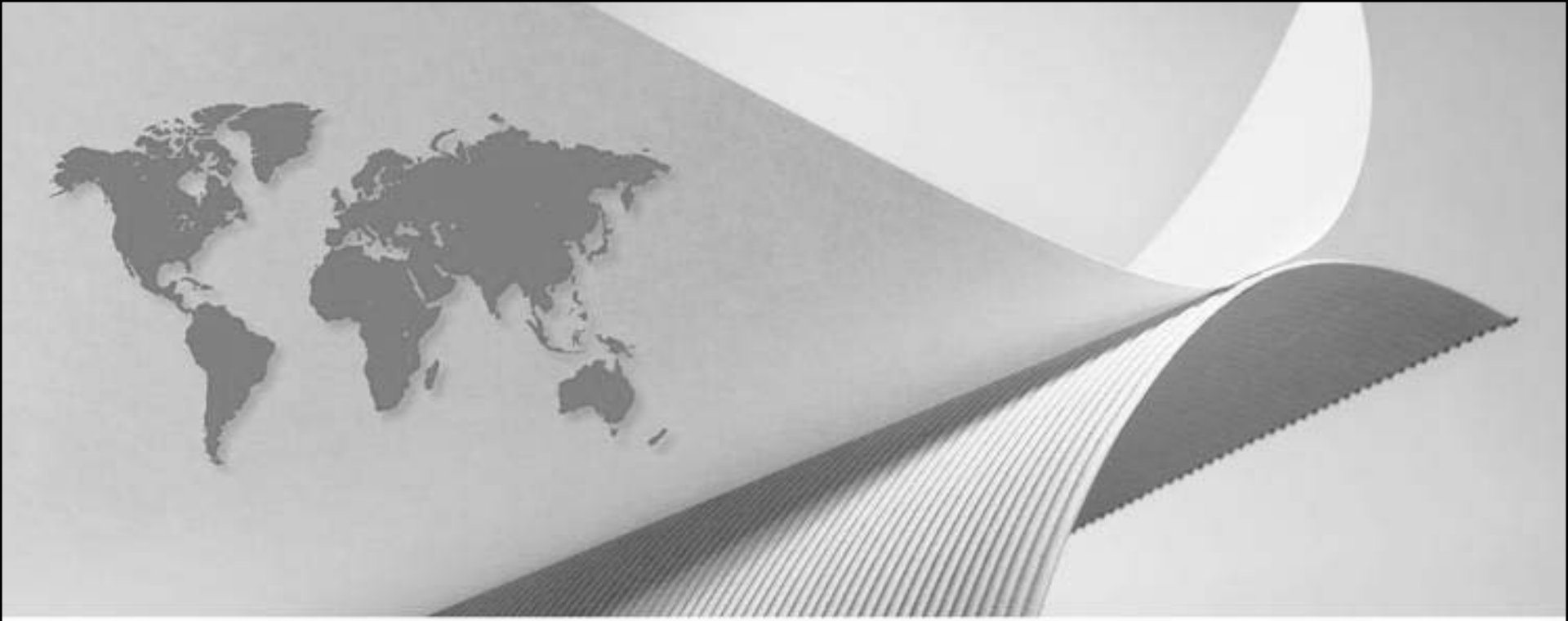

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Strategy & Capital Allocation

John V. Faraci

IP Transformation

IP Vision & Elements of Strategy

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Vision	**Leadership position in attractive markets with low-cost assets that can generate strong free cash flow and cost-of-capital returns**
Elements of Strategy	• Scale Businesses • Leadership Positions • Operational Excellence • Paper & Packaging • North America + Low-Cost Regions • Attractive Markets

IP Transformation

How Transformation Advanced the Vision

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- **Established leading global positions**
  - **Corrugated Packaging**
  - **UFS**
  - **Coated Paperboard**
- **Exited segments where IP lacked sustainable competitive advantage**
- **Created more sustainable cash flow**
- **Focused on fewer, larger, lower-cost mills**
- **Improved profitability**

Ability to succeed in weak market conditions

IP Transformation
What We've Learned

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- **Execution is key**
- **Flexibility is vital**
- **Leverage cuts both ways**
- **Joint ventures challenging, but important**
- **Merger benefits drive financial returns**
- **Contingency plans critical**
- **Appropriate risk premiums**

Where We Go from Here
Navigating Turbulent Waters

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Where We Go from Here
Economic Recovery

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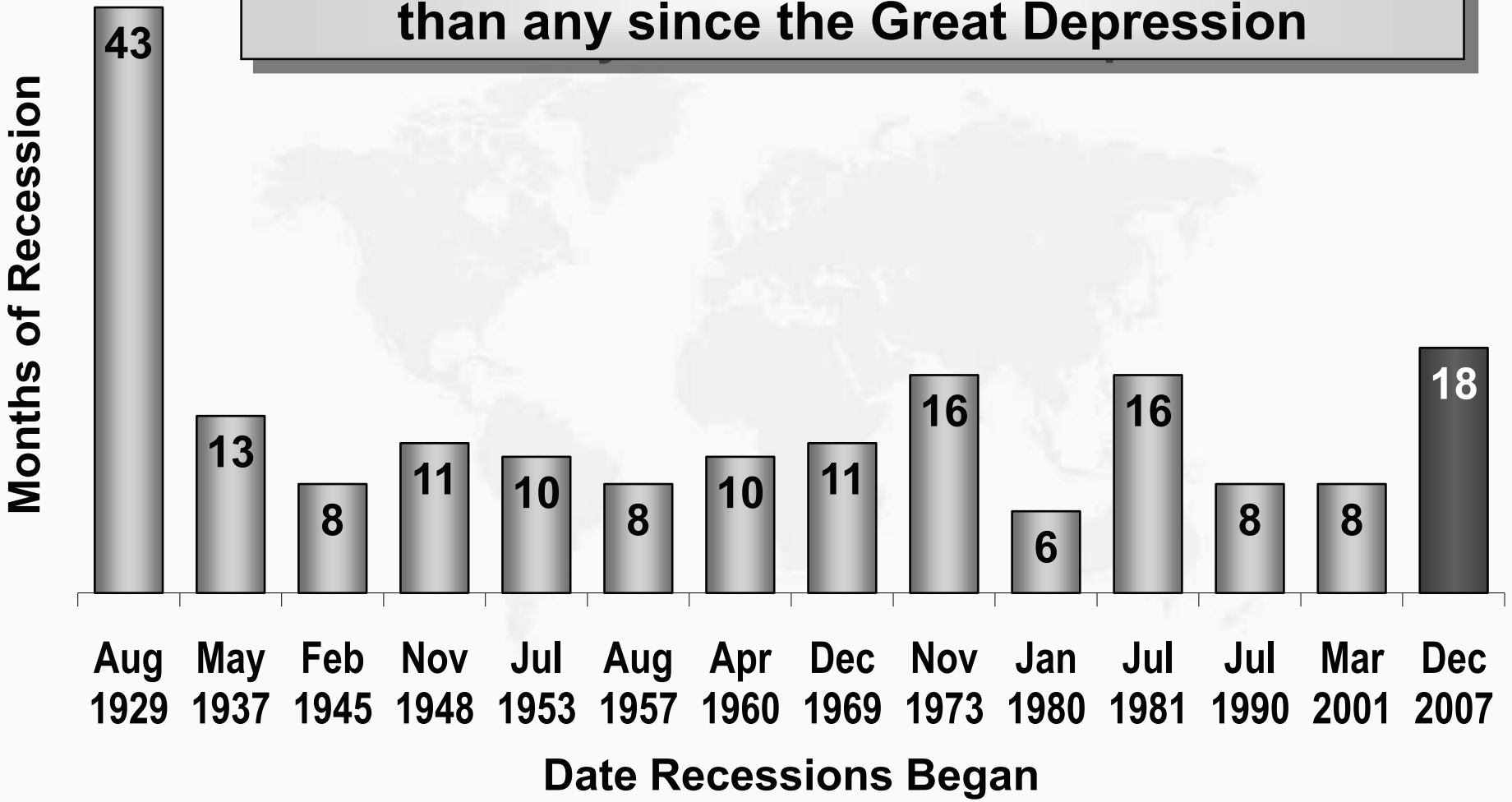
Current recession has already lasted longer than any since the Great Depression



Where We Go from Here
Economic Recovery

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- **Global economic conditions could start to improve by year-end**
- **U.S. economy stabilizing**
- **De-levering occurring**
- **Pent-up auto & housing demand**
- **Emerging economies improving**
- **U.S. deficits & inflation**

Where We Go From Here
Priorities

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- Maximize free cash flow
- Reduce debt aggressively
- Manage near-term maturities
- Manage our supply to protect margins
- Pursue systematic cost reductions
- Realistic strategy for each business
- Be willing to make choices

Positions IP to outperform in any economic environment

Strategy & Capital Allocation
Upside Potential

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Potential for stronger earnings & increased cash flow in an economic recovery

- Synergies
- Margins
- Volumes

- Operating Costs
- Interest Expense
- Downtime Costs

Where We Go from Here
Capital Allocation

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Pursue Total Debt-to-EBITDA Ratio of < 3X

Balance Use of Cash to Maximize Shareowner Value with Appropriate Risk

Improving IP Asset Portfolio

- Cost Reductions
- Margin Expansion
- Selective Reinvestment

Reward Shareowners

- Dividends
- Share Repurchases

Total debt includes estimated pension liabilities & operating leases

IP Transformation
Summary

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What We've Done

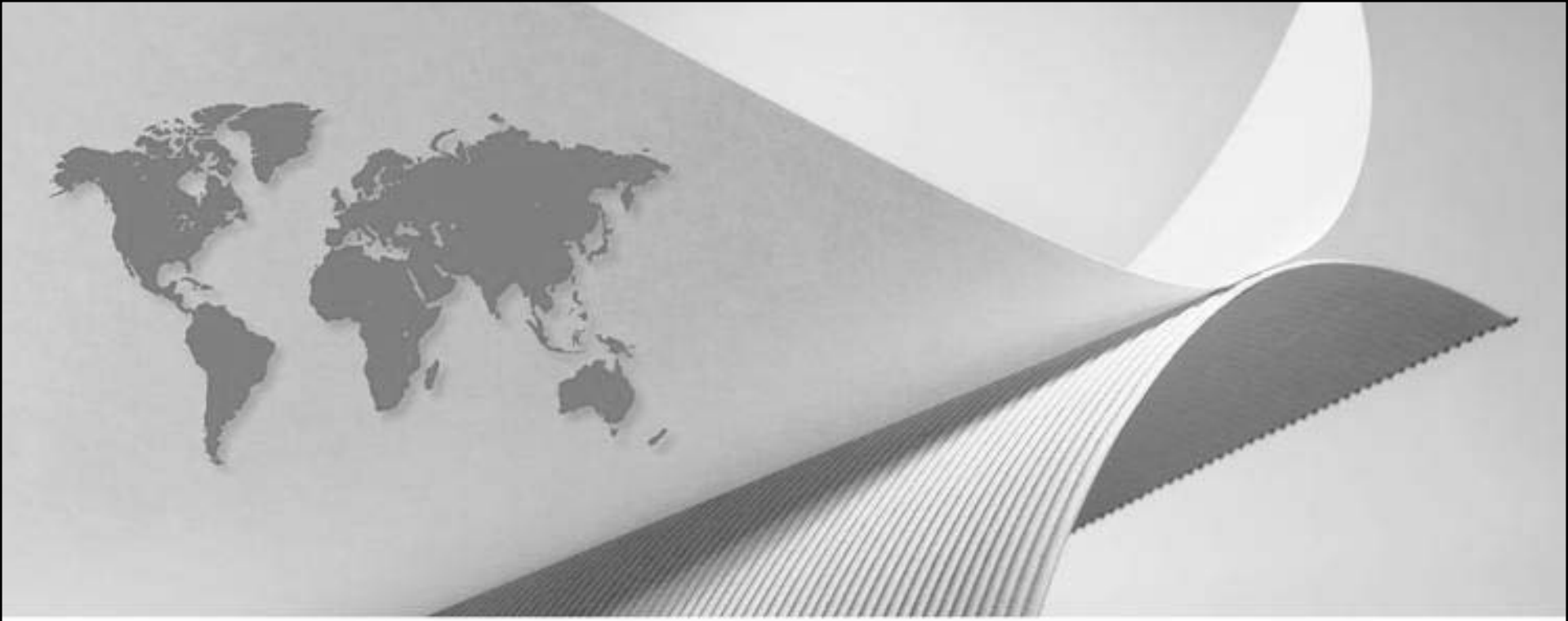
- Created portfolio of high-quality assets
- Leveraged IP's operating expertise
- Improved sustainability of free cash flow
- Reduced debt significantly

What We're Doing

- Maintaining strong focus on free cash flow
- Realizing greater synergies at a faster rate
- Targeting <3X total debt-to-EBITDA
- Pursuing structural cost reductions

What We Will Do

- Continue free cash flow focus
- Manage our supply to protect margins
- Achieve total debt-to-EBITDA target
- Balance use of cash



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