

INTERNATIONAL PAPER



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Chairman &
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UBS Global Paper and Forest Products Conference

A Stronger, Better-Positioned International Paper Company

September 2010

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; (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 our products; (iii) global economic conditions and political changes, including but not limited to the impairment of financial institutions, changes in currency exchange rates, credit ratings issued by recognized credit rating organizations, the amount of our future pension funding obligation and changes in 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

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During the course of this presentation, certain non-U.S. GAAP financial information will be presented.

A reconciliation of those numbers to U.S. GAAP financial measures is available on the company's website at internationalpaper.com under Investors.

Repositioned and Well-Positioned
For Value Creation & Earnings Growth

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- Focused our business portfolio
- Replaced divested businesses' earnings with higher, more-sustainable earnings
- Reduced costs
  - Operating costs & productivity gains
  - Overhead costs
  - Fixed costs
- Reduced debt
- Reduced capex
- Investments in strategic businesses & emerging economies
- Increased earnings, free cash flow & returns

Free Cash Flow
2000 – 2010 First Call

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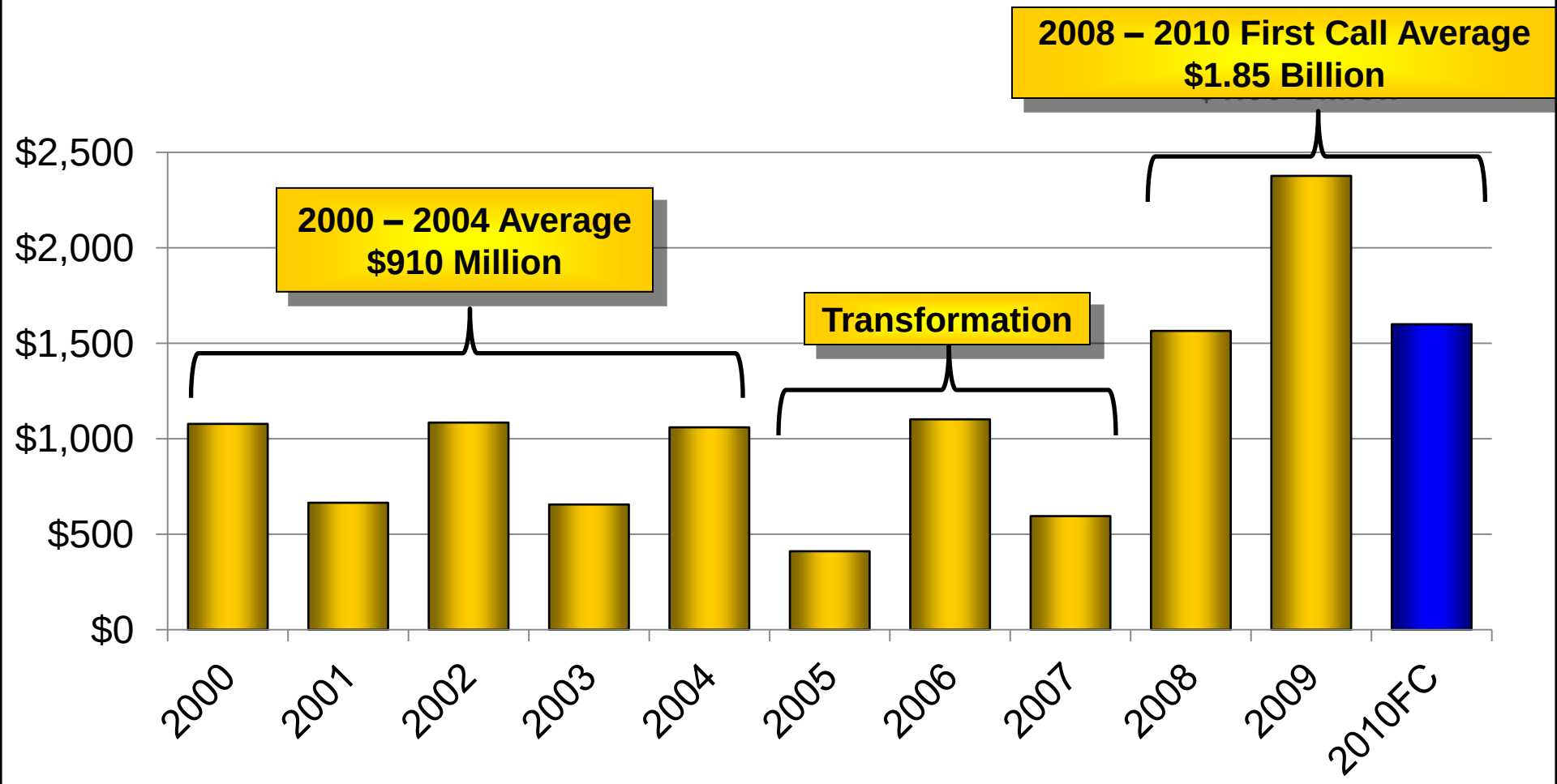

FCF Yield	2000 – 2004 Average = 5%		2008 – 2010 First Call Average = 23%

Free cash flow before dividends, based on data in the 10-K for each year at the time of filing.
2006 represents free cash flow before $1 billion pension contribution.

Achieving Cost-of-Capital Returns

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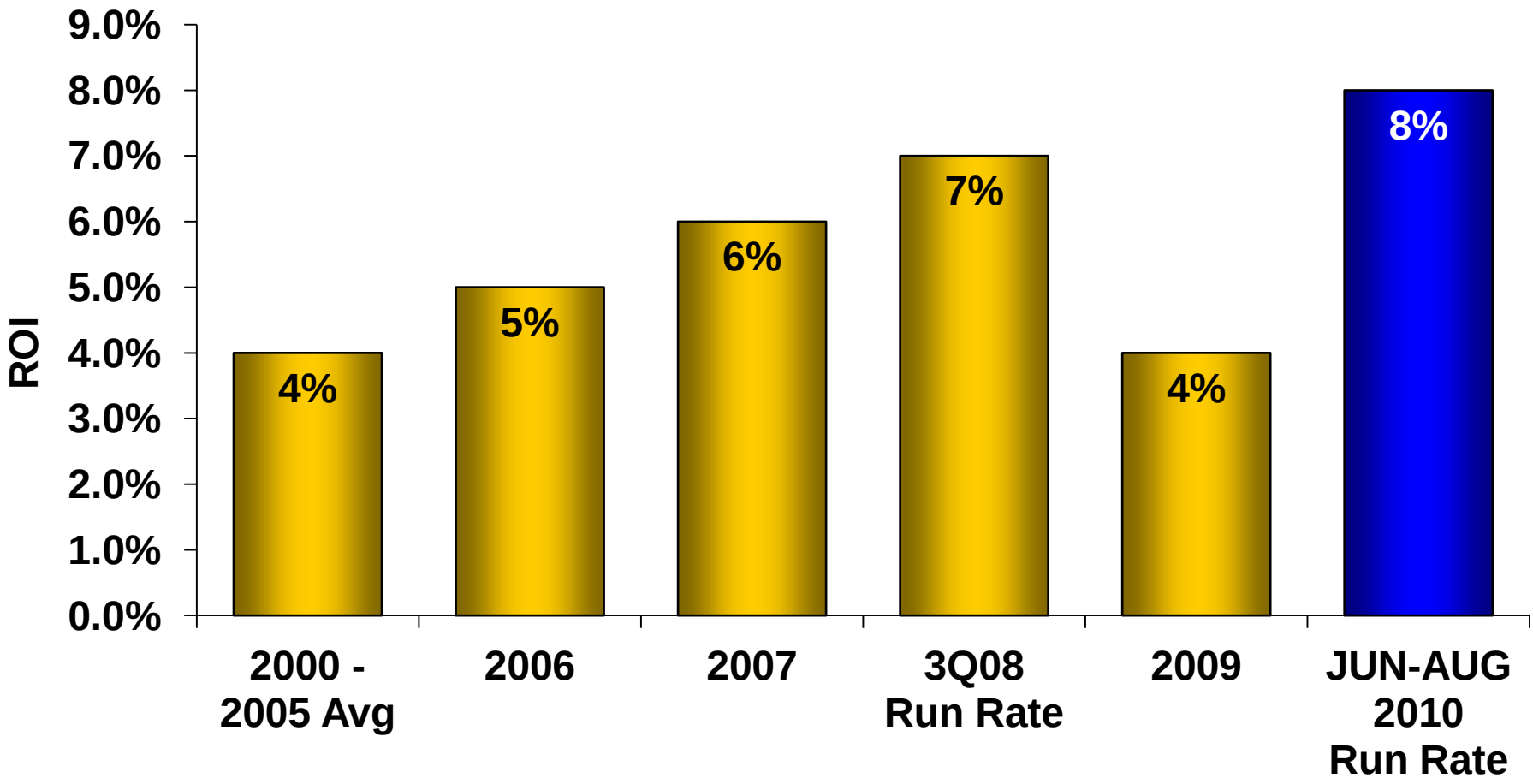
All Leading to Cost of Capital Returns in Current Environment



2010 Not a Mid-Cycle Year

Demand Recovering

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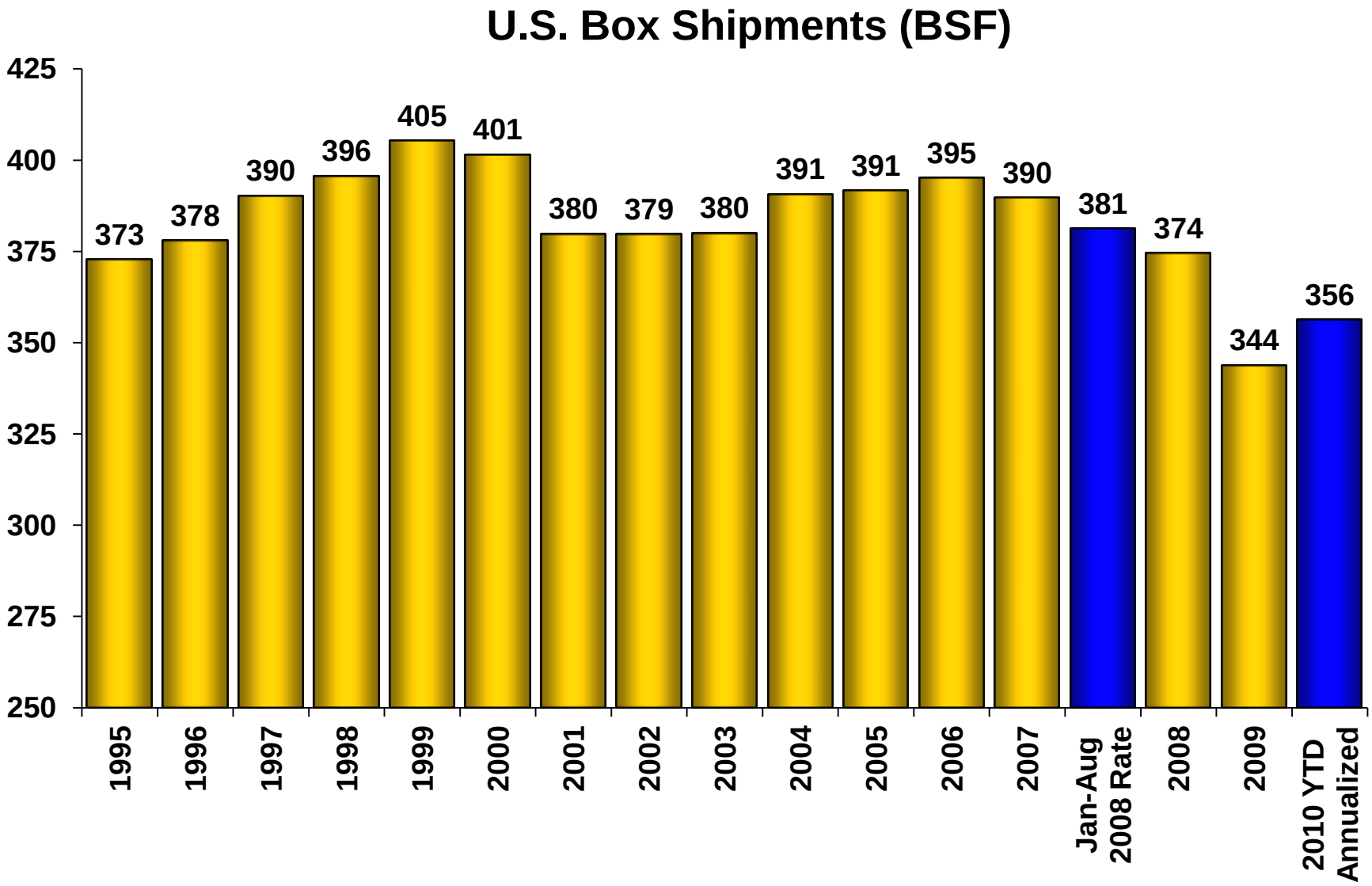

Source: Fibre Box Association

Improving Earnings Quality & Sustainability

Replaced Land Sales Earnings

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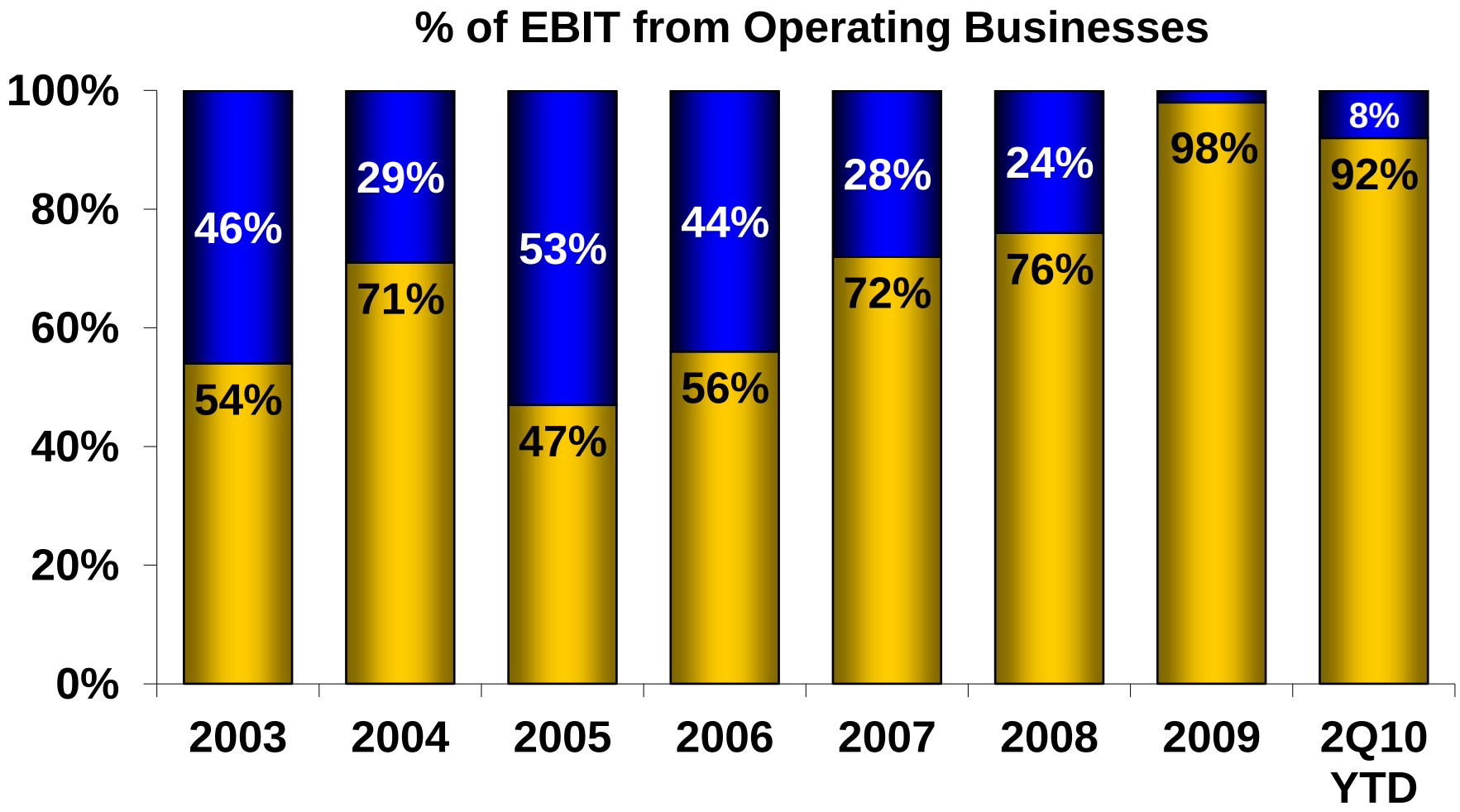

Forest Products EBIT ($B)	2003	2004	2005	2006	2007	2008	2009	2Q10 YTD
	$0.6	$0.5	$0.7	$0.7	$0.5	$0.4	< $0.1	< $0.1

EBIT before special items including discontinued operations; Forest Products EBIT excludes Wood Products
Earnings based on data reported in the 10-K for each year at time of filing

Streamlined Business Portfolio

Improved Positions in More-Profitable Segments

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	Segment Position	
Market Segment	2004	2010
U.S. Linerboard	#3	#1
U.S. Uncoated Papers	#1	#2
U.S. Coated Paperboard	#1	#1
Global Market Pulp	Secondary	#4
U.S. Coated Papers	Secondary	Exited
U.S. Wood Products	Secondary	Exited
U.S. Forestland	#2	Exited
U.S. Kraft Paper	Secondary	Exited
U.S. Chemicals	Secondary	Exited
U.S. Beverage Packaging	Secondary	Exited

Streamlined Business Portfolio

Smaller, Higher-Returning Capital Base

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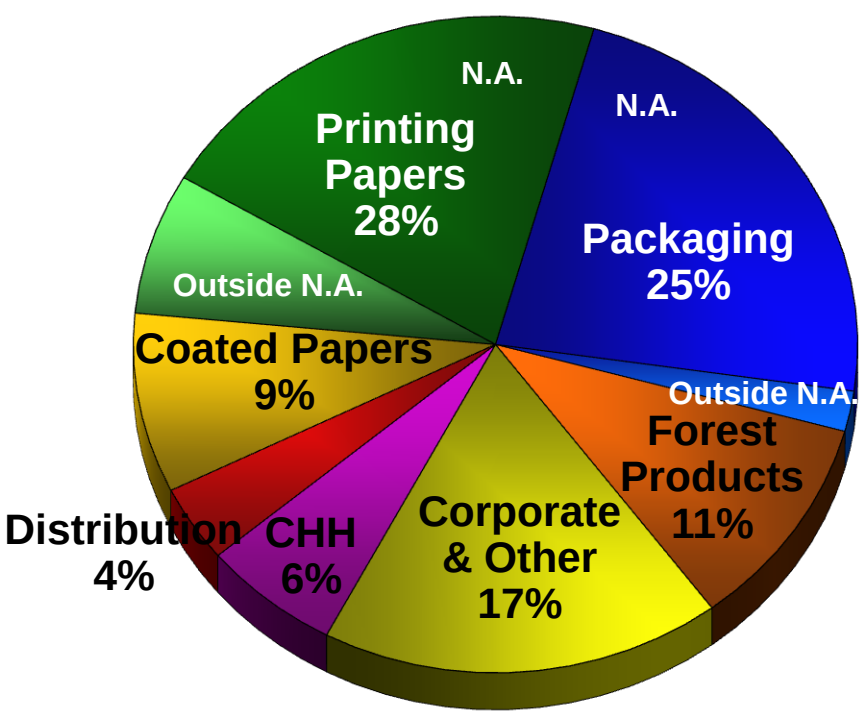
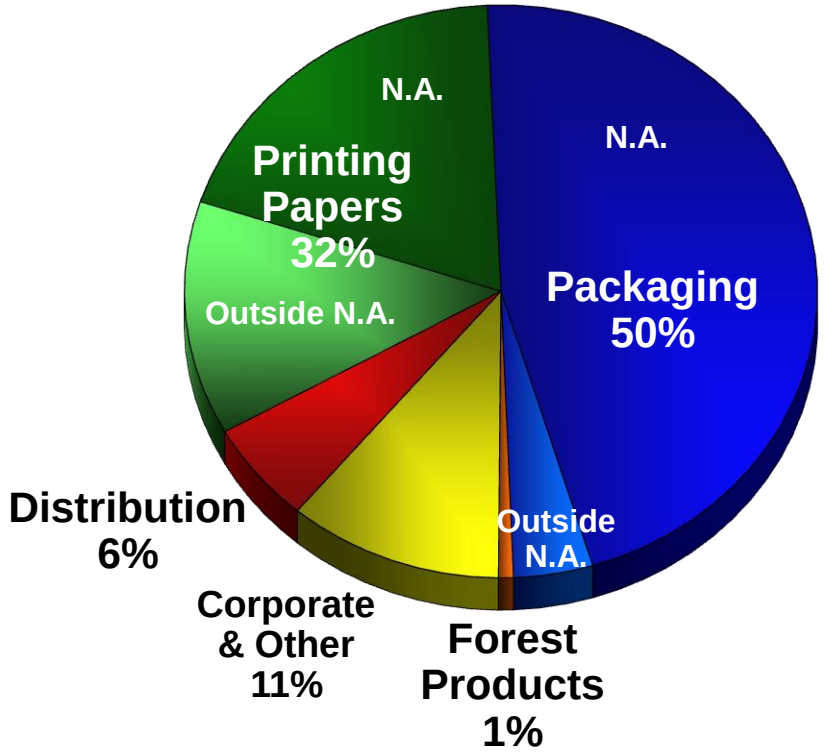
2005
Capital Employed
$30B



June 2010
Capital Employed
$21B



2005 capital employed represents January 1, 2005
Packaging includes Consumer Packaging & Industrial Packaging

Increasing Free Cash Flow

25% Headcount Reduction

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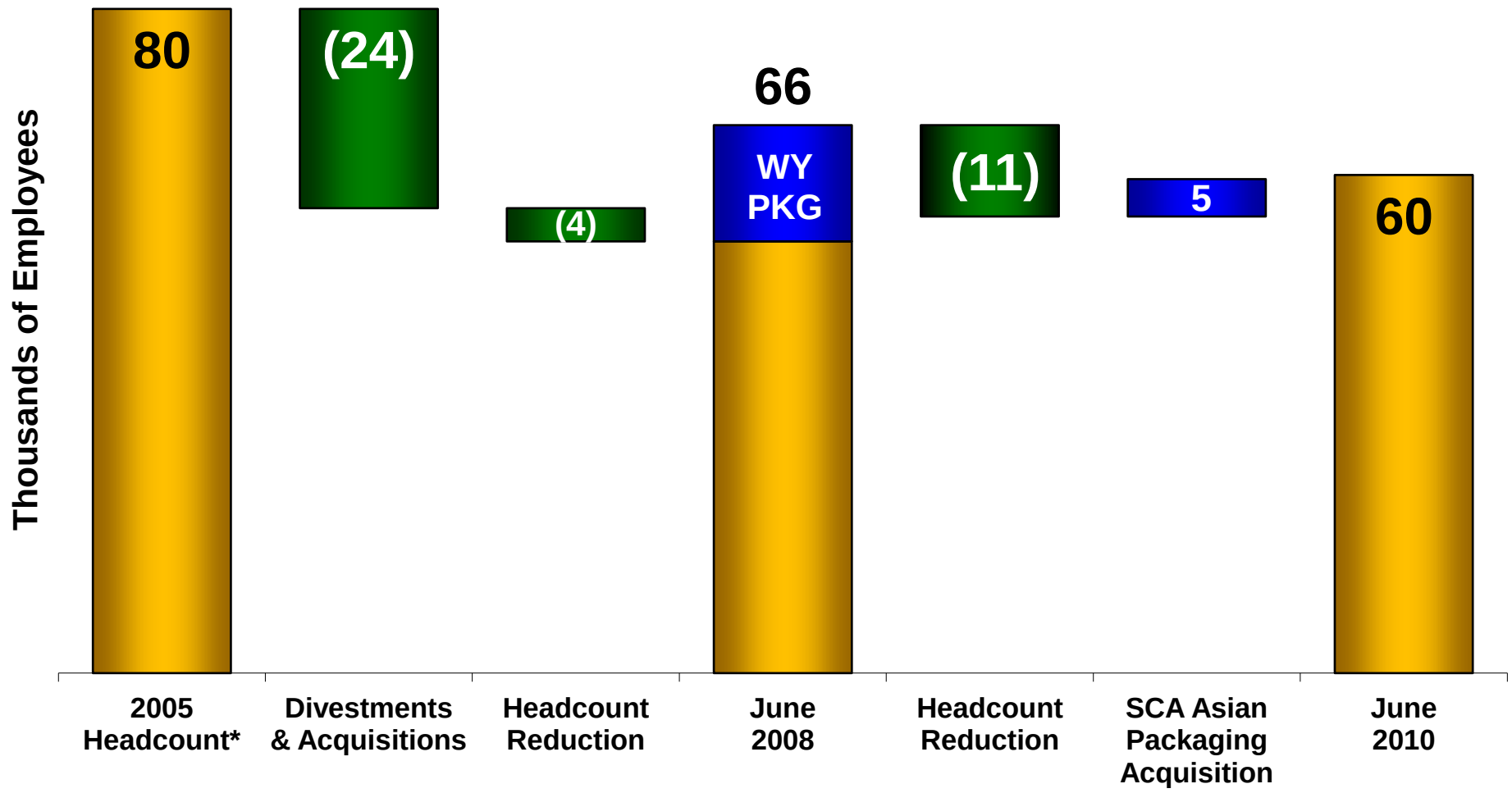

* At January 1, 2005
Excludes Ilim joint venture employees

Increasing Free Cash Flow

Systematic Overhead Cost Reductions

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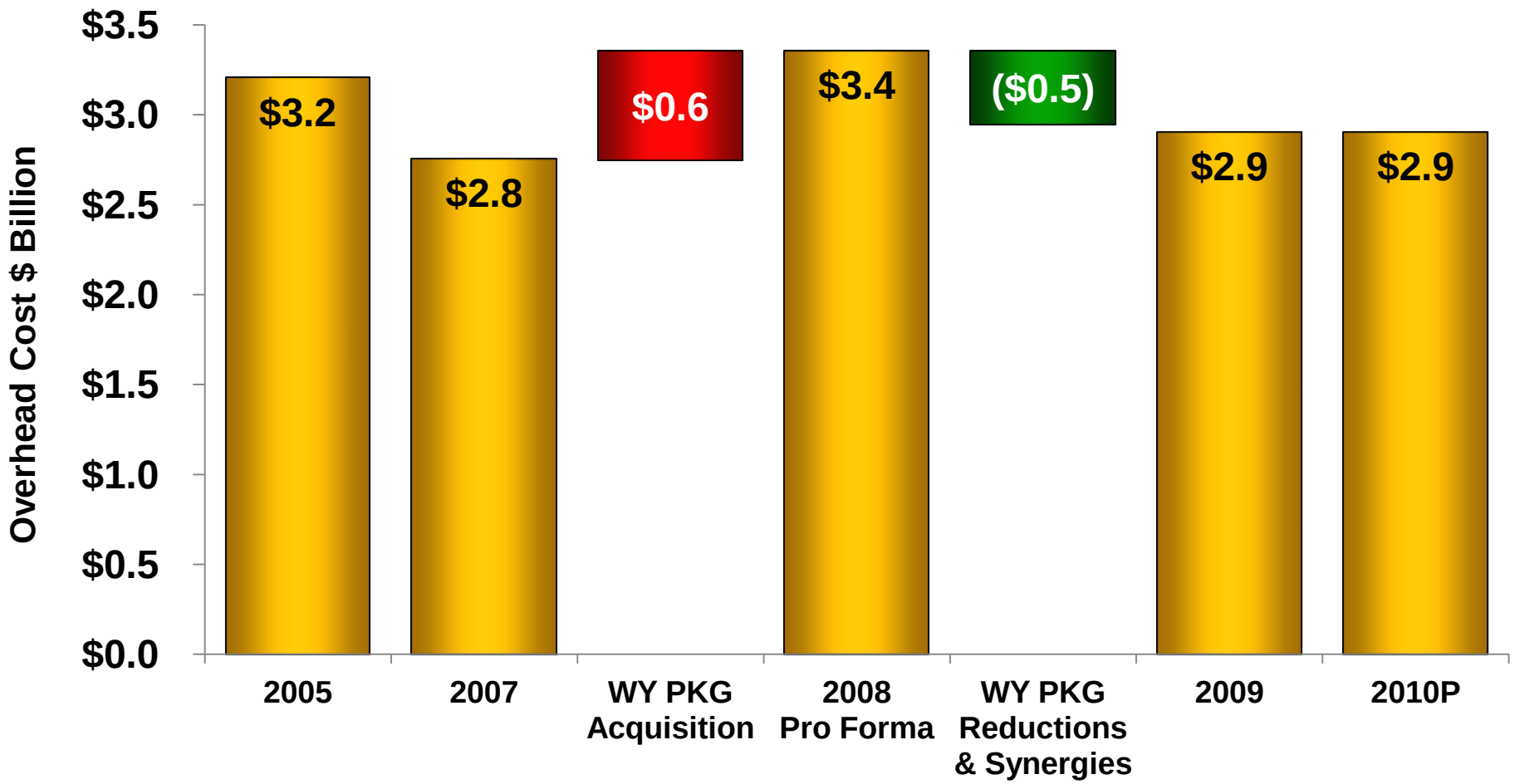

% of Sales	12%	12%		13%	12%	11%

Includes discontinued operations

Increasing Free Cash Flow

Lower, More-Focused Capex

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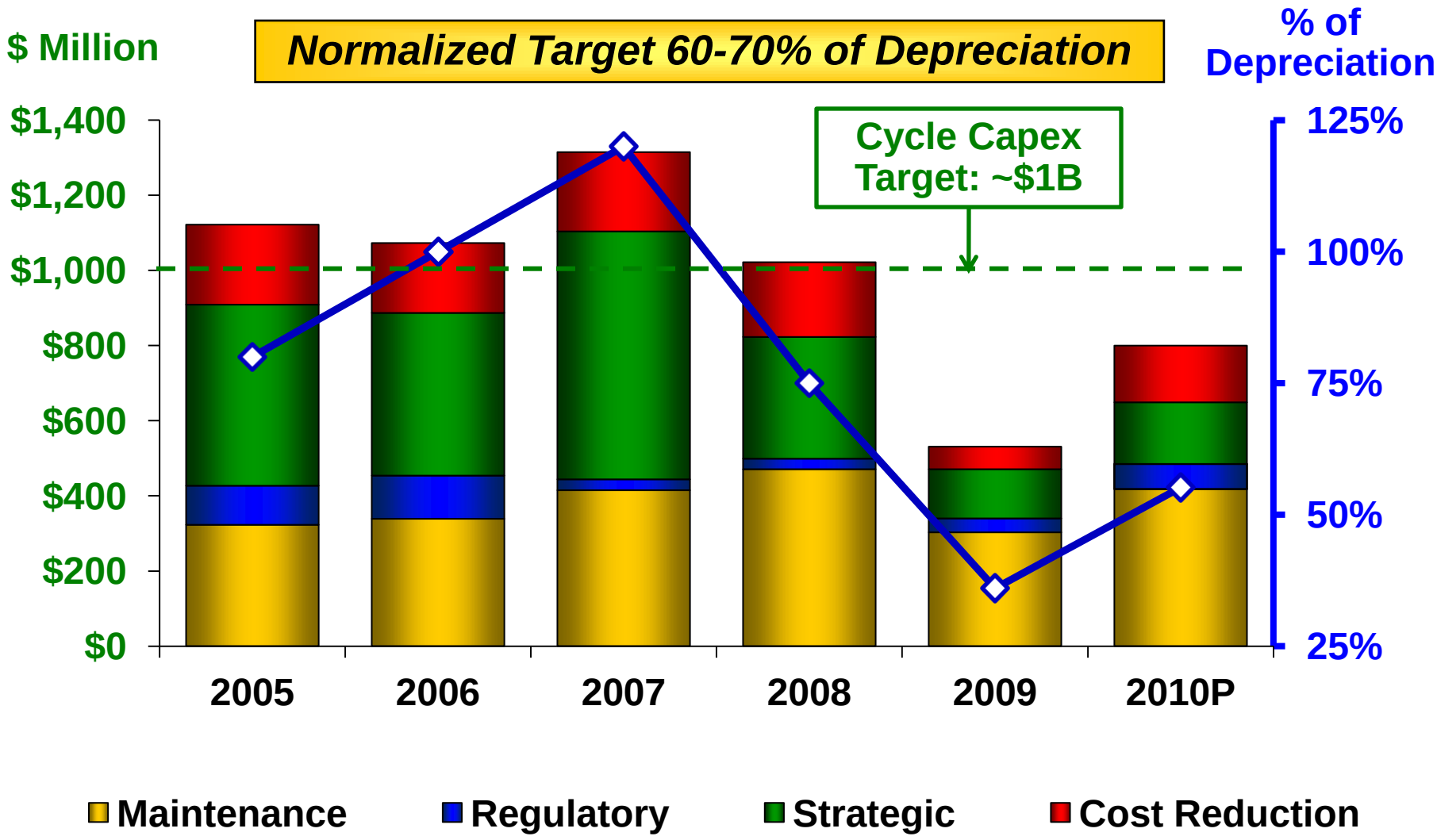

Reflects continuing operations

Progress on WY PKG Acquisition

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Metric	Performance
Cash Flow	Will have recovered one-third of our $6B investment by the end of 2010
Earnings	Project acquisition to be earnings accretive cumulatively by the end of 2010
Return on Investment	Expect cost-of-capital returns for the acquisition for 2010

Prices Returning to Pre-Recession Levels

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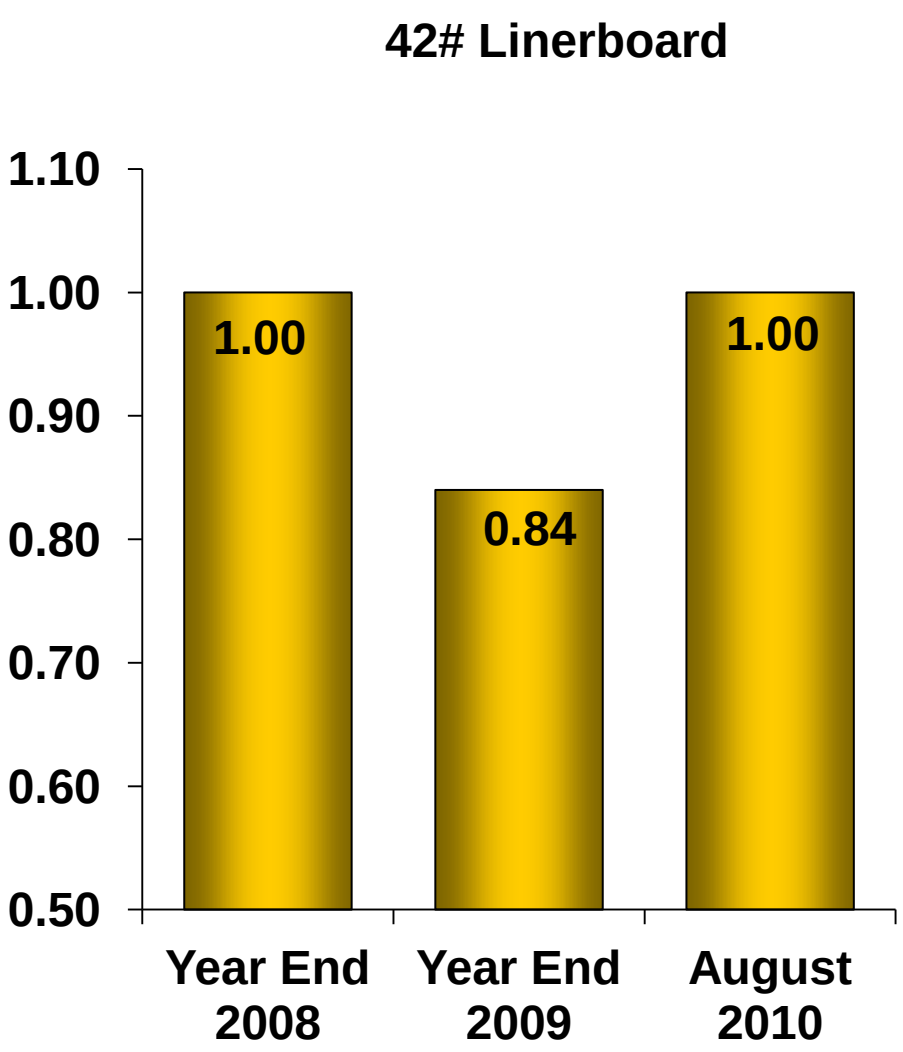

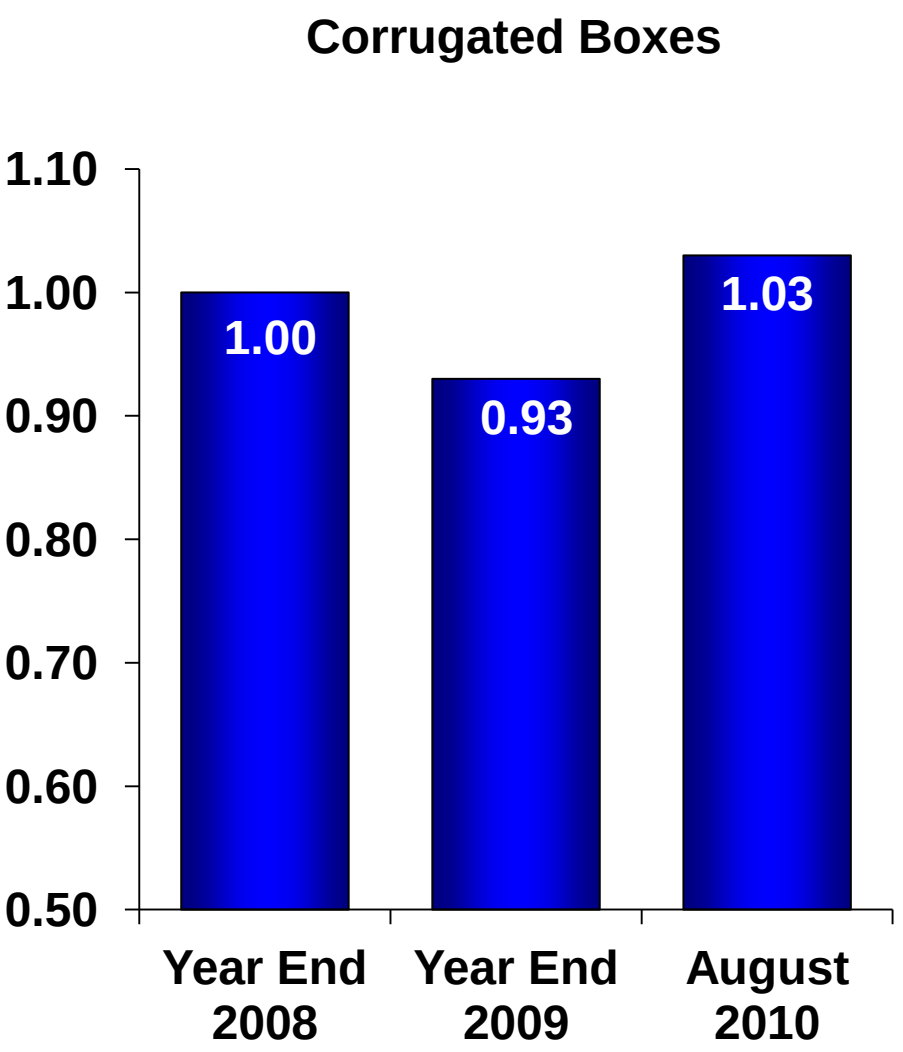

2010 Not a Mid-Cycle Year

Demand Recovering

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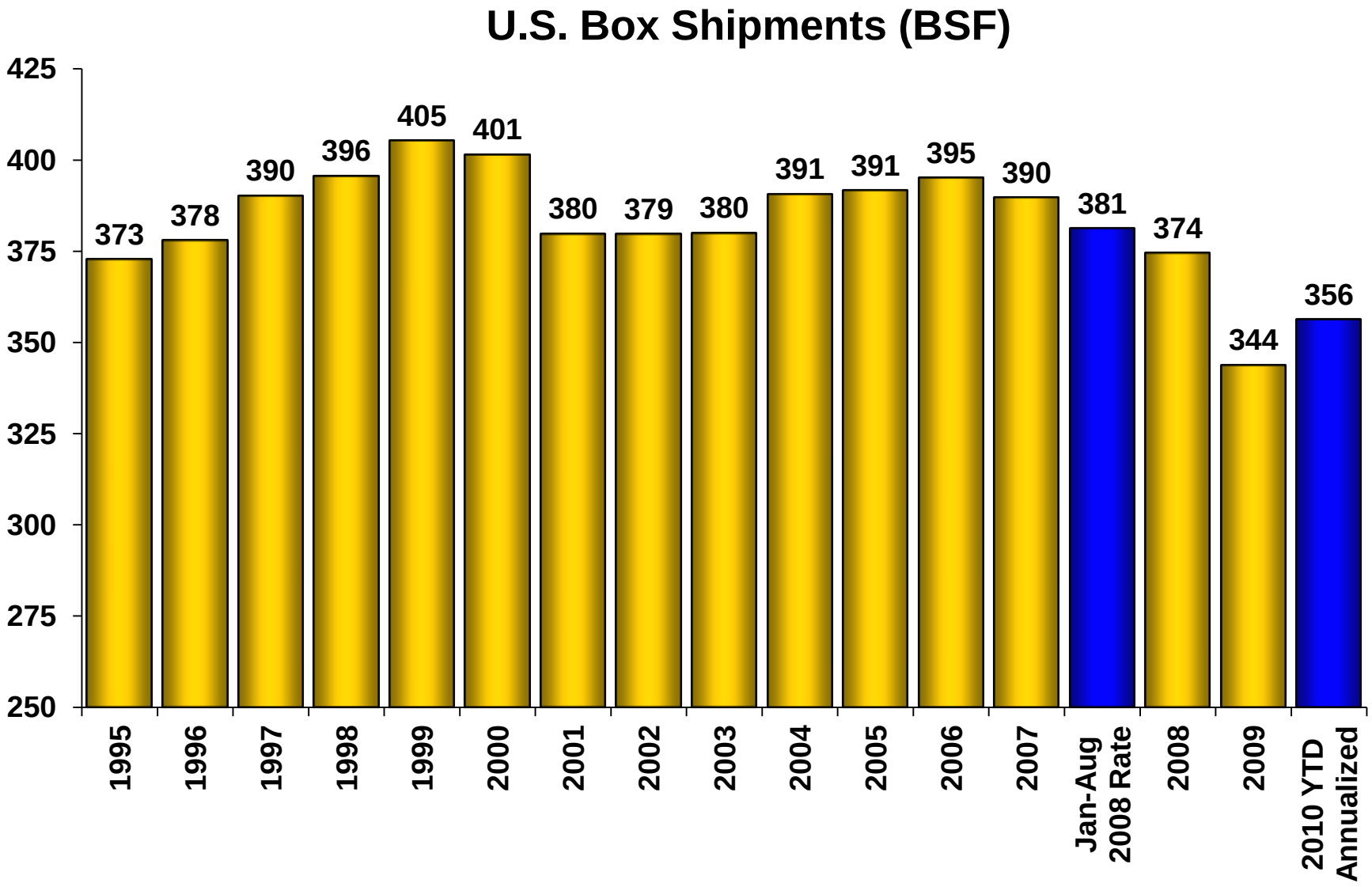

Source: Fibre Box Association

Accelerating Industrial Packaging Progress

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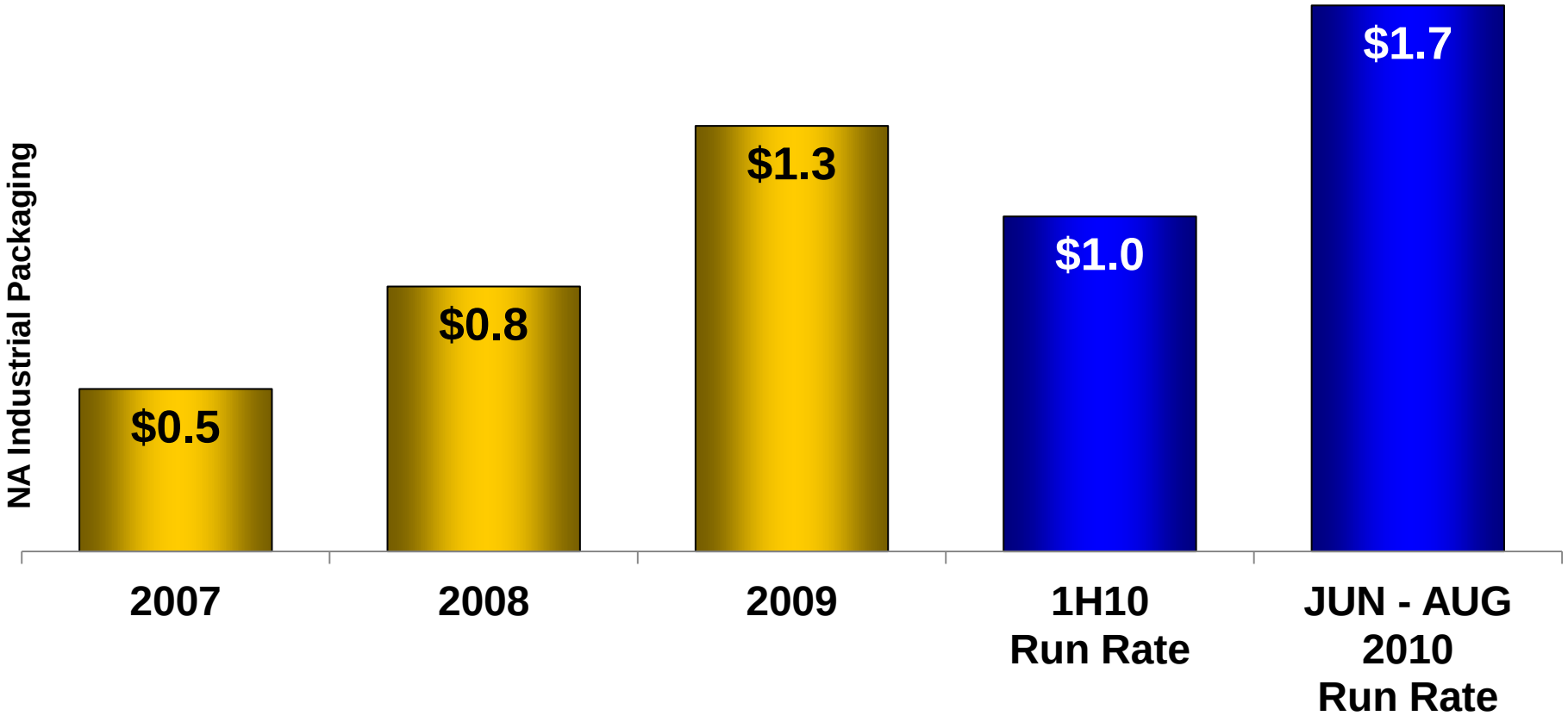
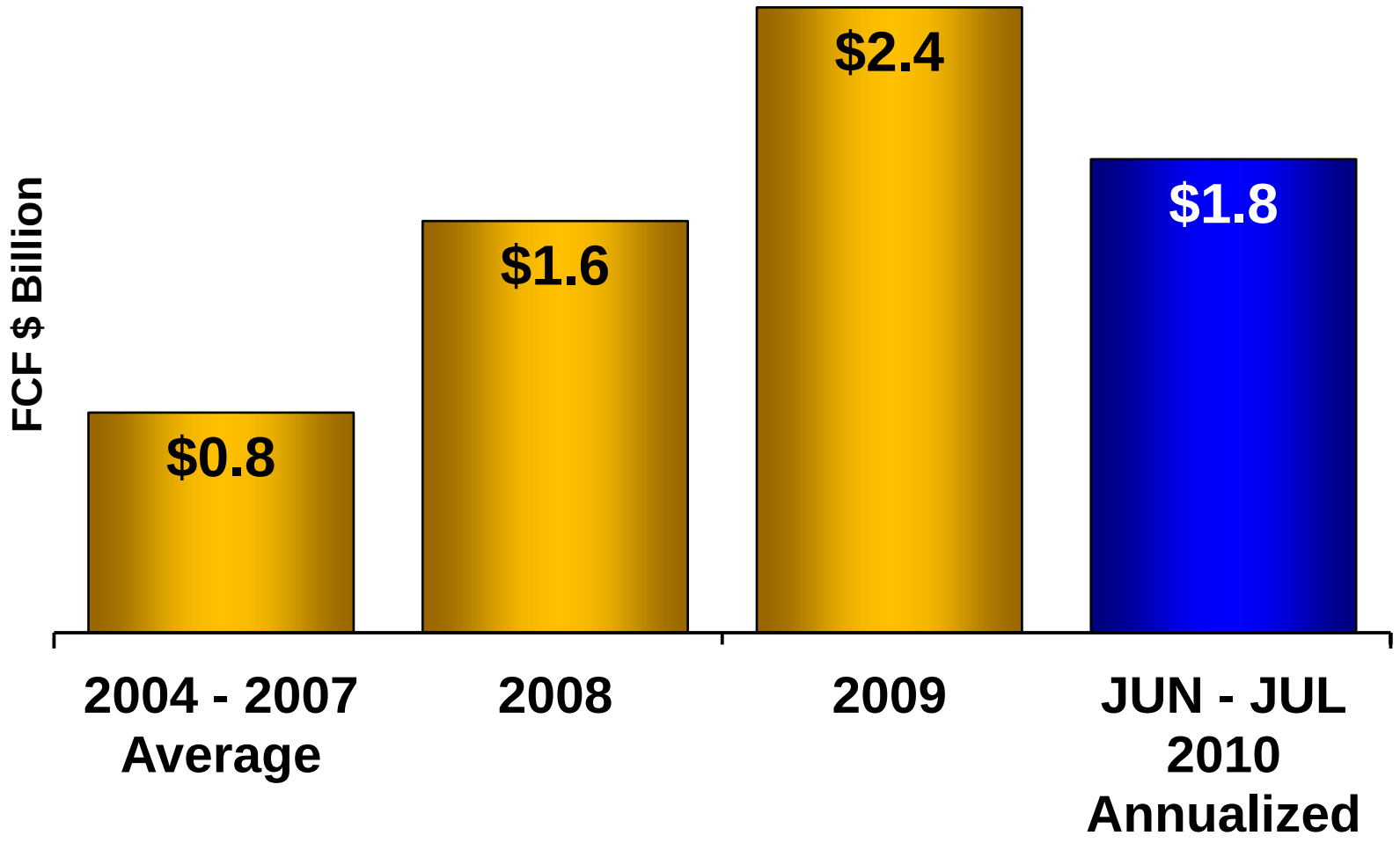
June - August EBITDA Run Rate of $1.7 Billion and 9% ROI



ROI	7%	5%	5%	3%	9%

Earnings before special items

IP Increasing Free Cash Flow



Free cash flow before dividends
2009 and 2Q10 YTD exclude $1.7 B and $0.1 B, respectively, in alternative fuel mixture tax credits

Targeting Higher Levels of Performance

EBITDA & ROI

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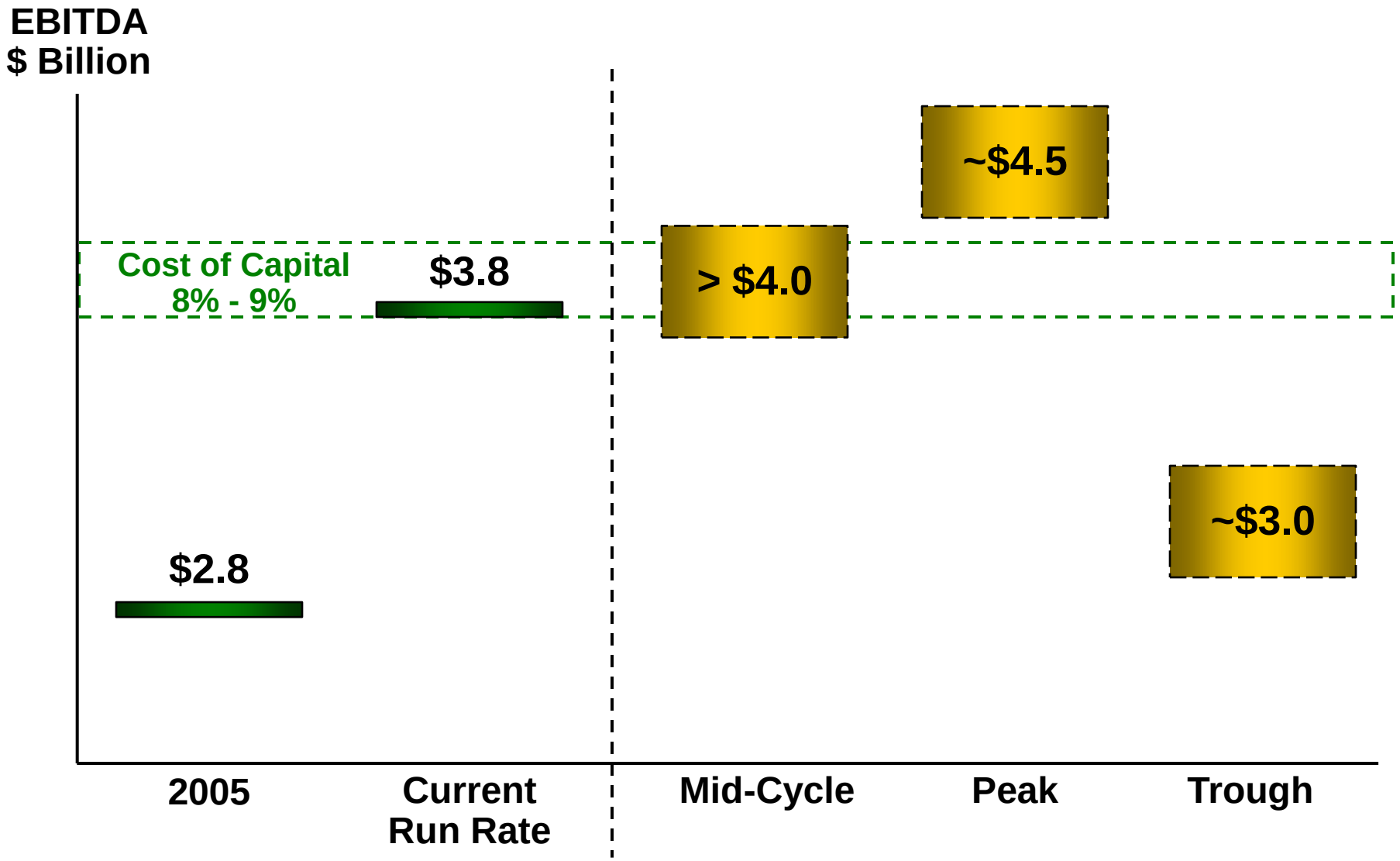

Debt Reduction

Targeting < 3X Adjusted Debt-to-EBITDA

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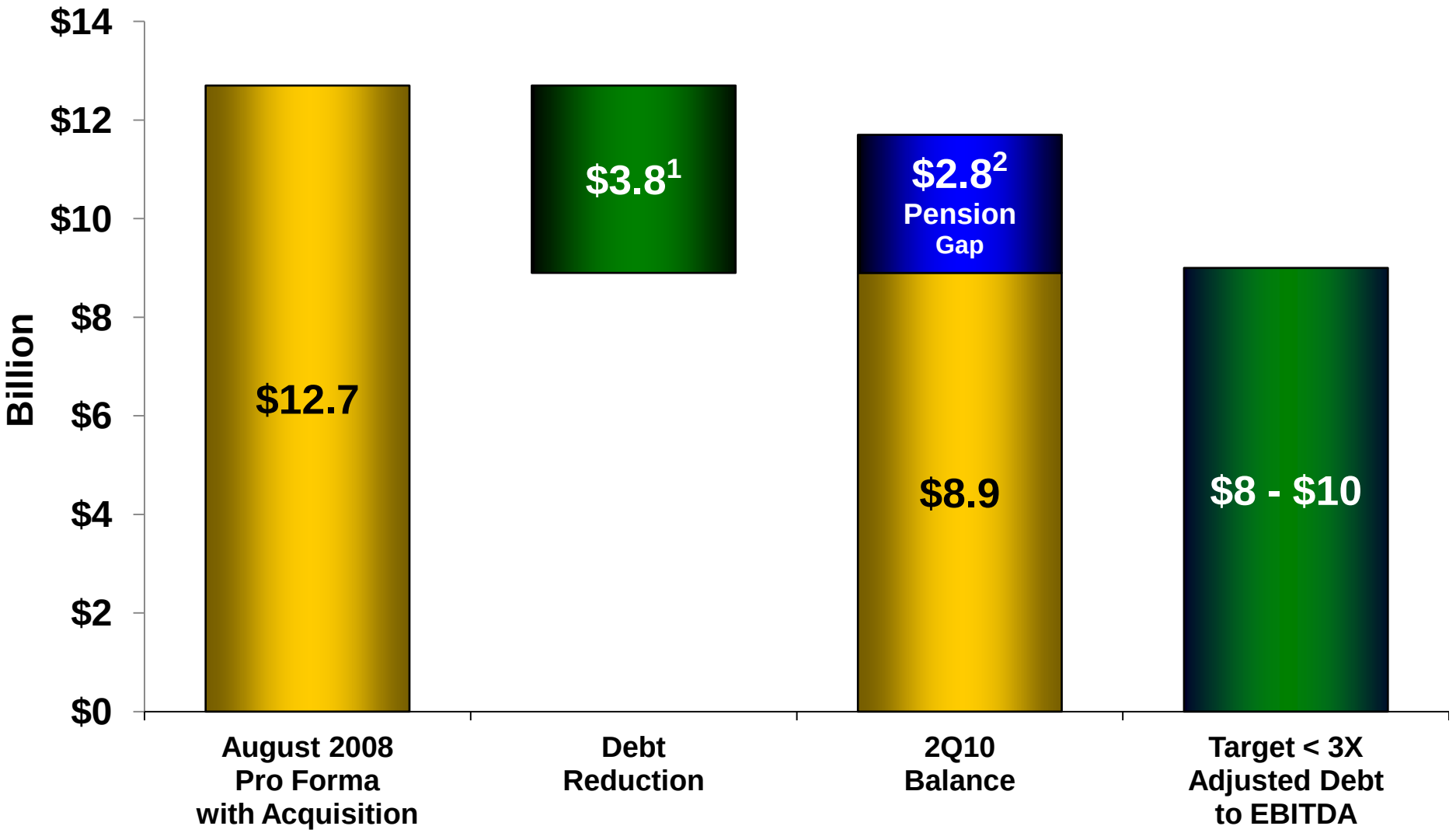

[1] Excludes debt repayments totaling $2.75 B from the proceeds of bond issuances

[2] Pension gap as of 12/31/09

Portfolio Upgrades

Emerging Market Investments

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- **Attractive, low-cost assets**
- **Growing markets**
- **Geographic & currency balance**
- **Good earnings, cash flow & return potential**

Strategic Investments
Sun Joint Venture

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- 2009: 4 MM tons of coated paperboard demand in China
- Projected 2010 – 2013 Demand CAGR: 8% - 9%
- 3 existing board machines
  - 915,000 tons of capacity
  - Sold out since March 2009
  - 1H10 EBITDA of $53MM
  - 1H10 ROI of 13%



- New 4th board machine approved by Sun & IP boards
  - 550,000-ton annual capacity
  - ~$300 MM investment
  - Yanzhou, China
  - Start up in 1Q12
- 5th board machine in planning stage



Ilim

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IP has received a total of $152 million of cash dividends from Ilim

	$ Million
2007 IP Investment	$650
EBITDA – Three-Year Average	$275*
EBITDA Multiple	6X → 4.8X

* Represents 100% of Ilim's EBITDA

Ilim

Recovering from Economic Crisis

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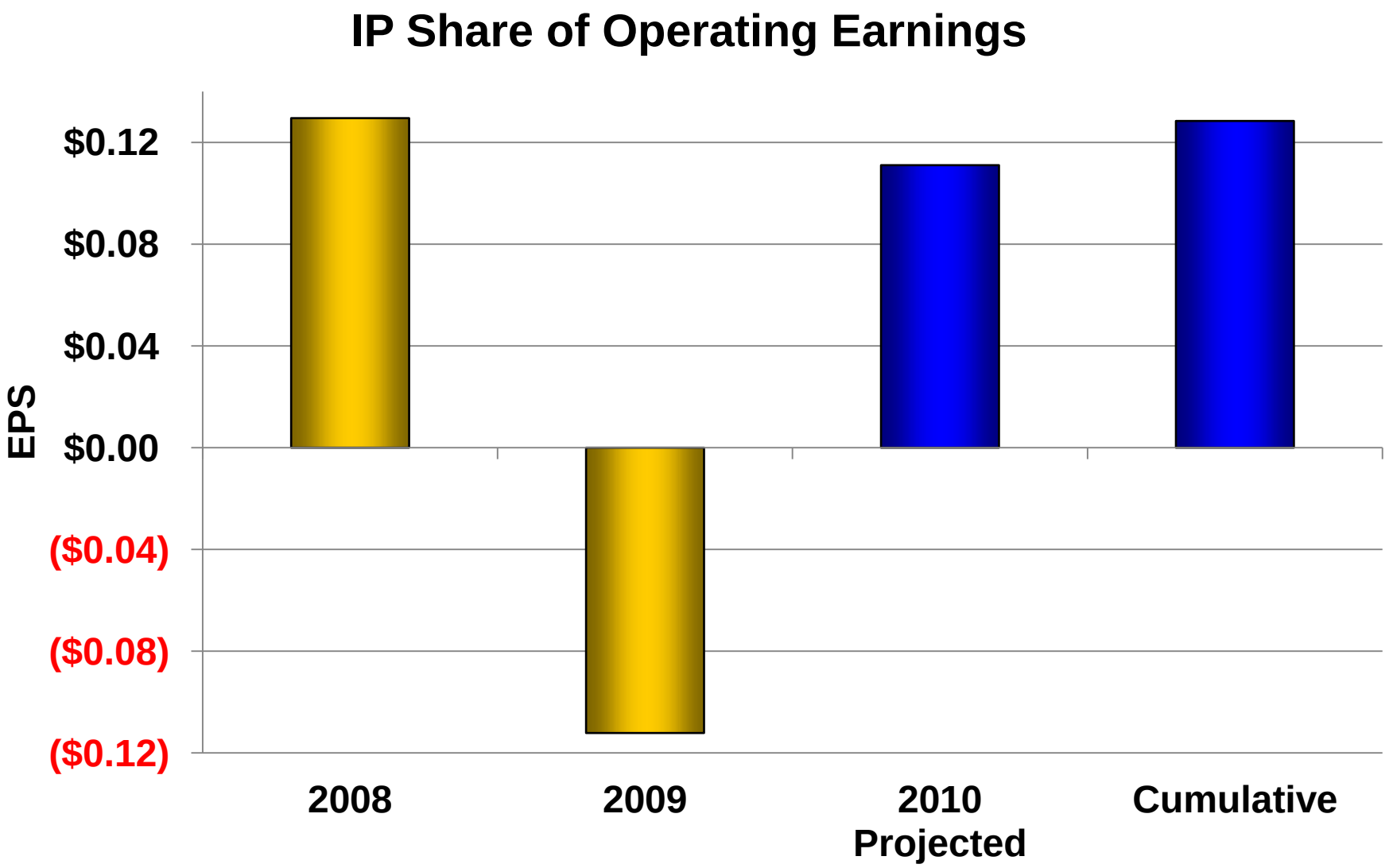

Strategic Investments

Ilim JV - Resuming Capital Investment Plan

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1. **Expand Siberian pulp business**
   - 790,000-ton NBSK pulp line at Bratsk
   - 550,000-ton net increase in capacity
   - $700 MM in capital
   - Recovery boiler start-up in 3Q11
   - Pulp line start-up in 2Q12
   - Projected return >20%



2. **Integrate Koryazhma pulp into domestic market**
   - Install paper machine at Koryazhma
   - 165,000 tons of UFS; 55,000 tons of coating base
   - $270 MM in capital
   - Shift from export pulp to uncoated freesheet
   - Evaluating 75,000-ton off-line coater
   - Paper machine start-up in 2012
   - Projected return > 20%

Balanced Capital Allocation
Increasing Shareowner Value

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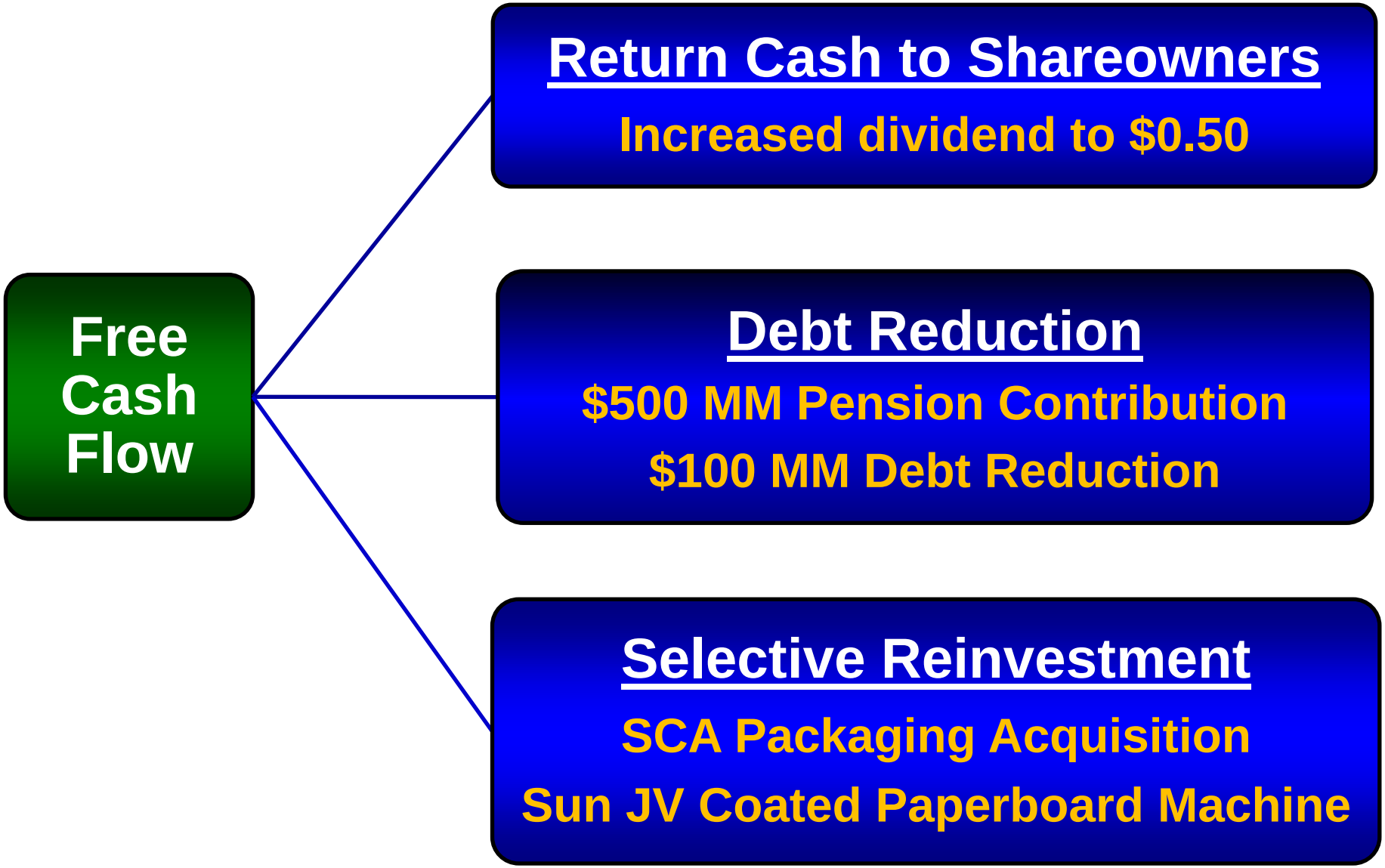

Increasing Shareowner Value
Capital Allocation Progress

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	During Economic Crisis	Post Economic Crisis
Reduce Debt	Primary Focus	Still a Priority
Build Cash Balance	Primary Focus	Need Less Cash on Hand
Return Cash to Shareowners	Reduced to Strengthen Balance Sheet	Increasing Emphasis
Capital Investment	Primarily Maintenance & Regulatory	High-Return Cost Reduction & Maintenance & Regulatory
Strategic Reinvestment	None	Acquisitions to Strengthen Core Businesses

Looking Forward
Increasing Shareowner Value

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1. **Strong free cash flow**
2. **Cost-of-capital returns over the cycle**
3. **Manage our supply to meet customer demand**
4. **Balanced free cash flow allocation**