

News Release

International Paper and Ilim Pulp to Pursue Joint Venture in Russia

MOSCOW—Oct. 25, 2006—International Paper (NYSE:IP) and Ilim Pulp, the largest forest products enterprise in Russia, have signed a letter of intent to establish a 50-50 joint venture, the largest foreign-domestic alliance in the Russian forest sector.

The joint venture would be created through International Paper purchasing a 50-percent equity interest in Ilim Holding. The total valuation of Ilim Holding in the joint venture is approximately \$1.3 billion. The joint venture's board of directors would include equal representation from International Paper and Ilim Pulp and would be headquartered in St. Petersburg.

Ilim Pulp operates four pulp and paper mills located in the European and Siberian regions of Russia, and produces approximately 2.5 million tons annually of market pulp, uncoated papers and packaging. Ilim Holding is in the process of consolidating ownership of the individual mills into a single Russian open joint-stock company, Ilim Group, a subsidiary of Ilim Holding.

A key element of the proposed joint venture strategy is a long-term investment program in which the joint venture would finance and invest approximately \$1.2 billion in the four mills over approximately five years. This unprecedented investment in the Russian pulp and paper industry would be used to upgrade equipment, increase production capacity by approximately 1 million tons (40 percent), and allow for new high-value product development.

“This joint venture would be attractive to both International Paper and Ilim Pulp because it would unite the unique capabilities of both companies and enable us to create more value together than we could individually,” International Paper Chairman and Chief Executive Officer John Faraci said. “Beyond that, a joint venture should benefit Russia by significantly propelling the development of a globally competitive sustainable forest products industry in Russia.”

He added, “International Paper has been a committed part of the Russian forest-products industry for seven years, through the ownership of our Svetogorsk Mill, and we look forward to continuing to encourage the strategic development of the industry.”

Ilim Pulp Chairman Zakhar Smushkin said, “This alliance between the Russian and the global industry leaders would align strategies that create unprecedented opportunities for both parties and for the entire Russian forest-products industry. Our joint success would provide Russia a competitive edge over other emerging markets in attracting needed capital to the industry.”



The parties plan to finalize the agreement in the first quarter of next year, pending completion of due diligence, receipt of required regulatory approvals and approval by their respective boards.

The pulp and paper mill that International Paper currently owns and operates in Svetogorsk, in the Leningrad region, would remain separate from the joint venture. Similarly, Ilim Pulp's wood-products enterprises would not be integrated into the joint venture and instead, Ilim plans to combine these entities to create the country's largest timber-processing holding company.

About International Paper

Headquartered in the United States, International Paper has been a leader in the forest-products industry for more than 100 years. The company is currently transforming its operations to focus on its global uncoated papers and packaging businesses, which operate and serve customers in the U.S., Europe, South America, Asia, Russia and North Africa. These businesses are complemented by an extensive North American merchant distribution system. International Paper is committed to environmental, economic and social sustainability, and has a long-standing policy of using no wood from endangered forests. To learn more, visit www.internationalpaper.com.

About Ilim Pulp

Ilim Pulp (Saint Petersburg, Russia) was incorporated in 1992. The corporation is among the world's top ten companies in output of market pulp and ranks sixth internationally in timber reserves and logging volumes. Ilim Pulp's production assets have been organized by product business units in accordance with its core activities: solid wood products, pulp and containerboard, and packaging. Ilim Pulp employs a total of 42,000 people and produces 60 percent of market pulp and 50 percent of boxboard manufactured in Russia.

This release contains forward-looking statements. These statements reflect the current views of management of International Paper and Ilim Pulp 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 ability of International Paper Company and Ilim Pulp to agree on final terms of the joint venture and the long term investment plan; (ii) pulp and paper industry conditions, including changes in the cost or availability of raw materials and energy, changes in transportation costs, competition, changes in product mix and demand and pricing for either Company's products; (iii) supply and demand conditions and other economic factors affecting Russia, Eastern Europe and Asia, including changes in political conditions, changes in currency exchange rates and natural disasters; and (iv) compliance costs related to environmental and other governmental regulations and the uncertainty of the costs. International Paper Company and Ilim Pulp undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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