



November 30, 2006

Stock Rating:
Sector Outperformer

Sector Weighting:
Underweight

12-18 mo. Price Target \$37.00
IP-NYSE (11/29/06) \$32.55

Key Indices: S&P 500

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$30.69-\$37.98
Shares Outstanding	454.8M
Float	479.0M Shrs
Avg. Daily Trading Vol.	2,777,545
Market Capitalization	\$14,803.7M
Dividend/Div Yield	\$1.00 / 3.1%
Fiscal Year Ends	December
Book Value	\$12.92 per Shr
2006 ROE (E)	13.8%
LT Debt	\$10,450.0M
Preferred	Nil
Common Equity	\$5,874.0M
Convertible Available	Yes

Earnings per Share	Prev	Current
2005		\$1.08A
2006		\$1.31E
2007		\$1.90E

P/E	
2005	30.1x
2006	24.8x
2007	17.1x

EBITDA	
2005	\$2,754
2006E	\$2,683
2007E	\$2,750

Company Description

International Paper is the world's largest paper & forest products company. Businesses include paper, packaging, building materials and distribution.

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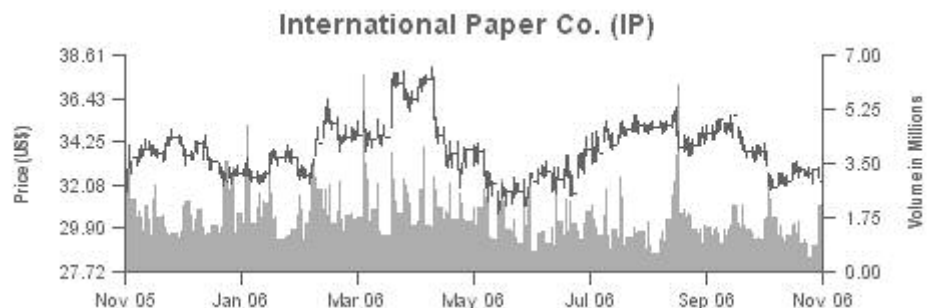
Paper & Forest Products

International Paper Co.

Sells Majority Of Its Sawmills To West Fraser - Low Price, But Reduces Losses

- On November 29, IP announced it has entered an agreement to sell 13 of its 21 lumber mills to West Fraser (WFT-SP) for approximately \$325 million. Although the transaction price is lower than expected, IP has done well to exit sooner than later, as these mills are currently EBITDA negative.
- This cash transaction takes IP one step closer to completing its restructuring program that began in July 2005. Based on transactions announced so far, the company has delivered roughly \$10 billion in total. Left to go is mainly the remainder of wood products and beverage packaging.
- The company's primary goal remains to increase its financial flexibility and maintain its investment-grade credit rating through debt repayment. However, the company is also seeking to improve shareholder value through share repurchases and capital reinvestment.
- Although we ultimately expect close to \$11 billion in after-tax sale proceeds from the restructuring program, we think that the bulk of the value has already surfaced through the sale of the timberlands. As a result, we are maintaining our \$37 price target for IP.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated.

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

The 13 sawmills sold to West Fraser are located in the U.S. South and have a combined annual production capacity of approximately 1.8 billion board feet of southern yellow pine (SYP) lumber (see Exhibit 1).

Exhibit 1. Sawmills Sold

State	Location	Mill Type	2005 Production (MMfbm)
Alabama	Citronelle	Dimension	84
Alabama	Maplesville	Dimension	107
Alabama	Opelika	Dimension	95
Arkansas	Leola	Dimension	179
Florida	McDavid	Dimension	211
Florida	Whitehouse	Dimension	96
Georgia	Augusta	Dimension	144
Georgia	Folkston	Dimension	97
North Carolina	Riegelwood	Dimension	199
North Carolina	Seaboard	Dimension	100
South Carolina	Newberry	Stud	140
Texas	Henderson	Dimension	142
Texas	New Boston	Dimension	160
Total Sawmills			1,754

Source: Company reports and CIBC World Markets Inc.

The acquisition price of \$325 million, including working capital, is subject to certain post-closing adjustments. The transaction, which is also subject to U.S. regulatory approvals and customary conditions, is expected to close in the first quarter of 2007.

The purchase price is lower than expected, but reflects generally weak markets expected for the next 12-18 months. West Fraser is paying US\$181/mfbm of lumber capacity, while precedent transactions have been done at an average of US\$200/mfbm. We estimate that the price represents 5.9 times normalized EBITDA.

Exhibit 2. Valuation

	TEV/EBITDA	
	2004	2005
Canfor	3.6	8.2
West Fraser	5.6	4.9
Interfor	4.5	4.7
Average	4.6	5.9
IP SYP Sawmills	2.9	2.8

Source: Company reports and CIBC World Markets Inc.

Based on benchmarking surveys, the acquired mills are on average more profitable than other mills in the region. Although the majority of these mills are in the bottom half of the region's cost curve, we estimate they are still EBITDA negative due to current weak market conditions. In total we estimate IP's wood products segment lost \$25 million in EBITDA in Q3, but has generated \$60 million year to date. We think IP's remaining wood products assets, which

include eight sawmills and 5 plywood mills generated almost 2/3's of the segments YTD EBITDA. Having said that, during Q3, we expect these assets lost more money than the assets West Fraser purchased.

Management at IP has continued to operate some of the lumber and plywood mills despite the extremely low prices (which we think would normally have forced market related closures). We expect this may continue until the sale of the remainder of the business is announced over the next few months.

We think Koch Industries is arguably the most likely buyer of IP's four plywood and lumber complexes, while companies like Temple-Inland are likely to pursue the remaining stand-alone sawmills. Note that Koch is the largest plywood producer with roughly 25% of North American capacity, and that IP is the second largest producer with approximately 9%.

Price Target Calculation

Our 12- to 18-month price target of US\$37.00 on IP is based on a multiple of 7.25x applied to our 2007 EBITDA estimate of US\$2.7 billion to arrive at our forecasted TEV of US\$19.9 billion. To isolate our market cap target, we add to the TEV expected operating free cash flow of US\$300 million over the next 12 months and expected proceeds of US\$6.6 billion from the sale of timberland, and deduct current net debt of US\$9.7 billion and minority interest of US\$185 million. This results in a target market capitalization of approximately US\$17 billion or approximately US\$37/share. Our target multiple is at a premium to the average historical valuation in U.S. paper & forest products sector due to the company's higher liquidity.

Key Risks To Price Target

Potential risks to our price target include a weaker-than-expected U.S. economy, continuing increase in input costs and a lower-than-expected value realized on the sale of timberlands.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.36A	\$0.31A	\$0.29A	\$0.12A	\$1.08A
2006 Current	\$0.19A	\$0.41A	\$0.36A	\$0.35E	\$1.31E
2007 Current	--	--	--	--	\$1.90E

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International Forest Products Limited (2g, 12) (IFP.A-TSX, C\$7.10, Sector Outperformer)

West Fraser Timber Co. Ltd. (2g) (WFT-TSX, C\$39.42, Sector Performer)

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Stock Prices as of 11/29/2006:

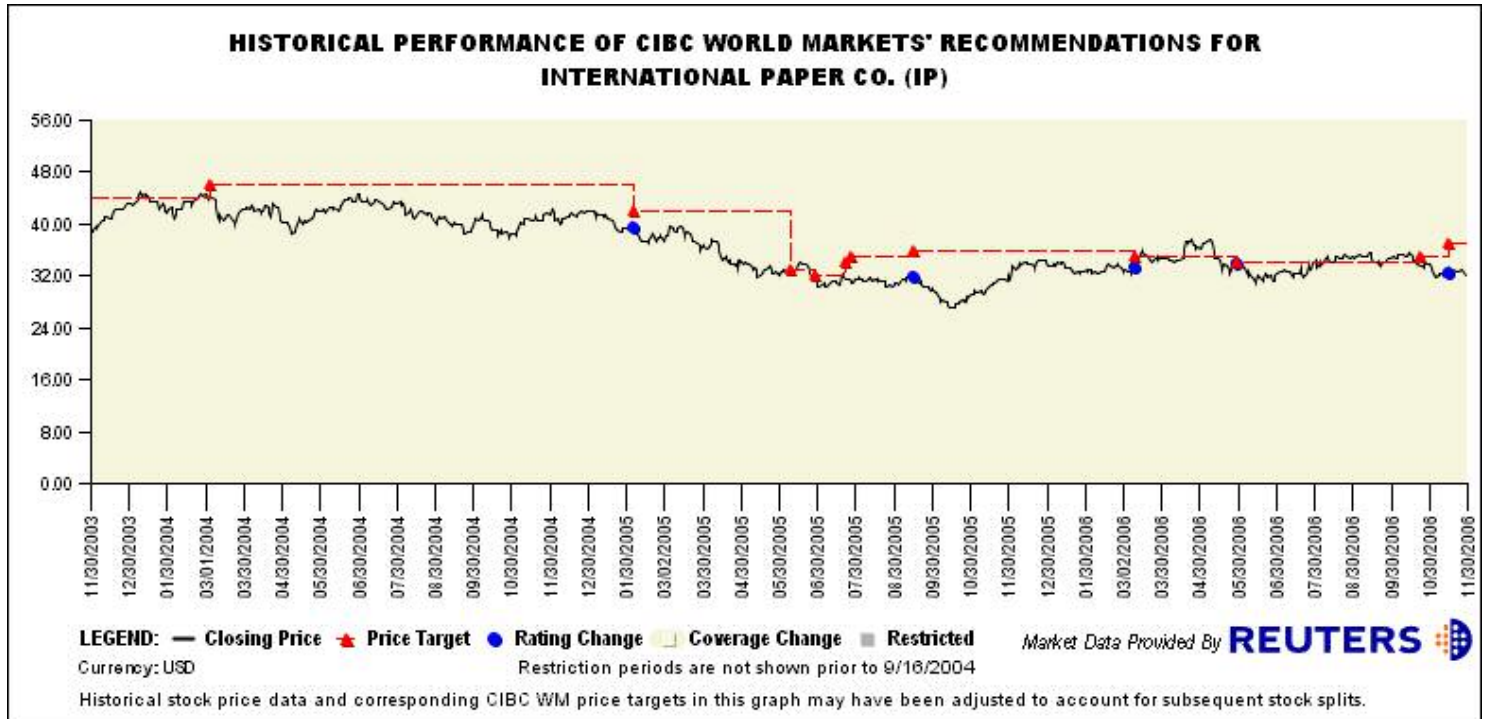
Temple Inland Inc. (TIN-NYSE, \$38.99, Not Rated)

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CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR INTERNATIONAL PAPER CO. (IP)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/03/2004	▲	43.81	SP	46.00	Don Roberts
02/03/2005	▲●	39.29	SU	42.00	Don Roberts
06/07/2005	▲	33.02	SU	33.00	Don Roberts
06/27/2005	▲	31.43	SU	32.00	Don Roberts
07/22/2005	▲	31.59	SU	34.00	Don Roberts
07/26/2005	▲	31.33	SU	35.00	Don Roberts
09/14/2005	▲●	31.70	SP	36.00	Don Roberts
03/09/2006	▲●	33.24	SO	35.00	Don Roberts
05/29/2006	▲●	33.92	SP	34.00	Don Roberts
10/22/2006	▲	33.81	SP	35.00	Don Roberts
11/13/2006	▲●	32.50	SO	37.00	Don Roberts

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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***Restricted due to a potential conflict of interest.

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(as of 29 Nov 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	325	39.2%	Sector Outperformer (Buy)	168	51.7%
Sector Performer (Hold/Neutral)	401	48.4%	Sector Performer (Hold/Neutral)	194	48.4%
Sector Underperformer (Sell)	72	8.7%	Sector Underperformer (Sell)	33	45.8%
Restricted	18	2.2%	Restricted	16	88.9%

Ratings Distribution: Paper & Forest Products Coverage Universe

(as of 29 Nov 2006)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	18.8%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	8	50.0%	Sector Performer (Hold/Neutral)	6	75.0%
Sector Underperformer (Sell)	5	31.3%	Sector Underperformer (Sell)	4	80.0%
Restricted	0	0.0%	Restricted	0	0.0%

Paper & Forest Products Sector includes the following tickers: A, BOW, CAS, CFP, CFX.UN, CTL, DTC, FPS, IFP.A, IP, LPX, MERC, NBD, TBC, WFT, WY.

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