

## Legal

Payments relating to exterior siding and roofing class action settlements continue to be in line with projections made in 2002. Federal and state court antitrust cases relating to alleged price fixing in the sale of high-pressure laminates were settled in 2004 for a total of \$38.5 million. The Company is defending opt-out cases related to a settled class action brought by purchasers of corrugated sheets and containers. Additional information on these matters is included in Note 10 of the Notes to Consolidated Financial Statements in Item 8.

## Corporate Overview

While the operating results for International Paper's various business segments are driven by a number of business-specific factors, changes in International Paper's operating results are closely tied to changes in general economic conditions in the United States, Europe and Asia. Factors that impact the demand for our products include industrial non-durable goods production, consumer spending, commercial printing and advertising activity, white-collar employment levels, new home construction and repair and remodeling activity, and movements in currency exchange rates. Product prices also tend to follow general economic trends, and are also affected by inventory levels, currency movements and changes in worldwide operating rates. In addition to these revenue-related factors, net earnings are impacted by various cost drivers, the more significant of which include changes in raw material costs, principally wood fiber and chemical costs, energy costs, salary and benefits costs, including pensions, and manufacturing conversion costs.

The following is a discussion of International Paper's results of operations for the year ended December 31, 2004, and the major factors affecting these results compared to 2003 and 2002.

## Results of Operations

For the year ended December 31, 2004, International Paper reported net sales of \$25.5 billion, compared with \$24.0 billion in 2003 and \$23.9 billion in 2002. International net sales (including U.S. exports) totaled \$7.9 billion, or 31% of total sales in 2004. This compares to international net sales of \$7.2 billion in 2003 and \$6.4 billion in 2002.

Full year 2004 results totaled a net loss of \$35 million (\$0.07 per share basic and diluted), compared with net income of \$302 million (\$0.63 per share basic and diluted) in 2003 and a net loss of \$880 million (\$1.83 per share basic, \$1.82 per share diluted) in 2002 and amounts include results of discontinued operations and the cumulative effect of accounting changes.

Earnings from continuing operations in 2004 were \$478 million compared with \$294 million in 2003 and \$260 million in 2002. Earnings in 2004 benefited from higher sales volumes, higher average sales prices, cost reduction initiatives, improved mill operations and lower interest expense. These factors more than offset the negative impacts of increased energy and wood fiber costs, lower earnings from land sales, a higher effective tax rate, increased special charges and the impact of the hurricanes in the South. See Industry Segment Results on pages 17 through 21 for a discussion of the impact of these factors by segment.

**Earnings From Continuing Operations**  
(after taxes, in millions)

