million was recorded in 2002 to increase existing reserve balances to projected settlement amounts. At December 31, 2004, reserves for these actions totaled $259 million.

Insurance Matters: In connection with one of the exterior siding and roofing actions above, International Paper commenced a lawsuit against certain insurance carriers relating to their refusal to indemnify International Paper and, in the case of one insurance carrier, also for its refusal to provide a defense. In July 2003, a jury determined that $383 million of International Paper's payments to settle these claims are covered by its insurance policies. International Paper is engaged in further court proceedings to determine each carrier's allocable share. International Paper is also participating in court-ordered mediation with some of those insurance carriers and has settled its claims with certain other insurance carriers.

In addition, International Paper was involved in a dispute with a third party regarding $100 million paid to International Paper under an alternative risk-transfer agreement. In February 2004, an agreement was reached whereby International Paper agreed to pay the third party a portion of future insurance proceeds as they are recovered by International Paper beginning in 2004, up to a maximum of $95 million.

Antitrust Matters: In 2003, International Paper, along with two other defendants, settled a class action lawsuit alleging that it and other manufacturers of linerboard conspired to fix prices for corrugated sheets and containers during the period October 1, 1993, through November 30, 1995. International Paper's share of this settlement, with a substantial proportion of the class (which included claims brought against Union Camp acquired by the Company in 1999), was $24.4 million.

In connection with this class action lawsuit, a number of plaintiffs opted out of the class action and filed lawsuits in various federal district courts. These lawsuits, which have been consolidated for pretrial purposes in federal court in Pennsylvania, allege a class period of October 1, 1993 through February 28, 1997.

In addition to the foregoing the Company is a defendant in several other antitrust class actions. One of the matters, relating to the Company's fiber procurement, has been certified as a class action in the federal court in the District of South Carolina. Another purported class action involves publication papers, and has been recently consolidated for pre-trial purposes in the federal court for the District of Connecticut. Discovery in that case has not yet begun.

The Company is vigorously defending these cases and believes it has valid defenses.

Effect of Inflation

While inflationary increases in certain input costs, such as energy, wood fiber and chemical costs, have an impact on the Company's operating results, changes in general inflation have had minimal impact on our operating results in the last three years. Sales prices and volumes are more strongly influenced by supply and demand factors in specific markets and by exchange rate fluctuations than by inflationary factors.

Foreign Currency Effects

International Paper has operations in a number of countries. Its operations in those countries also export to, and compete with imports from, other regions. As such, currency movements can have a number of direct and indirect impacts on the Company's financial statements. Direct impacts include the translation of international operations' local currency financial statements into U.S. dollars. Indirect impacts include the change in competitiveness of imports into, and exports out of, the United States (and the impact on local currency pricing of products that are traded internationally). In general, a lower U.S. dollar and stronger local currency is beneficial to International Paper. The currencies that have the most impact are the Euro, the Canadian dollar, the New Zealand dollar, the Brazilian real, the Polish zloty and the Russian ruble.

Market Risk

We use financial instruments, including fixed and variable rate debt, to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including various derivative contracts, are used to hedge exposures to interest rate, commodity and foreign currency risks. We do not use financial instruments for trading purposes. Information related to International Paper's debt obligations is included in Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data. A discussion of derivatives and hedging activities is included in Note 13 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

The fair value of our debt and financial instruments varies due to changes in market interest and foreign currency rates and commodity prices since the inception of the related instruments. We assess this market risk utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest and currency rates and commodity prices.