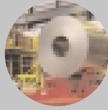
Ispat International N.V.

Annual Report 1999

Ispat International... where tomorrow's change is today's opportunity

Ispat International continues to be the world's most entrepreneurial steel company – seizing the right opportunities for consolidation and internal growth in the world steel industry. During 1999 the Company has strengthened its position as the world's most dynamic, global steel producer. With its strategy to participate in the consolidation of the global steel sector, low cost base and comprehensive range of flat and long steel products, Ispat International is best positioned to create value for its shareholders.

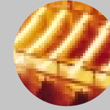
Ispat Inland
U.S.



Ispat Sidbec
Canada

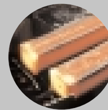
Ispat Hamburger Stahlwerke
Germany

Ispat Stahlwerk Ruhrort
Germany



Ispat Mexicana
Mexico

Caribbean Ispat
Trinidad and Tobago



Irish Ispat
Ireland

Ispat Walzdraht Hochfeld
Germany

Ispat Unimetal
France

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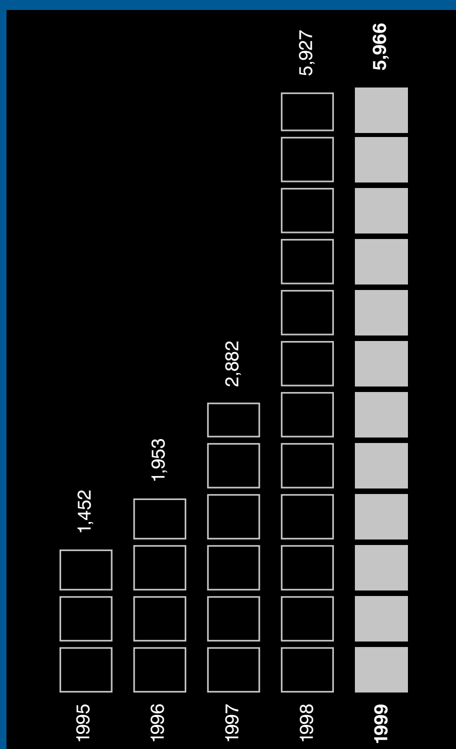
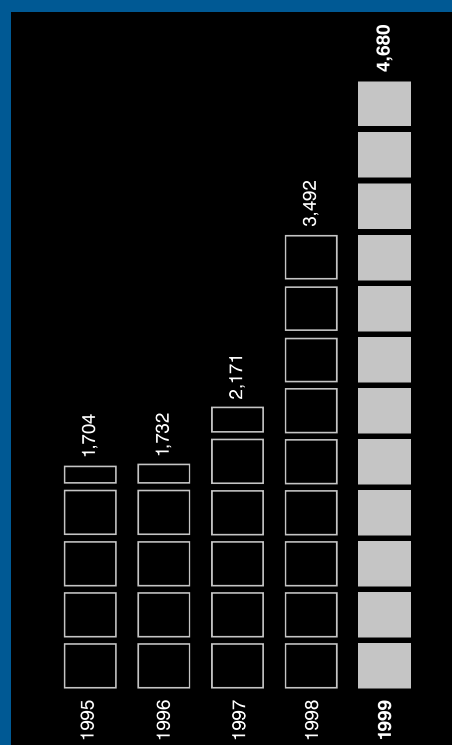
Ispat International is one of the world's largest steel producers, with a steelmaking capacity of almost 17 million tons that uses both the BOF and EAF routes. Widely acknowledged as the world's fastest growing steelmaker, its steel shipments have increased by a compounded annual growth rate of 48 percent since 1990.

The Company is the world's largest producer of direct reduced iron (DRI) at its integrated mini-mills. It has significant strategic interests in iron ore mines, pelletizing facilities and deep water port facilities, giving its operations important control over their raw material needs.

Overview



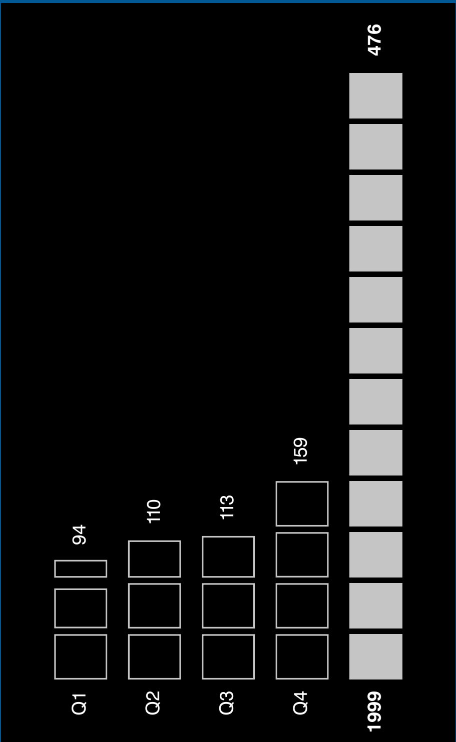
Total Assets ($m)



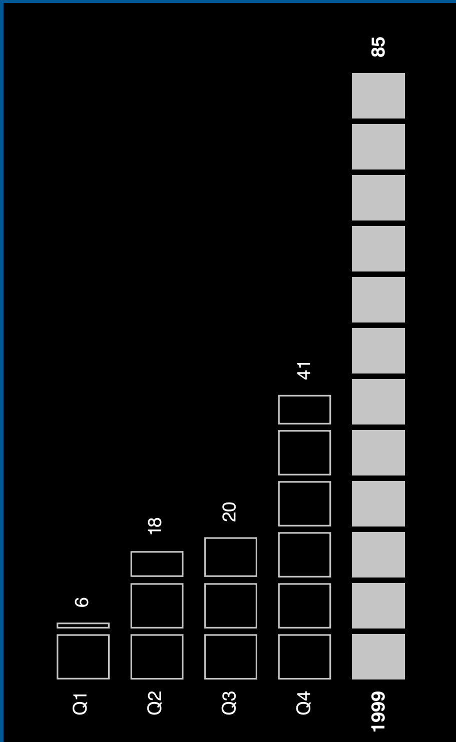
Net Sales ($m)

Ispat International has simultaneously become the world's most global steel company, with eight vertically integrated steelmaking operations in seven countries. The Company's broad portfolio of flat and long steel products, includes high quality cold rolled, electrogalvanized and coated steels, slabs, special quality bar products and wire rods, supplied to over fifty-five countries.

The Company also has significant strategic stakes in core downstream facilities to produce high quality cold-rolled and coated flat products. In addition to producing a range of high quality, carbon sheet products, and a variety of long products, Ispat International has significant downstream capabilities for supplying wire drawing and wire products, including free cutting and speciality steels.



EBITDA ($m)



Net Income ($m)

Letter to Shareholders

We are satisfied with Ispat International's performance during 1999, especially in the light of the difficult steel market environment that existed during the year. The Company benefited significantly from our cost reduction efforts and higher shipments achieved at most of our operating subsidiaries. The year was also characterised by three key developments: the acquisition of Unimetal Group from Usinor, which has consolidated our position as the largest producer of high quality wire rods in Europe; outstanding on-going progress at Ispat Inland in the U.S.; and the implementation of our e-commerce strategy. We strongly believe that e-commerce is going to re-define the metals industry and we want to be the leaders of that change process.

e-commerce

We believe that the market leaders in the new world economy will be the companies that can identify, capture, and create value by using virtual procurement and selling solutions, in addition to managing their businesses for growth in other ways.

On March 2, 2000, Ispat International and Commerce One, the leading technology provider for online transactions, announced plans to create the first global, business-to-business procurement portal to serve the worldwide metals industry. We believe there are certain first mover advantages in going with Commerce One, the leading technology provider for B2B buying portals, which would bring significant savings in processing costs of transactions over the next two to three years, while gaining access to a larger and more global supplier base. The site will also have access to Commerce One's Global Trading Web, the world's largest business-to-business trading community. While we view ourselves as having the best global purchasing skills in the entire industry, the launch of this exchange is in line with our own need to explore new ways of being even more cost efficient in our purchasing.

Over the last few months, we have been finalizing our strategy for marketing steel online, and as the year progresses we will be communicating our sales and marketing strategy as it relates to the Internet.

Progress at Ispat Inland

Our efforts to reduce costs and improve performance at Ispat Inland in North America continued to be highly successful. In a period characterised by excessive imports into the U.S. and a difficult pricing environment, the company reduced costs and increased shipments of steel products to 5.8 million tons. We optimized the open capacity at the plant's 80" Hot Strip Mill, by consuming semi-finished slabs from Ispat Mexicana and blooms from Ispat Germany, which enabled us to increase production. Since its acquisition in July 1998, Ispat Inland has achieved sustainable cost savings of over $275 million, reducing its operating cost by nearly 20 percent over 1998, in the period prior to acquisition. A key milestone in the company's continued growth was the completed negotiations with the United Steel Workers of America, which allows Ispat Inland to draw up a longer-term strategy for the supply of steel to its customers.

“Ispat International’s cash flow from operations was $599 million in 1999, mainly as a result of improved working capital management. We increased our total debt amortization, and aggressively reduced net debt by over $200 million.”

Ispat Unimetal Group Acquisition

The $107 million acquisition of the Unimetal Group, with its subsidiaries Trefileurope and SMR, was successfully completed on July 1, 1999. This consolidates our position as Europe’s largest producer of high quality wire rods, a sector in which we are committed to delivering the best-in-class quality of products and service to our customers. It has also added to our downstream capabilities in the long product sector, thereby adding value. Our performance at Ispat Unimetal Group in the first six months is certainly very encouraging. The acquisition was clearly accretive from the very beginning, generating an acquisition cost to EBITDA multiple of less than 3.0 times. We believe this clearly demonstrates our focus on shareholder value creation.

Steady Improvement in Operating Performance

Ispat International’s consolidated net income and EBITDA for the year were $85 million and $476 million, respectively, as compared to $237 million and $511 million, respectively in 1998. Lower results were primarily due to lower average selling prices reflecting the weak global steel cycle. However, on a quarterly basis the Company’s results improved considerably, with Q4 net income almost doubling over Q3. Consolidated steel shipments increased by 43 percent to 15.4 million tons, primarily as a result of the Ispat Inland and Ispat Unimetal acquisitions. Excluding the impact of these acquisitions, shipments grew by 7 percent in 1999 over 1998, proving our ability to continue to grow volumes in a difficult market environment.

We made satisfactory progress in our cash flow management. The Company’s cash flow from operations was $599 million in 1999, mainly as a result of improved working capital management. We increased our total debt amortization, and aggressively reduced total debt by $413 million and net debt by over $200 million. As at December 31st 1999, consolidated cash, cash equivalents and short-term liquid investments totaled $317 million. Available lines of credit and bank credit arrangements were in place for approximately $914 million, of which approximately $415 million was available to the Company under various undrawn credit facilities.

Continuous Cost Savings

During 1999, we accelerated our Company-wide cost cutting program and succeeded in partially offsetting the impact of the low pricing environment. The total sustainable cost savings achieved were over $500 million for the last two years, and almost $300 million during 1999, including $28 million at Ispat Sidbec, $33 million at Ispat Mexicana, $42 million Ispat Germany, as well as $161 million at Ispat Inland. The majority of these cost savings were due to operating efficiencies, volume increases, global purchasing synergies between operating subsidiaries and advantages gained from our leadership in the production of DRI.

Capital Investments

As the slab market improved, we initiated the implementation of the capacity expansion project

at Ispat Mexicana, which resulted in certain productivity improvements and increased the annual steel output to 3.9 million tons from 3.4 million tons in 1998. We also completed the 1.6 million tonne DRI Midrex™ project at Caribbean Ispat in Q3, 1999. Total capital expenditure, including maintenance capital expenditure was $214 million in 1999. We plan to continue to retain a tight control on capital expenditure in 2000, estimated at under $180 million, excluding discretionary projects.

As the steel outlook improved, we have announced the instalation of a Straight Mold Caster and a third Walking Beam Furnace at Ispat Inland's 80" Hot Strip Mill in Indiana, at an estimated project cost of $45 million to be incurred over 2000 and 2001. The completion of these projects will result in higher production by nearly 1 million tons, improved quality, yield and better operating efficiencies. We are also examining alternative strategies for securing the total output of steel produced when Blast Furnaces #5 and #6 end their natural economic lives.

Global Marketing Network

As the most global steel company, we have an extensive marketing network around the world, which allows us to meet the growing requirements of a global customer base. At Ispat International, we have embarked on a program to sharpen our focus on customer satisfaction by spreading best practices throughout the Company, and we are using our Knowledge Integration Program to improve and transfer skills to all our companies. The acquisition of Ispat Unimetal necessitated the launch of a centralized marketing function based in Luxembourg, facilitating a co-ordinated approach to sales and marketing of long products in Europe.

Our People

As part of a new program of short and long term human resource initiatives, we launched a Global Executive Development Program designed to improve leadership qualities within the Company's management structure. We have reinforced our initiatives with performance incentives, a stock option scheme and training programs to further build on the concepts of accountability, ownership and operational excellence to ensure long-term shareholder value creation.

The depth and breadth of our global management team has strengthened over the years with each acquisition. They have proved their ability to grow and strengthen each of our operating subsidiaries, and have succeeded even under the challenging market conditions of the last two years. Our team is confident of achieving superior performance going forward, as we continue to offer our employees the best opportunities in the industry.

On another note, in January 2000, Robert J. Darnall, (61), President and Chief Executive Officer of Ispat North America and Ram S. Misra, (68), Vice-Chairman of Caribbean Ispat elected to retire from their positions held since the setting up of these subsidiaries, and will step down from the Board at this year's AGM. On behalf of the Board, I would like to thank them sincerely for their contributions to the growth of Ispat International.

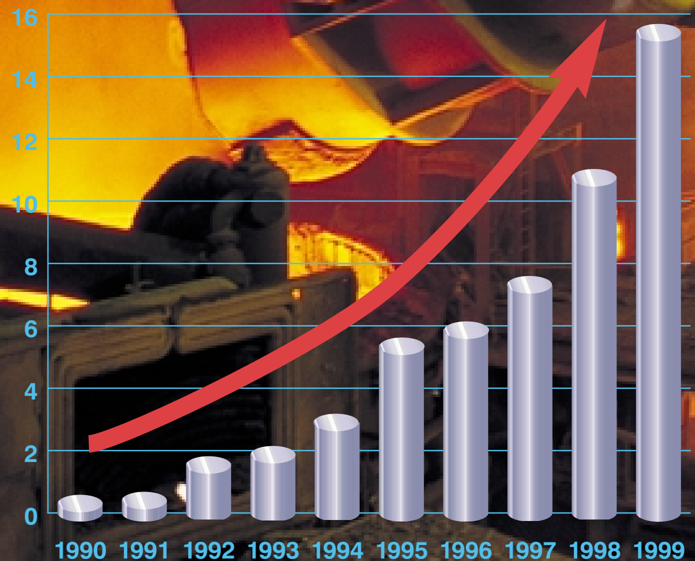
Outlook

We have witnessed improving market conditions and selling prices for steel towards the end of 1999. I believe the current industry trends, together with the buoyant economies in the U.S. and Europe, and steady recovery in Asia, suggest that the outlook for 2000 is very positive. We strongly believe we are very well positioned to benefit from having among the best operating leverage to rising selling prices in the steel industry. We have significantly strengthened the Company's competitive position during the difficult operating environment in 1999, by sharply reducing costs, and will continue in this direction in 2000 as well.

We will also continue to participate in the consolidation of the global steel sector, by seeking to strengthen our position in marketing, quality and cost using our global synergies. With our active participation in e-commerce, we are transforming ourselves to take a leading edge position in the new world economy.

Lakshmi N. Mittal
Chairman and CEO

Business Review



In 1999, Ispat International continued to pursue global growth, both organically and through acquisition.

Ispat International is one among very few steel companies which was able to increase volumes in 1999; a year characterised by difficult trading conditions in the global steel sector, which recovered to some extent towards the end of the year. Year on year, steel shipments increased by 43 percent to 15.4 million tons from 10.8 million tons in 1998. This increase was primarily due to the full year consolidation of Ispat Inland in 1999, as compared to a period of five and a half months in 1998, and the consolidation of Ispat Unimetal Group's results since its acquisition in July. Excluding the impact of the acquisition of Ispat Unimetal Group and Ispat Inland, shipments in the year 1999 increased by 7 percent over 1998.

Currently, the world's mature market economies including the U.S., Canada and Europe account for over 90 percent of the Company's total sales. Within these markets, Ispat International's high-profile customer base covering three major sectors – automotive, domestic appliances and construction, provided a platform from which the Company generated internal growth in its core markets. Throughout the year, all three of these sectors continued to enjoy strong demand, thus helping to ensure that order books remained full and that price rises announced were successfully implemented.

As the global steel market remained weak during 1999, Ispat International's consistent drive to maximize the return on capital employed was helped substantially by its aggressive focus on reducing cost. Overall, the Company has managed to realize almost $300 million in sustainable cost savings during 1999, primarily by taking advantage of synergies that are available to a global player.

In its pursuit of excellence, Ispat International measures the performance of each subsidiary against its nearest competitor to ensure that continuous improvement strategies are effectively implemented. Innovative developments are transferred throughout all operations helped by our Knowledge Integration Program, so that the Company as a whole can set new benchmarks and build a leadership position in the global steel industry.

As the steel industry has continued to globalize over the last several years, the Company's role in consolidating the long products sector in Europe and its acquisition of Ispat Inland have facilitated the enrichment of its high value-added product mix.

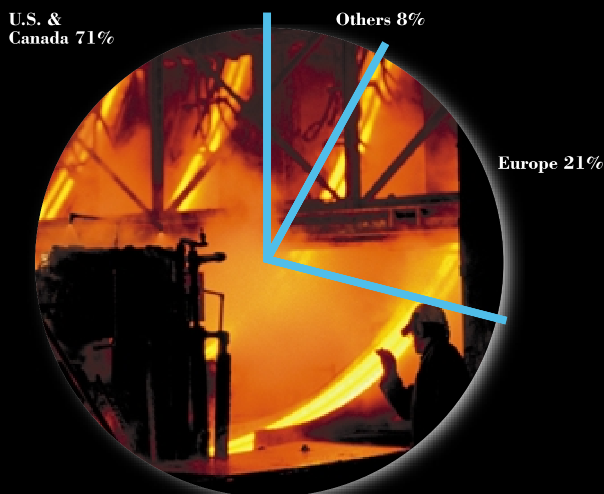
Ispat Inland

The Ispat Inland acquisition in 1998 was a major step for the Company, which increased Ispat International's steelmaking capacity by nearly a third, and gave it a sizeable presence in the U.S., the world's largest domestic steel market. Since then, Ispat International has been very successful in combining its mini-mill philosophy, focused on cost reduction, volume improvement and a flexible management structure, with Ispat Inland's inherent strengths including the high product quality and customer service of an integrated mill, in a very short time frame. This philosophy has enabled Ispat Inland to be a winner in its North American markets.

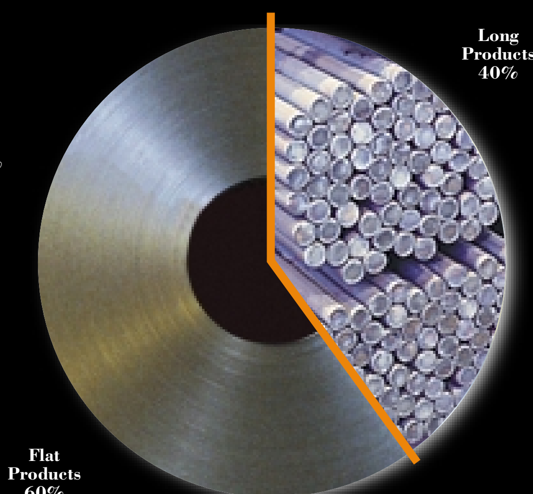
The total sustainable cost savings achieved at Ispat Inland since it was acquired in 1998 are about

Steel shipments have grown year on year at a compounded annual growth rate of 48% since 1990.

Sales by Geographic Region %



Sales by Product %



$275 million, and can be broken down into $65 million in global purchasing synergies, $100 million in operational and productivity improvements, $40 million in lower employment costs, $30 million in improved maintenance costs and $40 million in lower overheads. This enabled Ispat Inland to achieve among the highest operating profit per ton in the North American integrated steel industry for the whole year, excluding interest and equity payments related to I/N Tek and I/N Kote. Ispat Inland will continue to benefit from Company-wide synergies and operating improvements over the next years.

Ispat Unimetal Group Acquisition

The completed acquisition of Ispat Unimetal and its subsidiaries Trefileurope and SMR on July 1, 1999 demonstrates Ispat International's commitment to the consolidation of the long products sector in Europe. For a total acquisition cost of $107 million, Ispat International has increased its capacity to supply high quality long products, such as wire rods, wire products, bright bar and tire cord by 1.5 million tons.

Ispat Unimetal Group, combined with the Company's steelmaking operations and rolling mills in Germany, makes Ispat International the largest producer of high-quality wire rods in Europe with an excellent asset base. As soon as Ispat Unimetal Group unfolded, the new management team including Ispat executives, launched a series of initiatives aimed first at optimizing the utilization of assets and reducing costs, and second, at creating a co-ordinated customer-oriented long products presence in Europe. The acquisition of Ispat Unimetal was accretive in its very first quarter under Ispat management, which was in line with the Company's expectations, demonstrating management's expertise in turning around under-performing facilities. The speed of this turnaround also reflects job cuts implemented as part of the acquisition agreement with Usinor.

A Stronger Presence in Established Markets

During the year, Ispat Mexicana improved the quality and expanded its value-added range of slabs, a semi-finished steel product. The company, which is Mexico's largest steel exporter, supplies slab for tin plate, line pipe and sour gas applications, galvanized steel used in exposed and un-exposed automotive body parts, and other consumer appliances.

After hitting a low in Q1, demand and prices for slab rose throughout the year. Ispat Mexicana, was also able to increase slab shipments during the year to 3.8 million tons from 3.3 million tons. A strategic alliance with IMSA ACERO to supply 75 percent of its slab requirements for the next five years has successfully secured a significant proportion of Ispat Mexicana's sales. Cost improvements at Ispat Mexicana resulted in a further sustainable reduction of $33 million in 1999, thereby consolidating its position as a competitive supplier of high quality, continuously cast slabs to customers around the world.

Since its acquisition in 1994, Ispat Sidbec, the Company's Canadian subsidiary has consistently delivered superior operating and financial performance throughout the cycles. Consistent with its performance in earlier years, Ispat Sidbec recorded an operating profit of $56 per ton in 1999, one of the highest profitability levels achieved by a North American steel producer. The company was successful in driving down costs during the year. During a period when scrap prices were especially low, the plant's operating flexibility allowed it to consume more scrap as a raw material for steelmaking by shutting down one of its smaller DRI modules during the year. During 1999, Ispat Sidbec completed the modification of its slab caster to expand production to include 8" slabs.

Leadership in Direct Reduced Iron and Low Cost, High Quality Metallics

The Company is the world's largest producer and consumer of DRI, with an annual production capacity of more than 8 million tonnes. It has technological leadership in both the HYL and Midrex processes, and its plants' operating parameters are among the best in the world.

While Ispat International buys a certain quantity of scrap to meet internal raw material needs, almost

Liquid Steel Capacity ('000 tons)

Company	1999	Products	Technology
Ispat Inland, U.S.	6,000	Flat/Long	BOF/EAF
Ispat Mexicana, Mexico	4,000	Flat	DRI-EAF
Ispat Sidbec, Canada	1,800	Flat/Long	DRI-EAF
Caribbean Ispat, Trinidad	1,000	Long	DRI-EAF
Ispat Germany, Germany	2,800	Long	DRI-EAF/BOF
Ispat Unimetal, France	1,500	Long	EAF
Irish Ispat, Ireland	400	Long	EAF
Total	**17,500**		

Business Review continued

all DRI production is consumed internally. Over half of the Company's total iron ore requirements are supplied from captive iron ore mines.

During the year, a new 1.4 million tonne DRI Midrex™ plant was brought onstream at Caribbean Ispat. The Company's in house supply of high quality DRI has an important influence on its low costs. Ispat International's average DRI cash cost of $80 per tonne compares very favorably with the cost of high quality scrap, including factory bundle #1.

Outlook

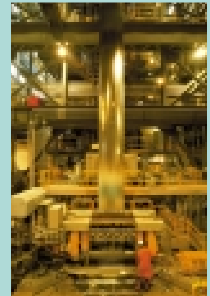
By the end of the year, all three major product categories – slab, flat-rolled and long products – showed an improved market outlook, both in terms of demand and pricing. While the recovery in long product prices in Europe was somewhat slower than flat product prices in 1999, the continuing strong demand from Europe's construction and automobile sectors is expected to increase prices in 2000. In February 2000, the Section 201 ruling was brought out in the U.S., permitting the import of 1.58 million tons of wire rods from non-NAFTA countries without any additional duty. The quota is based on the level of imports experienced in the U.S. in 1998, during the peak of the Asian crisis.

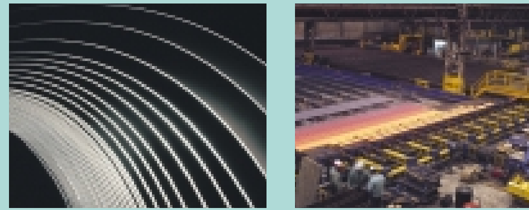
The recovery in the Asian and Far Eastern economies is expected to drive further strengthening in slab prices in 2000. Buoyant domestic markets in North America and Europe suggest that the automotive and appliance manufacturers will also maintain or increase demand for carbon sheet flat products. Overall, with the expected volume increases in 2000 and the Company's low cost base, Ispat International is well positioned to benefit from rising steel prices in 2000.

In its first full year as part of Ispat International, Ispat Inland surpassed its own operational objectives, both in terms of integration and productivity.

Although the high level of steel imports dampened steel prices and operating profit somewhat, Ispat Inland took full advantage of the strong U.S. economy. Interest rates and unemployment were low, and demand for consumer durables remained strong. The company was well positioned to exploit these market conditions, with a customer base built upon the premier marketers of consumer goods, including all U.S. vehicle manufacturers and the largest makers of appliances, electric motors and office furniture.

Progress at Ispat Inland





Operational Excellence

Ispat Inland made significant progress on the Operational Excellence strategy that it has been pursuing for several years, which focuses on safety, customer satisfaction, yield and cost reduction, resulting in a robust financial performance. The Company was able to utilize the open capacity at its 80" Hot Strip Mill by capturing synergies and using high quality slabs from Ispat Mexicana for conversion into hot-rolled, cold-rolled or coated products, throughout the year. In addition, in 1999, Ispat Stahlwerk Ruhrort in Germany provided 111,000 tons of high-quality blooms for use by Ispat Inland Bar Products, freeing the company's combination caster to produce more tons of slabs for flat-rolled products. As a result, Ispat Inland's production lines ran at full capacity throughout the year and steel production increased by 12 percent to 5.8 million tons from 5.2 million tons in 1998, prior to acquisition. Simultaneously, Ispat Inland reduced costs and shipped higher volumes of hot and cold rolled products in 1999.

Valuable Cost Savings

The company successfully continued the aggressive, sustainable cost reduction initiatives that yielded $275 million in annualized cost savings since its acquisition by Ispat International in mid-1998, including $161 million in 1999.

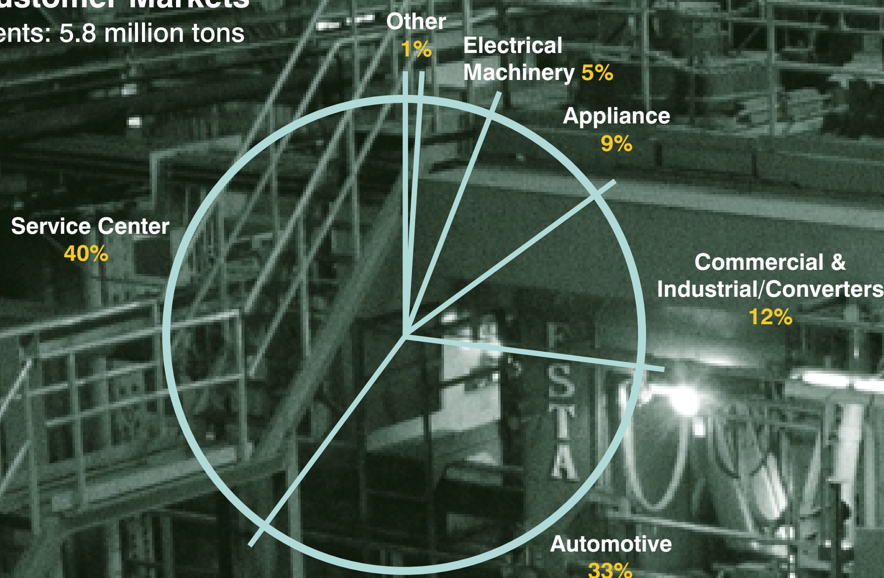
The principal sources of these savings again were global purchasing synergies, operational and productivity improvements, improved maintenance practices, lower employment costs and lower overheads.

Yield and Throughput

For the second year in succession, Ispat Inland broke its own record for integrated yield, converting 85.1 percent of its raw steel to prime product in 1999, that topped the 84.9 percent integrated yield achieved in 1998.

In 1999, Ispat Inland also topped prior years' achievements in many areas at the Indiana Harbor Works in East Chicago. Numerous production records were set at these facilities including the No. 2 Basic Oxygen Furnace / Caster Complex, the 80" Hot Strip Mill, the No. 5 Pickle Line, the 12" Bar Mill, the 21" Mill and the Finished Product Inspection Line.

Records were also achieved at other locations, including Ispat Inland Mining in Virginia, Minnesota; the company's fleet operations on the Great Lakes; and its joint ventures with Nippon Steel Corporation in New Carlisle, Indiana – the



Continuous Descale Cold Mill and the Continuous Annealing Process Line at I/N Tek, as well as the Electrogalvanizing Line and the Continuous Galvanizing Line at I/N Kote.

Quality and Innovation

The emphasis at Ispat Inland Flat Products and Ispat Inland Bar Products, is on a growing and demanding customer base, including Ford Motor Co., Honda of America Manufacturing Inc., Toyota Motor Manufacturing Inc., Whirlpool Corp., General Motors, Ryerson Tull Inc., Worthington Industries Inc., A.O. Smith Corp. and Tempel Steel Co..

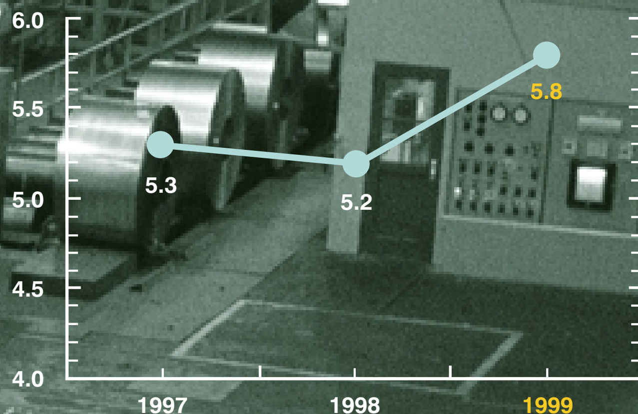
In 1999, Ispat International's Center for R&D in Indiana in the U.S., developed a significant number of new, highly sophisticated products for the automotive industry. For Honda, a total of five new products – three galvannealed high strength steels and two cold rolled high strength steels – were developed, to help Honda reduce the weight of its cars and improve fuel economy. A new, galvannealed, bake hardenable steel was developed for Toyota, which will lead to more dent resistant outer body panels, such as doors, deck lids and hoods. These products form the forefront of the next generation of automotive products to reduce weight and improve performance in terms of crash management.

Capital Investments

There are two important capital projects planned for 2000 and 2001 at Ispat Inland's Indiana Harbor Works, for a relatively modest capital investment of $45 million, that are expected to yield notable improvements in operating results. The instalation of a straight mold in No. 1 Slab Caster at No. 4 Basic Oxygen Furnace to replace the curved mold, will improve both product quality and facility yield. Similarly, the instalation of a Walking Beam Furnace at the 80" Hot Strip Mill will result in better quality and yield, while increasing production by nearly one million tons. The company is currently considering alternative strategies for securing the total output of steel produced when Blast Furnaces #5 and #6 end their natural economic lives.

Employees

During the year, Ispat Inland completed important five-year contract negotiations, thereby strengthening its long-standing relationships with the unions. These negotiations have resulted in ensuring the uninterrupted supply of steel to Ispat's customers, by virtue of a no-strike "me-too" pattern agreement after the current term. This will allow Ispat Inland to draw up a longer-term strategy for the supply of steel to customers.



e-commerce

"We believe that the market leaders in the new world economy will be the companies that can identify, capture, and create value by using virtual procurement and selling solutions, in addition to managing their businesses for growth in other ways."
Lakshmi N. Mittal

As we all know, globalization and the Internet is changing the way that people and businesses work. Traditional business models are being modified as people realize that e-commerce provides a viable medium to exploit market inefficiencies in a new world economy, thus providing economic benefits in ways not previously imagined.

Ispat International's vision for the exploitation of e-commerce, is that it should be applied throughout the organizational supply chain. The Company is therefore actively implementing a multi-phase effort that will utilize e-commerce to consolidate its position as a leader in the global steel industry, focusing on purchasing, as well as sales and marketing of steel products to customers.

On March 2, 2000, Ispat International and Commerce One, announced plans to form a new company that will join the Commerce One Global Trading Web. This exchange will establish the first global procurement electronic exchange, linking buyers and sellers of goods and services associated with the metals industry. The new company, 'Metique' will compete for the annual purchasing spend of the metals industry, including the steel, aluminum, zinc, copper and mining sectors, which is estimated at $750 billion – $1 trillion.

Ispat International believes there are certain first mover advantages in partnering with Commerce One, the leading technology provider for B2B buying portals. Among these advantages are

'Ispat Plans Online Metals Market[1]'

'Venture with Commerce One Will Cater to Entire Industry[1]'

significant savings in transaction processing costs, created by the elimination of inefficiencies, reduction in direct procurement costs facilitated by the aggregation of buyers and sellers on the exchange, access to real-time information on global procurement transactions and faster cycle times.

Ispat International is convinced that the opening of an e-commerce channel for metals will provide further opportunities to strengthen its own position as a global leader in the steel industry. In the immediate future, the Company will move its annual procurement spend of $4.5 billion onto the global online trading network, in order to benefit from the significantly reduced procurement costs that the network will be able to provide. Ispat International will also take steps to ensure its 5,000-strong supplier base joins the new exchange.

Commerce One's Global Trading Web is the world's largest business-to-business trading community comprised of many inter-operating portals.

Each portal is independently owned and operated by a leading market maker (i.e., online intermediary) in a region or industry, including companies such as General Motors and the Royal Dutch/Shell group for the automotive and energy industries, respectively, Citigroup in the U.S., Deutsche Telekom in Germany, NTT Communications in Japan, British Telecommunications in the U.K. and Cable and Wireless Optus in Australia. The Global Trading Web provides unprecedented economies of scale for buying organizations, suppliers, and service providers worldwide. The result is the greatest choice for all trading partners – the largest choice of suppliers, prices, and selection for buyers, the largest market for goods and services for suppliers, and new efficiencies and opportunities for market makers.

On the online marketing side, the Company believes that e-commerce will change the sales and marketing of products and services by potentially increasing the richness and reach of transactions. Ispat International is currently exploring the key issues and potential benefits of selling steel through the nascent online steel marketplace.

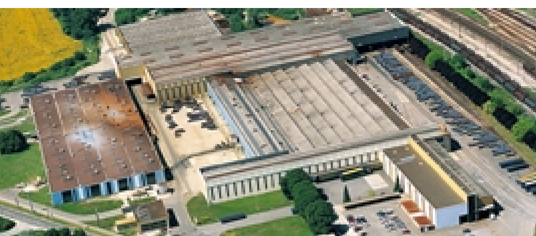
'...with Ispat's sizable customer base and as "one of the few truly global players," the company is well positioned to move the metals industry into the dot-com era.[1]'

1 Reprinted by permission of the Wall Street Journal (Europe Edition) © 2000. Dow Jones & Company, Inc. All Rights Reserved Worldwide.

Leader in Long Products

Ispat International has an annual output capacity of over 6 million tons of long products, including bars, billets and wire rods, for applications including steel cord, springs, cold heading, forging and free cutting.

The successful acquisition of the Ispat Unimetal Group, including its downstream subsidiaries Trefileurope and SMR, has consolidated Ispat International's position as one of the world's largest producers of long products. It has also marked a step further in Ispat International's expansion in the high value added European long products market, with over twenty percent of the high quality wire rods market segment. This process started in 1995 with the acquisition of Ispat Hamburger Stahlwerke, comprising a 500,000 ton DRI facility and billet and wire rod rolling mills with a capacity of 1 million tons. Three years later, Thyssen's long products division was acquired, comprising Ispat Stahlwerk Ruhrort and Ispat Walzdraht Hochfeld, with a production capacity of 1.7 million tons of high quality blooms, billets and 1 million tons of wire rods. The Ispat Unimetal Group acquisition adds a further 1.5 million tons of high quality bars, wire rods, wire products and bright bars. Ispat International has several other joint ventures and subsidiaries, which strengthen its downstream capabilities in various niche segments of the market for wire drawing and wire products.



Following the Ispat Unimetal acquisition, steps were initiated to optimize the mix and grades of long products at all Ispat International's European operations, aimed at maximizing efficiency and customer service. The newly acquired downstream facilities and distribution capabilities at Trefileurope in France, Belgium and Italy and Kent Wire (Ispat) in the U.K., extend the Company's value added range of products and services.

During the year, Ispat Europe was established as the centre for marketing of Ispat International's products in Europe, based in Luxembourg. Ispat Europe has already begun to co-ordinate the sales and marketing of the Company's long products across Europe. A vital aspect of this co-ordinated approach is to ensure customers are presented with a clear understanding of Ispat International's unique ability to deliver a full range of sizes, dimensions and grades.

At the same time, with the purchase of a part of the long products research facilities from Usinor located at Gandrange in the North East of France, Ispat International has set up the Center of Research of Ispat Europe (CRIE) dedicated to R&D for long products made by the Company's world-wide operations. The center, is being developed in close partnership with Ispat International's Research Laboratories in Indiana in the U.S., various technical and commercial teams at the Company's operations and its main representative customers. Together, both centers have over 150 employees entrusted with the goal of finding efficient solutions to the future needs of customers. Ispat International has already secured a sound platform for continuous value creation in the long product sector.

Ispat International has already secured a sound platform for continuous value creation in the long product sector.

Ispat Germany	**Acquired**	**Products**
Ispat Hamburger Stahlwerke	1995	Billets and wire rods
Kent Wire (Ispat)		Wire mesh
Ispat Stahlwerk Ruhrort	1997	Blooms, rolled billets and continuously cast billets
Ispat Walzdraht Hochfeld	1997	Wire rods

Ispat Unimetal Group	**Acquired**	**Products**
Ispat Unimetal	1999	Billets, bars, and wire rods
Trefileurope		Wire and wire products
SMR		Bright bars

Irish Ispat	**Acquired**	**Products**
	1996	Blooms and structurals

Ispat Sidbec	**Acquired**	**Products**
Ispat Sidbec	1994	Billets, special quality bar products, wire rods and wire products
Walker Wire		Cold drawn wire and wire products
Acufil		Wire products

Ispat Inland Bar Products	**Acquired**	**Products**
	1998	Blooms and special quality bar products

Caribbean Ispat	**Acquired**	**Products**
	1989	Billets and wire rods

Building Global Leadership

Knowledge and Connectivity

Ispat International is a truly entrepreneurial organization that has achieved its leadership position in the global steel industry through carefully targeted acquisitions, followed directly by rapid and highly effective integration, operational excellence and cost reduction programs. In a technologically-based global industry such as steel, knowledge is an important asset. It becomes a genuine differentiating factor when it is freely communicated between colleagues and deployed to benefit the Company as a whole.

A core ingredient of the Company's management philosophy is its Knowledge Integration Program (K-I-P), designed to promote the rapid dissemination of innovative working practices at all operating companies. With the advent of global Internet technology, the process has been enhanced by Ispat International's web-based Virtual K-I-P, with instant real-time accessibility, regardless of location. It is envisaged that this new medium will provide a greater degree of convenience and assist the process of knowledge transfer and the development of new business solutions throughout the Company.

K-I-P has played a vital role in enabling Ispat International to achieve its reputation for rapid acquisition turnarounds, followed by continuous improvement. Each time the Company acquires a new subsidiary, it gains new expertise for improving performance and working practices elsewhere in the Company. K-I-P provides a forum through which managers can share their specialist expertise and capture ideas that help to improve the operating efficiency of their own company.

Human Resources Development

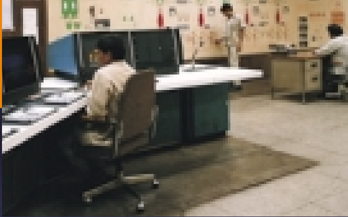
Top management's immediate objectives are to implement world class leadership development and human resources practices, and to build a streamlined, highly effective organization of employees. The mission is being made easier by Ispat International's existing management framework, which is lean and flexible, with entrepreneurial management teams who are highly responsive to change.

In parallel with the internally-oriented Global Executive Development Process, the Company is analyzing present and potential skills needed in the business with a view to building its overall talent base. To retain this value, Ispat International has launched a Global Stock Option Plan for senior management. It will not only increase executive involvement in the financial ownership of the Company, but will also encourage executives to think more globally, focus on innovative solutions to integrate the Company's subsidiaries and maximize synergies.

In 1999, to pursue its quest for industry leadership, the Company launched a Global Executive Development Plan for building up its existing cadre of global leaders. A new learning continuum for managers will help to facilitate the development of excellence. Under this new initiative, management and executive employees will be offered a range of learning opportunities and efficient and effective cross-border techniques, to help them achieve their maximum potential. In conjunction with this new plan, a series of initiatives have been launched to benchmark current performance against Company and other external standards and to improve Ispat International's competitive position in the global marketplace.

Together, these initiatives will substantially increase the value of the Company's human resources. All the initiatives being pursued under the new human resources initiative are firmly focused on achieving central Company objectives: productivity gains, cost reduction and continuous improvement.

K-I-P has played a vital role in enabling Ispat International to achieve its reputation for rapid acquisition turnarounds, followed by continuous improvement.



Directors and Advisors

Board of Directors

Lakshmi N. Mittal,
Chairman of the Board and
Chief Executive Officer

Dr. Johannes Sittard,
President and Chief Operating
Officer and Member of the Board

Bhikam C. Agarwal,
Member of the Board and
Chief Financial Officer

Robert J. Darnall,*
Member of the Board and President and
Chief Executive Officer of Ispat North America Inc.

Richard Jean-Pierre LeBlanc,
Member of the Board and President and Chief
Executive Officer of Ispat Sidbec Inc.

Ram Shanker Misra,*
Member of the Board and Vice-Chairman
of Caribbean Ispat Limited

Usha Mittal,
Member of the Board

Malay Mukherjee,
Member of the Board and President and Chief
Executive Officer of Ispat Europe S.A.

Manavathu Raman-Pillai Rajappan Nair,
Member of the Board and Managing Director of
Ispat Mexicana, S.A. de C.V.

Gerhard Renz,
Member of the Board and Managing Director of
Ispat Germany GmbH

Ambassador Andrés Rozental,
Member of the Board

Fernando Ruíz Sahagon,
Member of the Board

Narayanan Vaghul,
Member of the Board

Dale E. Wiersbe,
Member of the Board and President and Chief
Executive Officer of Ispat Inland Inc.

*Retired in January 2000

Auditors

Deloitte & Touche
Accountants
Admiraliteitskade 50
3063 ED Rotterdam
P.O. Box 4433
3006 AK Rotterdam
The Netherlands

Legal Advisors

Shearman & Sterling
599 Lexington Avenue
New York NY 10022-6069
USA

De Brauw Blackstone Westbroek
Advocaten & Notarissen
Blaak 34
P.O. Box 2066
3000 CB Rotterdam
The Netherlands

SUMMARY FINANCIAL INFORMATION

(Millions of U.S. Dollars, except per share amounts)

The following table presents selected consolidated financial information of the Company for each of the periods indicated. This data should be read in conjunction with the consolidated financial statements of the Company included in this Annual Report, which have been prepared on the basis of generally accepted accounting principles in the U.S.

	Years Ended December 31,				
	1995	1996	1997	1998	**1999**
Statement of Income Data					
Net sales	$ 1,704	$ 1,732	$ 2,171	$ 3,492	**$ 4,680**
Cost of sales (exclusive of depreciation)	1,236	1,363	1,717	2,871	**4,052**
Gross profit (before deducting depreciation)	468	369	454	621	**628**
Gross margin	27.5%	21.3%	20.9%	17.8%	**13.4%**
Depreciation	46	49	50	91	**164**
Selling, general and administrative expenses	85	52	80	126	**156**
Operating income	337	268	324	404	**308**
Operating margin	19.8%	15.5%	14.9%	11.6%	**6.6%**
Other income (expense) – net	(2)	66	1	–	**15**
Financing costs: Net interest expenses	(29)	(41)	(55)	(132)	**(184)**
Net gain (loss) from foreign exchange and monetary position	(223)	(22)	(8)	16	**(11)**
Income before taxes	83	271	262	288	**128**
Net income	83	234	236	237	**85**
Basic and diluted earnings per common share	0.75	2.11	2.02	1.93	**0.71**
Cash dividends per common share[1]				$ 0.15	**$ 0.15**

	Years Ended December 31,				
	1995	1996	1997	1998	**1999**
Balance Sheet Data					
Cash and cash equivalents, including short-term investments	$ 63	$ 279	$ 804	$ 525	**$ 317**
Property, plant and equipment – net	606	759	942	3,179	**3,333**
Total assets	1,452	1,953	2,882	5,927	**5,966**
Payable to banks and current portion of long-term debt	299	338	436	549	**457**
Long term debt	555	877	1,104	2,400	**2,184**
Shareholders' equity	(133)	59	662	801	**854**
Other Data					
Net cash provided (used) by operating activities			$ (95)	$ 253	**$ 599**
Net cash provided (used) by financing activities			531	987	**(432)**
Net cash used in investing activities			(296)	(1,474)	**(184)**
EBITDA[2]	$ 158	$ 361	$ 367	$ 511	**$ 476**
Total production of DRI (thousand of tonnes)	4,557	5,030	5,765	6,292	**6,353**
Total production of liquid steel (thousand of tons)	5,800	6,404	7,775	11,637	**15,342**
Total shipments of steel products (thousand of tons)	5,373	5,931	7,256	10,792	**15,430**

1. Cash dividends are presented on cash basis.

2. EBITDA is defined as net income plus income tax expense, net interest expenses, depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the years ended December 31, 1999 and 1998 (Millions of U.S. Dollars, unless otherwise indicated)

Overview

Ispat International N.V., incorporated under the laws of The Netherlands, is a holding company with no business operations of its own. The Company's major assets are its 100% indirect equity interests in the following Operating Subsidiaries: (i) Ispat Inland, U.S.; (ii) Ispat Mexicana (Imexsa), Mexico; (iii) Ispat Sidbec, Canada; (iv) Caribbean Ispat Limited (CIL), Trinidad; (v) Ispat Germany, comprising Ispat Hamburger Stahlwerke (IHSW) and Ispat Stahlwerk Ruhrort/Ispat Walzdraht Hochfeld (ISRG/IWHG), Germany; (vi) Ispat Unimetal, France; and (vii) Irish Ispat, Ireland.

Historically, the Company has grown through a series of acquisitions and by improving the operating performance of each acquired facility, through focused capital expenditure programs and implementation of improved management practices, resulting in increases in production and shipment of steel products, reduction in cash costs of production, increases in productivity and improvement in quality.

As a result of these improvements, the Company's shipments have increased from 2.9 million tons in 1994 to 15.4 million tons in 1999 and net sales have increased from $784 million in 1994 to $4,680 million in 1999. Discussed below are specific factors that contributed to the Company's operating and financial performance.

Acquisitions: Following is a summary of each of the acquisitions made by the Company:

CIL Asset Lease and Acquisition: Assets leased in May 1989, which were subsequently acquired in December 1994 for a purchase price of $70 million.

Imexsa Acquisition: Acquired in January 1992, for an aggregate purchase price of $220 million.

Ispat Sidbec Acquisition: Acquired in August 1994, for a purchase price of approximately $52 million and assumed debt of approximately $134 million.

Irish Ispat Acquisition: Acquired in May 1996, for IRP1 and assumed debt of approximately $51 million. As part of the acquisition, the Irish government made a capital contribution of $30 million and the Company made a capital contribution into Irish Ispat of $8 million.

ISRG/IWHG Acquisition: Acquired in October 1997, for approximately $17 million and assumed debt of approximately $51 million.

Ispat Inland Acquisition: Acquired in July 1998 for an aggregate purchase price of $1,399 million.

Ispat Unimetal Acquisition: Acquired in July 1999 for a total consideration of approximately $107 million.

Industry Conditions and Pricing Environment: The steel industry is highly cyclical in nature and sensitive to general economic conditions. Beginning in the second half of 1998, due to severe turmoil in several Asian countries and Russia, the global demand and supply equilibrium was severely impacted. As a result global steel prices fell sharply. The Company's operating and financial performance in 1999 was significantly impacted due to this downturn in the global steel markets. However, the Company continued to pursue the strategy of increasing shipments and enriching its product-mix, and most importantly, reducing the costs across the company to mitigate, in part, the impact of the adverse pricing environment.

Cost Reductions: Since 1998, the Company has reduced costs at all its operating subsidiaries. Total sustainable cost savings realized since 1998 have exceeded $500 million. These savings have resulted primarily from global purchasing synergies, operational and productivity improvements, lower employment costs and reduction in overhead costs. Total sustainable cost savings achieved at Ispat Inland alone, since its acquisition in July 1998 are more than $275 million.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net Sales: Net sales increased by 34% to $4,680 million from $3,492 million, primarily due to inclusion of Ispat Inland for the full year since its acquisition on July 17, 1998, and of Ispat Unimetal, since its acquisition on July 1, 1999, as well as higher shipments at most subsidiaries. This increase was offset in part by lower average realized selling prices.

At Ispat Inland, net sales increased by 122% to $2,393 million from $1,075 million in 1998, primarily due to the inclusion of Ispat Inland for the full year in 1999, offset in part by a reduction in average realized selling prices by 9%. At Ispat Mexicana, net sales decreased by 20% to $634 million from $791 million, primarily due to reduction in average selling prices for slabs of 24%, mitigated partly by higher slab shipments, which increased by 14%. At Caribbean Ispat, net sales decreased by 17% to $188 million from $226 million, primarily due to reduction in average realized selling prices of steel products by 15%, offset in part by higher DRI shipments. At Ispat Sidbec, net sales were flat at $568 million, as the impact of an increase in shipments was offset by a reduction in average realized selling prices by 5%. At Ispat Germany, net sales decreased by 11% to $669 million from $754 million, due to reduction in selling prices by 19%, offset in part by an increase in shipments by 8%.

Gross Profit: Gross profit for the year increased marginally by 1% to $628 million from $621 million, primarily due to the inclusion of Ispat Inland and Ispat Unimetal as discussed above. Gross margin declined to 13.4% from 17.8% primarily due to lower average realized selling prices, offset in part by lower costs at all of the Company's operating subsidiaries.

At Ispat Inland, gross margin increased to 12.2% from 11.5% primarily due to significant reduction in costs, the impact of which was partly offset by a reduction in average realized selling prices by 9%. At Ispat Mexicana, gross margin fell to 15.7% from 29.2%, due to a reduction in the average realized selling prices of slab by 24%, which was partly offset by a reduction in the cost of slabs by 6%. Gross margin at Caribbean Ispat fell to 11.6% from 18.0% mainly due to reduction in average selling prices of steel products by 15%, as well as lower margin for DRI sales, offset in part by a reduction in the average cost of production by 8%. At Ispat Sidbec, gross margin reduced marginally to 20.6% from 21.3% due to a 5% reduction in average realized selling prices, offset by a similar reduction in the average cost per ton. At Ispat Germany, gross margin decreased to 9.6% from 12.6%, primarily due to a reduction in realized selling prices by 19%, which was partly offset by a reduction in costs by 14%.

Operating Income: Operating income decreased by 24% to $308 million from $404 million due to higher depreciation and higher SG&A expenses, resulting from inclusion of the results of Ispat Inland and Ispat Unimetal. As a percentage of net sales, operating income decreased to 6.6% from 11.6%.

At Ispat Inland, operating income as a percentage of net sales increased marginally to 5.9% from 5.6% due to increase in gross margin as discussed above, offset by higher SG&A expenses. At Ispat Mexicana, operating income as a percentage of net sales fell to 8.4% from 23.7% due to lower gross margin and higher SG&A expenses. Caribbean Ispat recorded a net operating loss primarily due to lower gross margin as discussed above and higher depreciation charge arising from the start up of DR-3. At Ispat Sidbec, operating income as a percentage of net sales decreased marginally to 16.0% from 16.8%, due to lower gross margin as discussed above. At Ispat Germany, operating income as a percentage of net sales decreased to 4.4% from 8.1%, due to lower gross margin.

Financing Costs: Net interest expense increased by 39% to $184 million. Interest expense increased by 17% to $209 million primarily due to the full year inclusion of Ispat Inland results. Interest income reduced by 47% to $25 million primarily due to a lower average cash balance.

Net Income: Net income decreased to $85 million from $237 million due to the foregoing reasons.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Ispat International N.V.

We have audited the accompanying consolidated balance sheets of Ispat International N.V. and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999, all expressed in millions of U.S. dollars. These consolidated financial statements, which have been prepared on the basis of generally accepted accounting principles in the United States of America, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of the Ispat Hamburg Group of Companies and Caribbean Ispat Limited, as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 and the consolidated financial statements of Ispat Unimetal S.A. as of December 31, 1999 and for the six months period ended December 31, 1999 (each of which consists of consolidated subsidiaries of the Company), which financial statements reflect total assets constituting 13% and 18%, respectively, of consolidated total assets as of December 31, 1998 and 1999, and total net sales constituting 25%, 15% and 16%, respectively, of consolidated total net sales for the years ended December 31, 1997, 1998 and 1999. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiaries, is based solely on the reports of such other auditors.

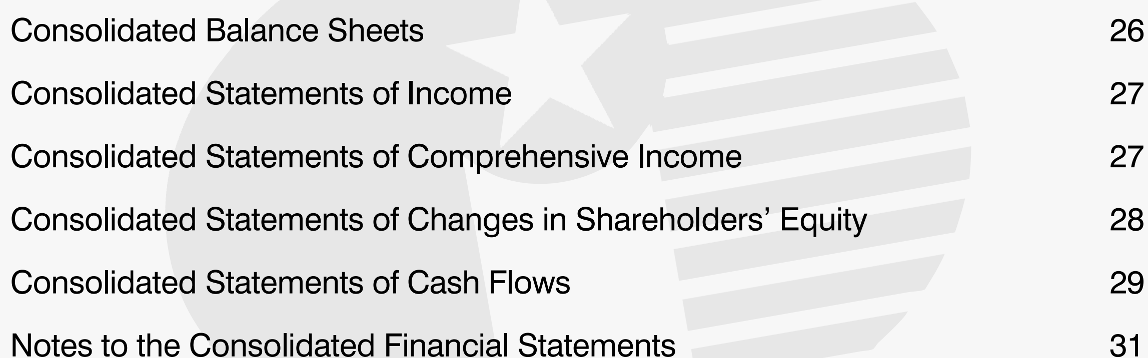
We conducted our audits in accordance with auditing standards generally accepted in the U.S.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements were prepared in accordance with accounting principles generally accepted in the U.S.. The financial statements for 1997 have been restated using accounting principles generally accepted in the U.S. adopted in 1998.

In our opinion, based on our audits and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Ispat International N.V. and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles in the U.S..

Deloitte & Touche
Accountants
Rotterdam, The Netherlands
March 24, 2000

Consolidated Financial Statements



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CONSOLIDATED BALANCE SHEETS

(Millions of U.S. Dollars, except share data)

	December 31, 1998	December 31, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 188	**$ 170**
Short-term investments	337	**147**
Trade accounts receivable, net of allowance for doubtful accounts of $24 and $30 at December 31, 1998 and 1999	618	**679**
Inventories (Note 4)	1,098	**1,045**
Prepaid expenses and other	60	**84**
Deferred tax assets (Note 13)	23	**31**
Total Current Assets	2,324	**2,156**
Property, Plant and Equipment – net (Note 5)	3,179	**3,333**
Investments in Affiliates (Note 6)	273	**305**
Deferred Tax Assets (Note 13)	39	**58**
Other Assets	112	**114**
Total Assets	$ 5,927	**$ 5,966**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to banks and current portion of long-term debt (Note 8)	$ 549	**$ 457**
Trade accounts payable	408	**606**
Accrued expenses and other liabilities	339	**332**
Deferred tax liabilities (Note 13)	38	**45**
Total Current Liabilities	1,334	**1,440**
Long-Term Debt (Notes 9 and 10)	2,400	**2,184**
Deferred Tax Liabilities (Note 13)	87	**130**
Deferred Employee Benefits (Note 12)	1,213	**1,227**
Other Long-Term Obligations	92	**131**
Total Liabilities	5,126	**5,112**
Commitments and Contingencies (Notes 15 and 16)		
SHAREHOLDERS' EQUITY (Note 11)		
Common Shares:		
Class A shares, NLG 0.01 par value per share, 500,000,000 shares authorized, 54,850,000 shares issued and outstanding	–	**–**
Class B shares, NLG 0.10 par value per share, 72,150,000 shares authorized, 72,150,000 shares issued and outstanding	4	**4**
Additional Paid-in Capital	480	**480**
Retained Earnings	253	**320**
Cumulative Other Comprehensive Income	64	**50**
Total Shareholders' Equity	801	**854**
Total Liabilities and Shareholders' Equity	$ 5,927	**$ 5,966**

See notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

(Millions of U.S. Dollars, except shares and per share data)

	Year Ended December 31, 1997	1998	1999
Net Sales	$ 2,171	$ 3,492	**$ 4,680**
Costs and expenses:			
Cost of sales (exclusive of depreciation shown separately below)	1,717	2,871	**4,052**
Depreciation	50	91	**164**
Selling, general and administrative	80	126	**156**
	1,847	3,088	**4,372**
Operating income	324	404	**308**
Other income (expense) – net	1	–	**15**
Financing costs: (Note 14)			
Interest (expense)	(96)	(178)	**(209)**
Interest income	41	46	**25**
Net gain (loss) from foreign exchange	(8)	16	**(11)**
	(63)	(116)	**(195)**
Income before taxes	262	288	**128**
Income tax expense: (Note 13)			
Current	3	5	**18**
Deferred	23	46	**25**
	26	51	**43**
Net income	$ 236	$ 237	**$ 85**
Basic and diluted earnings per common share	$ 2.02	$ 1.93	**$ 0.71**
Weighted average common shares outstanding (in millions)	117	123	**120**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of U.S. Dollars)

	Year Ended December 31, 1997	1998	1999
Net Income	$ 236	$ 237	**$ 85**
Other comprehensive income (loss):			
Foreign currency translation adjustment	(1)	(3)	**(5)**
Others	–	2	**(9)**
	(1)	(1)	**(14)**
Comprehensive income	$ 235	$ 236	**$ 71**

See notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of U.S. Dollars and millions of shares)

	Common Shares				Cumulative Other Comprehensive Income		
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Other	Shareholders' Equity
Balance at December 31, 1996	111	$ 4	$ 190	$ (201)	$ 66	–	$ 59
Net Income		–	–	236	–	–	236
Cumulative Other Comprehensive Income		–	–	–	(1)	–	(1)
Common stock issued	16	–	400	–	–	–	400
Treasury stock (Note 11)	(1)	–	(32)	–	–	–	(32)
Balance at December 31, 1997	126	4	558	35	65	–	662
Net Income		–	–	237	–	–	237
Cumulative Other Comprehensive Income		–	–	–	(3)	2	(1)
Treasury stock (Note 11)	(6)	–	(78)	–	–	–	(78)
Dividends on common shares @ $ 0.15 per common share		–	–	(19)	–	–	(19)
Balance at December 31, 1998	120	4	480	253	62	2	801
Net Income		–	–	85	–	–	85
Cumulative Other Comprehensive Income		–	–	–	(5)	(9)	(14)
Dividends on common shares @ $ 0.15 per common share		–	–	(18)	–	–	(18)
Balance at December 31, 1999	**120**	**$ 4**	**$ 480**	**$ 320**	**$ 57**	**$ (7)**	**$ 854**

See notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of U.S. Dollars)

	Year Ended December 31, 1997	1998	1999
Operating activities:			
Net income	$ 236	$ 237	**$ 85**
Adjustments required to reconcile net income to net cash provided (used) by operations:			
Depreciation	50	91	**164**
Deferred employee benefit costs	–	(19)	**(43)**
Net foreign exchange loss (gain)	7	(15)	**11**
Deferred income tax	20	45	**25**
Undistributed earnings from joint ventures	(6)	(18)	**(33)**
Others	26	28	**(16)**
Changes in operating assets and liabilities, net of effects from purchases of subsidiaries:			
Trade accounts receivable	(76)	(9)	**52**
Short-term investments	(369)	45	**184**
Inventories	(96)	(11)	**136**
Prepaid expenses and other	36	(16)	**(20)**
Trade accounts payable	73	(42)	**116**
Accrued expenses and other liabilities	4	(63)	**(62)**
Net cash provided (used) by operating activities	(95)	253	**599**
Investing activities:			
Purchase of property, plant and equipment	(292)	(359)	**(214)**
Investments in affiliates – net	–	–	**15**
Acquisition of net assets of subsidiaries, net of cash acquired	(3)	(1,115)	**9**
Other	(1)	–	**6**
Net cash used in investing activities	(296)	(1,474)	**(184)**
Financing activities:			
Proceeds from banks	634	677	**315**
Proceeds from long-term debt	266	1,260	**37**
Proceeds from long-term debt to affiliated companies	19	–	**–**
Payments to banks	(581)	(673)	**(453)**
Payments of long-term debt to unrelated parties	(18)	(180)	**(313)**
Payments of long-term debt to affiliated companies and the controlling shareholder	(15)	–	**–**
Payment of subordinated note to the controlling shareholder	(142)	–	**–**
Purchase of treasury stock	(32)	(78)	**–**
Issue of share capital – net	400	–	**–**
Dividends	–	(19)	**(18)**
Net cash provided (used) by financing activities	531	987	**(432)**
Effect of exchange rate changes on cash	–	3	**(1)**
Net increase (decrease) in cash and cash equivalents	140	(231)	**(18)**
Cash and cash equivalents:			
At the beginning of the year	279	419	**188**
At the end of the year	$ 419	$ 188	**$ 170**

Supplemental disclosures of cash flow information

	1997	1998	1999
Cash paid during the year for:			
Interest	$ 108	$ 186	**$ 219**
Income taxes	2	4	**31**

CONSOLIDATED STATEMENTS OF CASH FLOWS continued

(Millions of U.S. Dollars)

Supplemental schedule of non-cash investing and financing activities:

Acquisition Date	Assets Acquired	Fair Value of Assets Acquired	Cash Paid	Debt Assumed
October 1, 1997	Long Products Division of Thyssen Stahl AG.	$ 68	$ (3)	$ 65
July 17, 1998	Inland Steel Company ('Ispat Inland') from its then parent company Inland Steel Industries	1,399	(1,115)	284
July 1, 1999	Ispat Unimetal, Trefileurope and SMR from Usinor	107	–	107

See notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Millions of U.S. Dollars except per share amounts)

NOTE 1: NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business

Ispat International N.V. ('Ispat International') together with its subsidiaries (the 'Company') is a manufacturer of semi-finished and finished steel products. The Company owns and operates steel companies in the United States of America ('U.S.'), Mexico, Canada, Trinidad and Tobago ('Trinidad'), Germany, France and Ireland. The foregoing companies, each of which includes its respective subsidiaries, are referred to herein as the 'Operating Subsidiaries'.

Organization

On May 27, 1997, Ispat International was formed and organized under the laws of the Netherlands to hold directly or indirectly certain subsidiaries involved in the steel manufacturing activities described above. Ispat International has no business operations of its own and its major assets are interests in the capital shares of the Operating Subsidiaries. Prior to the formation of Ispat International, the Operating Subsidiaries were under common control by a sole shareholder (see Note 11). The accompanying financial statements have been prepared to reflect the entities under common control (similar to a pooling of interest) for all periods presented until incorporation date of Ispat International.

Basis of presentation

The consolidated financial statements, which include the accounts of Ispat International and all of its majority-owned subsidiaries, have been prepared in accordance with U.S. Generally Accepted Accounting Principles ('U.S. GAAP') (see also Note 2). All material intercompany balances and transactions have been eliminated.

The records of each of the Operating Subsidiaries are maintained in the currency of the country in which the Operating Subsidiary is located, using the statutory or generally accepted accounting principles of such country. For consolidation purposes, the financial statements which result from such records have been adjusted to conform to U.S. GAAP, using the U.S. Dollar as the reporting currency.

The principal wholly-owned subsidiaries, each of which is an Operating Subsidiary, included in the consolidated financial statements are as follows:

Company	Date acquired	Location
Caribbean Ispat Limited	(1)	Trinidad
Ispat Mexicana, S.A. de C.V.	January 24, 1992	Mexico
Ispat Sidbec Inc.	August 17, 1994	Canada
Ispat Hamburger Stahlwerke GmbH	January 1, 1995	Germany
Irish Ispat Limited	May 30, 1996	Ireland
Ispat Stahlwerke Ruhrort GmbH and Ispat Walzdraht Hochfeld GmbH	October 1, 1997	Germany
Ispat Inland Inc.	July 17, 1998	U.S.
Ispat Unimetal S.A.	July 1, 1999	France

(1) Commencing May 1, 1989 it undertook an operating lease of the steel manufacturing facilities comprising the Iron and Steel Company of Trinidad and Tobago. In December 1994, under provisions of the related lease agreement, Caribbean Ispat Limited exercised an option to acquire the facilities.

Translation of financial statements of operations in non-hyperinflationary economies

As the Company has no operations in its home country of the Netherlands, all of its operations are considered foreign operations. The amounts in the financial statements of these companies, all of which are classified as foreign entities, are translated into the reporting currency in accordance with Statement of Financial Accounting Standards ('SFAS') No. 52, 'Foreign Currency Translation'. Translation procedures are as follows: assets and liabilities, both monetary and non-monetary, are translated at the closing rate as of each balance sheet date, and income and expense items are translated at weighted average exchange rates in the year such transactions are recorded.

Differences resulting from the translation of such foreign Operating Subsidiaries financial statements are reported as components of other comprehensive income.

NOTE 1: NATURE OF BUSINESS AND BASIS OF PRESENTATION continued

Remeasurement and translation of the financial statements of operations in Mexico

Effective January 1, 1999, hyperinflation ceased in Mexico. However, the Company's functional currency of its Mexican subsidiary is the U.S. Dollar, regardless of the classification of the Mexican Economy as hyperinflationary or non-hyperinflationary. Therefore, there was no effect on the financial statements due to the change in inflationary status of Mexico.

Effective January 1, 1997, the Company determined that the Mexican economy was classified as a hyperinflationary economy. As a result, the functional currency of the Company's Mexican operations for U.S. GAAP purposes was deemed to be the U.S. Dollar from January 1, 1997 through December 31, 1998. The financial statements of the Company's operations in Mexico have been remeasured or translated into U.S. Dollars in accordance with SFAS No. 52. The remeasurement and translation procedures applied in 1997 and 1998 are summarized as follows:

- Monetary items in the balance sheet are translated into U.S. Dollars at the closing exchange rate as of each balance sheet date.
- All nonmonetary assets and liabilities are remeasured by applying the historical exchange rates as of the dates on which the transactions were recorded.
- Items on the statement of income that relate to nonmonetary assets and liabilities are remeasured into U.S. Dollars at the historical exchange rate; all other items are remeasured using the weighted average exchange rate in the year such transactions are recorded.
- Differences resulting from the remeasurement of the Mexican peso financial statements are reported as a component of net income.
- The exchange rates used in the remeasurement or translation of the financial statements of Mexican operations were as follows (Mexican pesos to one U.S. Dollar):

	As of December 31,	Average for the year
1999	9.4986	9.5557
1998	9.8963	9.1530
1997	8.0681	7.9692

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

Accounting for derivative instruments and hedging activities

In 1998 the Financial Accounting Standards Board ('FASB') issued SFAS No. 133, as amended by SFAS No. 137. 'Accounting for Derivative Instruments and Hedging Activities', requires recognition of all derivative instruments in the balance sheet as either assets or liabilities, measured at fair value, and is effective for fiscal years beginning after June 15, 2000.

This statement additionally requires changes in the fair value of derivatives to be recorded for each period in current earnings or comprehensive income depending on the intended use of derivatives.

The Company is currently assessing the impact of this statement on its results of operations, financial position and cash flows.

Cash equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Short-term investments

Short-term investments, primarily consisting of short-term debt securities, are accounted for in accordance with SFAS No. 115, 'Accounting for Certain Investments in Debt and Equity Securities'. As of December 31, 1999 and 1998, all securities presented under short-term investments are designated as trading and are classified in the consolidated balance sheets as current assets.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the average cost and first-in, first-out ('FIFO') method. Costs include the purchase costs of raw materials and conversion costs such as direct labor and an allocation of fixed and variable production overheads.

Property, plant and equipment

Additions to property, plant and equipment are initially recorded at cost. Gains and losses on retirement or disposal of assets are determined as the difference between net disposal proceeds and carrying amount and reflected in income. Depreciation of carrying value is computed on the straight-line basis over the useful lives of the related assets, ranging from 10 to 50 years for buildings and 2 to 45 years for machinery and equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

In accordance with SFAS No. 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of', long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows of assets grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

Investment in affiliates

Investments in majority owned affiliates where control does not exist and investments in 20% to 50% owned affiliates are accounted for under the equity method.

Debt issuance costs

Debt issuance costs, which are included in other assets, are stated at cost and amortized over the life of the related debt using the effective interest method. Amortization of debt issuance costs is included in interest expense which is a component of financing costs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Retirement benefits

Retirement benefits are principally provided under defined benefit pension plans, which are generally funded in accordance with legal requirements of the country in which the related Operating Subsidiary operates. For these plans which are funded, the assets are held in separate trustee-administered funds. The Company's policy is to amortize prior service costs over the average future service period of active plan participants. The liabilities and net periodic pension cost related to these plans are calculated by independent actuaries on the basis of formulas defined in the plans using the projected unit actuarial credit method. A brief summary of the plans provided by the subsidiaries in the countries in which the Company operates is as follows:

- The U.S. Operating Subsidiary's Pension Plan and Pension Trust which covers certain employees of the Company, is a non-contributory benefit plan with pensions based on final pay and years of service for all salaried employees and certain wage employees, and years of service and a fixed rate (in most instances based on frozen pay or on job class) for all other wage employees including members of the United Steelworkers of America.
- The Mexican Operating Subsidiary is obligated to provide seniority premiums, which consist of a one-time payment of 12 days wages for each year worked, calculated on the basis of the latest salary. Maximum salary used in these calculations is limited to double the legal minimum wage.
- The Canadian Operating Subsidiary offers contributory and non-contributory defined benefit pension plans for substantially all of its employees. Benefits for the non-contributory plans are generally calculated based on the number of years of service of the unionized employees and based on actuarial computations. Benefits for the contributory plans are generally calculated based on the number of years of service, and the maximum average eligible earnings of each employee during any period of five consecutive years.

  The Canadian Operating Subsidiary provides post-retirement medical benefits and life insurance for certain groups of retired employees. The Company is accruing the cost of these benefits for current and future retirees using the projected unit credit actuarial method.
- The Company's Operating Subsidiary in Trinidad maintains a contributory defined benefit pension plan for substantially all of its employees, the benefits of which are based on the employees' length of service.
- The German Operating Subsidiaries maintain unfunded defined benefit pension plans for certain groups of employees, the benefits of which are based on such employees' length of service and average compensation for the last two to three years of service.
- The French Operating Subsidiary has a commitment to provide post retirement benefits linked to years of service, reduced by retirement benefits earned from the State managed retirement organizations, compensation at retirement and benefits for death before retirement. Additionally French law requires that lump sum payments be made to employees having reached a defined level of seniority within the company.

Revenue recognition

Sales and related costs are recognized upon transfer of ownership which coincides with the shipment of products to customers.

Financing costs

Financing costs include interest, amortization of discounts or premiums on borrowings, amortization of costs incurred in connection with the arrangement of borrowings and currency exchange differences arising from foreign currency transactions. The interest expense related to financings specifically obtained for the construction and instalation of property, plant and equipment is capitalized. Additionally, in the absence of financings specifically for the construction or instalation of property, plant and equipment, interest expense is capitalized at the weighted average rate for all debt during the construction or instalation period applied to the construction in process, also taking into consideration foreign exchange gains and losses where appropriate.

Research and development costs

Research and development costs are not significant and are expensed as incurred.

Environmental costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

can be reasonably estimated based on ongoing engineering studies, discussions with the environmental authorities and assumptions as to the areas that may have to be remediated along with the nature and extent of the remediation that may be required. The ultimate cost to the Company is dependent upon factors beyond its control such as the scope and methodology of the remedial action requirements to be established by environmental and public health authorities, new laws or government regulations, rapidly changing technology and the outcome of any potential related litigation.

Taxes on income

The provision for income taxes includes income taxes currently payable and those deferred. Under SFAS No. 109, 'Accounting for Income Taxes', deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

Deferred tax assets are also recognized for the estimated future effects of tax loss carry-forwards. Deferred tax assets are reduced by any tax benefits for which it is more likely than not that they will not be realized.

Derivative financial instruments

Derivative financial instruments are utilized by the Company to manage commodity price and foreign exchange risks. The Company has established a control environment which includes policies and procedures for risk assessment and the approval and monitoring of derivative financial instrument activities. The Company does not hold or issue derivative financial instruments for trading purposes.

Gains and losses related to financial instruments that are utilized to manage exposure to fluctuations in cost of energy and raw materials used in the production process are recognized as part of the cost of the underlying product or service when the contracts are closed.

Derivative financial instruments utilized by the Company also include foreign currency forward contracts. Gains and losses related to qualifying currency firm commitments are recognized in income when the hedged transaction occurs.

Additionally, derivatives are used to hedge exposure to interest rate fluctuations for floating rate debt for which the gains or losses are recognized in interest expense.

The Company does not enter into foreign currency hedging contracts related to its investment in affiliated companies.

Earnings per common share

Earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. For purposes of computing the weighted average number of common shares outstanding, the capital structure resulting from the reorganization of the Company and formation of a holding company (see Notes 1 and 11) has been given retroactive effect in order to reflect shares outstanding subsequent to the reorganization as if they had been outstanding for all periods presented. There are no common equivalent shares or potentially dilutive securities outstanding during any of the periods presented and hence Basic and Diluted Earnings per common share are the same.

Stock Option Plan

In 1999, the Company established the Ispat International N.V. Global Stock Option Plan (the "Ispat Plan"). SFAS No. 123, "Accounting for Stock-Based Compensation" encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of Ispat International's stock at the date of the grant over the amount an employee must pay to acquire the stock. The Company has adopted the disclosure requirements of SFAS No. 123.

Segment reporting

The Company operates in a single business segment, which is composed of the Operating Subsidiaries involved in the manufacturing of semi-finished and finished steel products.

Reclassifications

Certain reclassifications have been made to the prior periods financial statements in order to conform to the 1999 classifications.

NOTE 3: ACQUISITIONS

On July 17, 1998, the Company acquired Ispat Inland for a consideration of $1,399 which consisted of a net cash payment of $1,115 and assumption of debt of $284.

On July 1, 1999, the Company acquired Ispat Unimetal, Trefileurope and SMR from Usinor for a total consideration of €99.5 ($106.9), of which €65.6 ($69.3) has been paid as of December 31, 1999.

The above acquisitions have been accounted for by the purchase method of accounting. Property, plant and equipment of businesses acquired is recorded at the time of acquisition based on reports provided by independent professionally qualified appraisers. Land is recorded at market value and other components at the current replacement cost for similar capacity unless the expected future use of the assets indicates a lower value to the acquirer. The purchase price has been allocated based on the estimated fair values of the assets acquired and the liabilities assumed. The Company's consolidated statements of income include the results of operations of the acquired businesses since their acquisition date.

Certain of the acquisition agreements contained commitments which are disclosed in Note 15.

Unaudited pro forma financial information

The following table presents the unaudited pro forma results of operations under U.S. GAAP as if the acquisition of Ispat Inland and the related financing had occurred at the beginning of 1997. The pro forma results do not purport to be indicative of the results that actually would have been obtained if the operations were combined during the period presented, or of the results which may occur in the future.

	Year ended December 31,	
	1997	1998
Net sales	$ 4,639	$ 4,783
Operating income	504	478
Net income	253	232
Earnings per common share	2.16	1.89

NOTE 4: INVENTORIES

	Year ended December 31,	
	1998	**1999**
Finished products	$ 309	**$ 337**
Production in process	365	**292**
Raw materials	303	**291**
Manufacturing supplies, spare parts and other	121	**125**
	$ 1,098	**$ 1,045**

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and changes therein, including additions, disposals, depreciation and other changes, are summarized as follows:

	Land	Buildings and improvements	Machinery and equipment	Construction in process	Total
Balance at December 31, 1997					
Gross value	$ 11	$ 203	$ 875	$ 162	$ 1,251
Accumulated depreciation	–	(40)	(269)	–	(309)
Net carrying value	11	163	606	162	942
Balance at December 31, 1998					
Gross value	58	446	2,774	311	3,589
Accumulated depreciation	–	(56)	(354)	–	(410)
Net carrying value	58	390	2,420	311	3,179
Balance at December 31, 1999					
Gross value	76	550	3,421	166	4,213
Accumulated depreciation	–	(134)	(746)	–	(880)
Net carrying value	**$ 76**	**$ 416**	**$ 2,675**	**$ 166**	**$ 3,333**

NOTE 6: INVESTMENTS IN AFFILIATES

The Company's investments in affiliates, which include joint ventures, accounted for using the equity method are as follows:

Investee	Operating activity	Ownership percentages	Type of ownership	December 31, 1998	1999
Located in United States					
Empire Iron Mining Partnership ('E.I.M.P.')	Taconite/Pellets	40%	Partnership	$ 53	**$ 57**
PCI Associates	Pulverized coal	50%	Partnership	16	**21**
I/N Tek	Cold rolling	60%	Partnership	50	**48**
I/N Kote	Galvanizing	50%	Partnership	103	**108**
Located in Mexico					
Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. ('Peña Colorada')	Mining and pelletizing plant	50%	Common stock	16	**18**
Servicios Siderúrgicos Integrados, S.A. de C.V. ('Sersiin')	Port operations, lime, industrial gases and engineering workshop	50%	Common stock	11	**21**
Located in Canada					
Sorevco	Galvanizing plant	50%	Limited partnership	8	**10**
Delta Tube	Tubes	40%	Limited partnership	2	**2**
Located in Germany					
Westfälische Drahtindustrie GmbH	Wire drawing	33.3%	Common stock	7	**8**
Other	–	–	–	7	**12**
				$ 273	**$ 305**

Summary condensed combined information of the Company's investments accounted for using the equity method is disclosed as follows:

	Year ended December 31, 1997	1998	1999
Condensed Statement of Income Data			
Gross revenue	$ 364	$ 1,778	**$ 1,724**
Gross profit	51	214	**211**
Net income	13	107	**123**

	Year ended December 31, 1998	1999
Condensed Balance Sheet Data		
Current assets	$ 448	**$ 459**
Total assets	1,859	**1,813**
Current liabilities	453	**458**
Total liabilities	1,241	**1,211**
Net assets	618	**602**

NOTE 7: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties (see Note 6) in the normal course of operations were as follows:

	Year ended December 31,		
	1997	1998	**1999**
Transactions			
Purchases of raw material:			
– Peña Colorada	$ 33	$ 31	**$ 31**
– Sersiin	15	18	**20**
– E.I.M.P	–	55	**115**
– PCI Associates (Tolling fee)	–	16	**39**
Product sales:			
– Sorevco	25	18	**25**
– I/N Kote	–	158	**370**
– Other	4	7	**7**
– Product purchases:			
– I/N Tek	–	69	**144**
– Other	8	43	**26**

Both Ispat Karmet and P.T. Ispat Indo, indirect wholly-owned subsidiaries of the controlling shareholder, have entered into a management services agreement with the Company pursuant to which Ispat Karmet and P.T. Ispat Indo pay a periodic fee to the Company as compensation for management services rendered to such affiliates of the Company.

NOTE 8: PAYABLE TO BANKS

Payable to banks includes borrowings and bank overdrafts. The Company has secured and unsecured bank lines and other working capital facilities totaling the equivalent of $914 of which $599 is committed and $315 is uncommitted. At December 31, 1999, the Company had a total of $496 in borrowings outstanding under such bank lines and working capital facilities, of which $256 is presented under current liabilities and $290 is presented as long-term debt. The Company also had temporary bank overdrafts of $50 as at December 31, 1999. Borrowings under the lines are primarily denominated in U.S. Dollars, except for borrowings of $103 and $68 at December 31, 1998 and 1999, respectively, under a Deutsche Mark 275 million revolving credit facility (Deutsche Mark 300 revolving credit facility in 1998) and $30 and $6 as at December 31, 1998 and 1999, respectively, under a 147 million Canadian Dollar facility (147 million Canadian Dollar facility in 1998) and $4 and $13 as at December 31, 1998 and 1999, respectively under a 10.5 million Irish Punt equivalent in multi currency facility (13.5 million Irish Punt equivalent in multi currency facility in 1998). The credit facilities provide for borrowings at various interest rates and support letters of credit in addition to providing borrowings to fund local working capital requirements at the Operating Subsidiaries' locations. Weighted average interest rates on the lines ranged from 3.4% to 10.13% in 1998 and 3.9% to 8.0% in 1999. Certain of the credit facilities contain restrictive covenants that (i) require the Company's subsidiaries to comply with certain financial maintenance tests including the ratio of current assets to current liabilities and the ratio of total liabilities to total capital, (ii) require the maintenance of specified levels of net worth, (iii) prohibit subsidiaries from entering agreements that restrict their ability to pay dividends and (iv) limit the payment of dividends (see Note 9). Certain of the lines of credit are collateralized by current assets and property, plant and equipment with a net carrying value of $1,042 at December 31, 1999.

NOTE 9: LONG-TERM DEBT

	December 31, 1998	December 31, 1999
First Mortgage Bonds:		
Series U, Tranche B, $350	$ 348	**$ 345**
Series U, Tranche C, $350	348	**345**
Series R, 7.9% due January 15, 2007	64	**56**
Series 1977, 5.75% due February 1, 2007	25	**25**
Series 1993, 6.8% due June 1, 2013	44	**44**
Series 1995, 6.85% due December, 2012	19	**19**
Senior Secured Credit Facilities:		
Tranche A, $150, LIBOR plus 1.25% – 2.25%	140	**120**
Tranche B, $125, LIBOR plus 1.75% – 2.75%	124	**123**
Tranche C, $125, LIBOR plus 2.25% – 3.25%	124	**123**
Credit line agreement denominated in U.S. Dollars, floating interest	285	**285**
Unsecured Structured Senior Export Certificates, 10⅛%	269	**220**
Unsecured Senior Notes, 10⅜%	142	**130**
Industrial Development Revenue Bonds:		
Pollution Control Project No 11, 7⅛% due June 1, 2007	25	**22**
Pollution Control Project No 13, 7¼% due November 1, 2011	43	**43**
Exempt Facilities Project No 14, 6.7% due November 1, 2012	6	**6**
Exempt Facilities Project No 15, 5¾% due October 1, 2011	52	**52**
Exempt Facilities Project No 16, 7% due January 1, 2014	8	**8**
Thyssen Stahl AG, denominated in Deutsche Mark	45	**–**
Loan payable to Export-Import Bank of the United States, LIBOR plus 0.30%	59	**49**
Loans payable to financial institutions	50	**43**
Senior Secured Notes, 10.4%	107	**107**
Loans payable to International Finance Corporation, LIBOR plus 3.25% – 3.38%	76	**64**
Other	141	**156**
Total long-term debt	2,544	**2,385**
Less current portion of long-term debt	144	**201**
Total long-term debt	2,400	**2,184**

First Mortgage Bonds

Series U, Tranche B and C are with a syndicate of financial institutions ('Term Loan Lenders') for whom Credit Suisse First Boston is the agent and consists of a $350 Tranche B Term Loan due July 16, 2005, and a $350 Tranche C Term Loan due July 16, 2006. Each of the Tranche B and Tranche C Loan amortizes by $0.875 per quarter until maturity.

Borrowings under the Term Loans bear interest at a rate per annum equal to, at the Company's option, the higher of (1) the Agent's prime rate or (2) the rate which is of 0.50% of 1% in excess of the Federal Funds effective rate plus 1.25% for Tranche B loans and 1.75% for Tranche C loans or LIBOR plus 2.25% for Tranche B loans and 2.75% for Tranche C loans. The spreads will be reduced if the Company's Consolidated Leverage Ratio (as defined in the Credit Agreement) falls to specified levels.

The Company also entered into the hedge required under the Credit Agreement. It is a 5 year interest rate collar based on LIBOR with a floor of 4.50% and a ceiling of 6.26% on a notional amount of $450. The facilities and the hedge are fully and unconditionally guaranteed by the Company.

NOTE 9: LONG-TERM DEBT continued

A substantial portion of the Company's facilities at its Indiana Harbor Works is subject to the lien to First Mortgage. This property had a book value of approximately $1,700 as on December 31, 1999.

Senior Secured Credit Facilities

The Tranche A facility is bearing an interest at rates ranging from LIBOR plus 1.25% to LIBOR plus 2.25% depending on the achievement of certain financial ratios. For 1999 the effective average rate is 7.57%. The facility will mature in July 2003 and is repayable in quarterly instalments of $5 until December 2000, $8 until December 2002 and $20 in March 2003 and July 2003.

The Tranche B facility is bearing an interest at rates ranging from LIBOR plus 1.75% to LIBOR plus 2.75% depending on the achievement of certain financial ratios. For 1999 the effective average rate is 7.42%. The facility will mature in July 2004 and is repayable in quarterly instalments of $3 until March 2004 and $118 in July 2004.

The Tranche C facility is bearing an interest at rates ranging from LIBOR plus 2.25% to LIBOR plus 3.25% depending on the achievement of certain financial ratios. For 1999 the effective average rate is 7.92%. The facility will mature in January 2005 and is repayable in quarterly instalments of $3 until June 2004 and $118 in January 2005.

The Senior Secured Credit Facility is collateralized by all property, plant and equipment of the Company and a second ranking charge on accounts receivables and inventories. During 1998, the Company entered into an interest rate swap agreement of 50% of the initial borrowings of $400, which effectively fixed the interest base rate at 4.95% on the swapped portion.

Credit line agreement denominated in U.S. Dollars, floating interest

Loans payable to Mexican banks under a credit line agreement denominated in U.S. Dollars with annual floating interest rates ranging from 7.5% to 9.1% in 1999. The loans are repayable on maturity with maturities ranging from 2000 to 2002.

Unsecured Structured Senior Export Certificates, 10⅛%

Unsecured Structured Senior Export Certificates due 2003 (the '1996 Certificates') denominated in U.S. Dollars with interest payable quarterly at 10⅛% per annum. Principal amount of the senior certificates is payable in quarterly instalments beginning on August 31, 1998.

The amount of such principal repayment is calculated pursuant to a level debt service schedule. The 1996 Certificates are redeemable in whole or in part at a price equal to 100% of the outstanding principal amount, plus accrued interest and a prepayment make whole premium defined in the agreement.

Unsecured Senior Notes, 10⅜%

Unsecured Senior Notes due March 2001 (the 'Senior Notes') denominated in U.S. Dollars with interest payable semi-annually at 10⅜% per annum. The notes are now redeemable at the option of the Company.

Thyssen Stahl AG, denominated in Deutsche Mark

Purchase price payable to Thyssen Stahl AG maturing in 2003 denominated in Deutsche Mark with interest payable at the discount rate of the Deutsche Bundesbank plus 2.5% (totaling 5% at December 31, 1998) has been fully repaid during the year.

Loan payable to Export-Import Bank of the United States

Loan payable to a financial institution guaranteed by the Export-Import Bank of the United States ('Exim Bank') denominated in U.S. Dollars. The loan accrues interest at annual floating rates of LIBOR plus 0.30% (totaling 6.0% at December 31, 1999). The principal is payable in semi-annual instalments beginning on April 15, 1998 maturing in 2004.

Loans payable to financial institutions

Loans payable to financial institutions denominated in U.S. Dollars to finance the purchase of equipment collateralized by the related assets. The interest rates on the loans are ranging from 7.4% to 7.61%. Principal and interest are due in monthly/semi-annual instalments with maturities ranging from 2003 to 2007.

NOTE 9: LONG-TERM DEBT continued

Senior Secured Notes, 10.4%

10.4% Senior Secured Notes denominated in U.S. Dollars to finance the construction of a DRI plant. The notes mature in November 2008 with principal and interest repayable in semi-annual instalments beginning in November 2002.

Loans payable to International Finance Corporation, LIBOR plus 3.25% – 3.38%

Loans denominated in U.S. Dollars from the International Finance Corporation. The loans are collateralized by property, plant and equipment with a net book value of $432 at December 31, 1999. Principal and interest are due in semi-annual instalments beginning December of 1998 with interest accruing at LIBOR plus 3.25% to 3.38%, maturing in 2004 through 2006.

Other

Various loans with interest rates ranging from 0.5% to 13.0% for other loans.

Maturities of long-term debt are as follows:

	Years ending December 31,
2000	$ 201
2001	512
2002	163
2003	159
2004	180
Subsequent years	1,170
Total	$ 2,385

The 1996 Certificates are payable primarily from the proceeds of U.S. Dollar denominated accounts receivable to be generated from sales of steel slabs by the Company's Mexican Operating Subsidiary to Mitsubishi Corporation (the 'Steel Purchaser') under a long-term supply agreement. Subject to certain exceptions, the supply agreement requires the Steel Purchaser to purchase sufficient volumes of slabs to generate receivables in each quarter in an aggregate face amount equal to 1.3 times the maximum scheduled quarterly debt service on the Senior Certificates.

Certain long-term debt and other agreements of the Company and its subsidiaries provide for various covenants that restrict the ability of certain of the Company's subsidiaries to pay dividends, make certain restricted payments, incur additional indebtedness, make certain investments, create liens, guarantee indebtedness, sell or acquire assets, enter into mergers or consolidations and form subsidiaries, as well as require compliance with certain other financial maintenance tests. These financial maintenance tests include certain financial ratios and minimum levels of net worth. A significant part of the Company's net assets as at December 31, 1999 (see Note 11) were subject to restrictive covenants, affecting capital distributions and the ability of the subsidiaries to loan or advance funds to the shareholders.

NOTE 10: FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

The carrying amounts of the Company's cash equivalents and accounts receivable approximate their fair values. Cash equivalents are carried at cost which approximates market value and accounts receivable are short-term in nature.

The Company's short- and long-term debt consists of debt instruments which bear interest at fixed rates and variable rates tied to market indicators. The fair value of the Company's variable rate debt approximates its carrying amount given the floating rate nature of the debt at prevailing market rates. The fair value of fixed rate debt is based on estimated future cash flows discounted using the current market rates for debt of the same remaining maturities and credit risk. The estimated fair values of the Company's short-and long-term debt are as follows:

	December 31, 1998		**December 31, 1999**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Instruments payable to unrelated parties bearing interest at variable rates	$ 1,626	$ 1,570	**$ 1,534**	**$ 1,526**
Instruments payable to unrelated parties bearing interest at fixed rates	918	873	**851**	**798**
Long-term debt, including current portion	$ 2,544	$ 2,443	**$ 2,385**	**$ 2,324**
Payable to banks	$ 405	$ 405	**$ 256**	**$ 256**

A portion of the floating rate debt used in connection with the financing of the acquisition of Ispat Inland was hedged through the use of an interest collar (see Note 9).

The fair value of forward exchange contracts, all of which are short-term in nature, was estimated based on the applicable year-end exchange rates and are presented below:

	December 31, 1998		**December 31, 1999**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Forward exchange contracts – contract amounts of $50 and $417 at December 31, 1998 and 1999, respectively	$ 50	$ 49	**$ 414**	**$ 413**

The fair value information presented herein is based on information available to management as of the dates presented. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, the current estimates of fair value may differ significantly from the amounts presented herein. The fair value of other financial instruments are not significant.

Credit risk

Financial instruments that potentially subject the Company to credit risk primarily consist of trade accounts receivable, forward exchange contracts and coberturas.

The Company considers its credit risk associated with trade accounts receivable to be limited due to a large number of customers comprising the Company's customer base and their geographic dispersion. The Company sells a significant amount of product pursuant to orders throughout the world. The Company grants credit based on evaluations of its customers' financial situation, in certain cases without requiring guarantees or letters of credit, and continuously monitors the exposure of potential losses from granting credit.

The counterparties to forward exchange contracts are major financial institutions and credit risk is generally limited to the unrealized gains and losses on such contracts should the counterparties fail to perform as contracted. Additionally, the Company utilizes a portfolio of financial institutions either headquartered or operating in the same countries the Company conducts its business. As a result, the Company considers the risk of counterparty default to be minimal.

NOTE 11: SHAREHOLDERS' EQUITY

The authorized common shares of the Company consisted of 500,000,000 Class A shares, with a par value of 0.01 Dutch guilders per share, and 72,150,000 Class B shares, with a par value of 0.10 Dutch guilders per share. 54,850,000 Class A shares and 72,150,000 Class B shares were issued and outstanding.

The preference and relative rights of the Class A shares and Class B shares are substantially identical except for disparity in voting power and conversion rights. Holders of Class A shares are entitled to one vote per share and holders of Class B shares are entitled to ten votes per share on all matters submitted to a vote of shareholders. Each Class B share is convertible at the option of the holder into one Class A share.

The Company has purchased 6,817,160 of its own Class A shares on the open market for a total consideration of $114 until December 31, 1999. These shares have been acquired for the purpose of the Company's employee stock option plan. It is presently anticipated that such options will have an exercise price per share equal to the fair market value ($11 15/16) of a Class A share on the date of the grant (September 15, 1999), will vest over three years and will have a term of ten years.

During 1998, the Company awarded 198,750 common shares to certain senior executives of the Company in connection with the Global Offering. The Company also awarded 29,850 common shares to certain senior executives as bonus shares in 1998. The aforementioned shares were taken from treasury stock at a cost of $4.

All calculations to determine the amounts available for dividends are based on Ispat International's Dutch statutory accounts, which, as a holding company, are different from its consolidated accounts.

Ispat International has no business operations of its own. Accordingly, it can only pay dividends or distributions to the extent it is able to arrange the dividend distribution from its subsidiaries, recognizes gain from the sale of its assets or records share premium from the issuance of (new) common shares. The Company's Operating Subsidiaries are subject to certain restrictions under the terms of certain of their debt agreements for paying dividends. As a result, $64 of the Company's retained earnings are free of restriction for the payment of dividend as at December 31, 1999.

Stock Option Plan

In 1999, the Company established a stock option plan (the "Ispat Plan"). Under the terms of the Ispat Plan, the Company may grant options to senior management of Ispat and its affiliates for up to 6,000,000 shares of common stock. The exercise price of each option equals not less than the fair market value of Ispat stock on the date of grant, with a maximum term of 10 years. Options are granted at the discretion of the Company's Board of Director's Plan Administration Committee or its delegate. The options vest either ratably upon each of the first three anniversaries of the grant date, or, in total, upon the death, disability or retirement of the participant. The Company has chosen to account for stock-based compensation using the intrinsic value method prescribed in APB No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Had compensation cost for the Ispat Plan been determined based on the fair value at the grant date for awards in 1999 consistent with the provisions of SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

	Year ended December 31, 1999
Net Income – as reported	**$ 85**
Net Income – pro forma	**75**

The fair value of each option grant of Ispat stock is estimated on the date of grant using the Binomial Option Pricing Model with the following weighted-average assumptions used for grants in 1999: dividend yield of 0.86; expected volatility of 63%; risk-free interest rate of 6.07%; and expected term of 8 years.

The status of the Ispat Plan with respect to the Company is summarized below as of December 31, 1999:

	Number of shares	Weighted average exercise price
Granted	**1,314,000**	**$ 7.9465**
Exercised	–	–
Canceled or expired	–	–
Outstanding	**1,314,000**	**7.9465**

NOTE 12: EMPLOYEE BENEFIT PLANS

In connection with the U.S. Operating Subsidiary's new labor agreement with the United Steelworkers of America (the "USWA"), the pension and postretirement medical plans were amended, effective August 1, 1999, to provide for plan changes as a result of the new labor agreement. The pension plan was amended primarily to provide for increased benefit levels. The postretirement medical plan was amended primarily to provide for employee and retiree copayments, vision care, retiree life insurance benefits and retiree contributions. As a result of these plan amendments, the Company remeasured its pension and postretirement benefit obligations under SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," respectively, as of August 1, 1999. These remeasurements incorporated the effect of the union plan changes as well as the effects of changes in actuarial assumptions to reflect more current information.

Effective December 31, 1998, the Company adopted SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revise employers' disclosures about pensions and other postretirement benefit plans. This statement does not change the measurement or recognition of these plans.

Reconciliation of the pension benefit obligations and fair value of plan assets through the measurement date are as follows:

	Operating Subsidiary U.S.		Operating Subsidiary Canada		
	From July 17, 1998, through Nov 30, 1998	**From Dec 1, 1998 to Nov 30, 1999**	1997	**From Jan 1, through Dec 31,** 1998	**1999**
Change in benefit obligation					
Benefit obligation at beginning of the period	$ 2,148	**$ 2,088**	$ 199	$ 215	**$ 210**
Service cost	12	**25**	4	5	**5**
Interest cost	65	**143**	17	15	**15**
Contributions	–	**–**	1	1	**1**
Amendments	(65)	**161**	–	–	**–**
Actuarial (gains) losses	(21)	**(220)**	14	–	**20**
Benefits paid	(51)	**(164)**	(11)	(11)	**(12)**
Foreign currency exchange rate differences	–	**–**	(9)	(15)	**15**
Benefit obligation at end of the period	$ 2,088	**$ 2,033**	$ 215	$ 210	**$ 254**
Change in fair value of plan assets					
Fair value of plan assets at beginning of the period	2,019	**1,963**	153	174	**160**
Actual return on plan assets	(30)	**275**	29	–	**24**
Employers' contribution	25	**24**	9	8	**8**
Participants' contribution	–	**–**	1	1	**1**
Benefits paid	(51)	**(164)**	(11)	(11)	**(12)**
Foreign currency exchange rate differences	–	**–**	(7)	(12)	**12**
Fair value of plan assets at end of the period	$ 1,963	**$ 2,098**	$ 174	$ 160	**$ 193**

Defined benefit plans

The Company's Operating Subsidiaries in U.S., Canada, Germany, Trinidad and France provide defined benefit pension plans to their employees. Additionally, the Company's subsidiaries in Mexico provide seniority premium benefits, which are mandated by Mexican law, to employees upon dismissal after 15 years of service or to the employee's beneficiary upon death. Further, the Company's subsidiary in France has commitment to provide additional post-retirement benefits linked to years of service and compensation at retirement reduced by retirement benefits earned from the state-managed retirement organizations and benefits for death before retirement.

NOTE 12: EMPLOYEE BENEFIT PLANS continued

The funded (underfunded) status of the pension plans are as follows:

	Operating Subsidiary U.S. December 31,		Operating Subsidiary Canada December 31,		
	1998	**1999**	1997	1998	**1999**
Benefit obligation	$ 2,088	**$ 2,033**	$ 215	$ 210	**$ 254**
Fair value of assets	1,963	**2,098**	173	160	**193**
Funded (underfunded) status of the plans	(125)	**65**	(42)	(50)	**(61)**
Unrecognized net loss	94	**(210)**	–	12	**13**
Unrecognized transition asset	–	**–**	(7)	(6)	**2**
Unrecognized prior service cost	(65)	**97**	16	14	**13**
Accrued pension liability at	$ (96)	**$ (48)**	$ (33)	$ (30)	**$ (33)**

Pension plans with accumulated benefit obligation in excess of plan assets:	1997	1998	**1999**
Projected benefit obligation	$ 122	$ 127	**$ 156**
Accumulated benefit obligation	122	127	**155**
Fair value of plans' assets	81	83	**100**

The Company's operating subsidiary in Canada recorded an additional minimum pension liability of $21 ($12 in 1998) representing the excess of the unfunded accumulated benefit obligation over previously accrued pension costs. An intangible asset was recorded as an offset to this liability.

The following assumptions were used:

	Operating Subsidiary U.S. November 30,		Operating Subsidiary Canada December 31,		
	1998	**1999**	1997	1998	**1999**
Discount rates for obligations	6.75%	**8.00%**	7.75%	7.25%	**6.50%**
Assumed rates of compensation increases	4.00%	**4.00%**	4.75%	4.75%	**4.75%**
Expected long-term rate of return on assets	9.50%	**9.50%**	9.00%	7.25%	**7.75%**

Post-retirement benefits

Substantially all of the U.S. Operating Subsidiary's employees are covered under postretirement life insurance and medical benefit plans that require deductible and co-insurance payments from retirees. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on applicable annual earnings at retirement for salaried employees and specific amounts for hourly employees. The Company does not prefund any of these postretirement benefits. Effective January 1, 1994, a Voluntary Employee Benefit Association Trust was established for payment of health care benefits made to United Steelworkers of America retirees. Funding of the Trust is made as claims are submitted for payment.

Reconciliation of the post-retirement benefit obligation of the U.S. Operating Subsidiary was as follows:

	July 17, 1998 to November 30, 1998	**December 1, 1998 to November 30, 1999**
Benefit obligation at beginning of period	$ 1,010	**$ 953**
Service cost	7	**11**
Interest cost	31	**60**
Plan amendment	(104)	**(57)**
Actuarial loss/(gain)	31	**(209)**
Benefits paid	(22)	**(48)**
Benefits obligation at end of period	$ 953	**$ 710**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

Funded status of the post-retirement benefit obligation (U.S. Operating Subsidiary)

	December 31, 1998	December 31, 1999
Benefit obligation	$ 953	**$ 710**
Fair value of assets	–	**–**
Funded (underfunded) status of plan	(953)	**(710)**
Unrecognized net loss/(gain)	31	**(175)**
Unrecognized prior service cost	(104)	**(147)**
Accrued post-retirement benefit obligation at end of period	$ (1,026)	**$ (1,032)**

The following weighted average assumptions for the U.S. Operating Subsidiary were used in accounting for the post-retirement benefit plan:

	November 30, 1998	November 30, 1999
Discount rates for obligations	6.75%	**8.00%**
Assumed rates of compensation increases	4.00%	**4.00%**
Health care cost trend	4.50%	**4.50%**

Reconciliation of the changes in retirement & post retirement and other benefit obligations of the French Operating Subsidiary was as follows:

	July 1, 1999 to December 31, 1999
Benefit obligation at beginning of period	**$ 44**
Service cost	**1**
Interest cost	**1**
Actuarial (gains) loss	**(3)**
Foreign currency exchange rate changes	**(1)**
Benefits obligation at end of period	**$ 42**

The retirement and post retirement Plans of the Company's subsidiary in France are not funded.

	July 1, 1999	December 31, 1999
Retirement and post-retirement benefits	$ 39	**$ 36**
Other benefits	6	**6**
Other	3	**3**
	48	**45**
less current portion	1	**1**
	$ 47	**$ 44**

At the Company's French operating subsidiary, an actuarial valuation of these obligations has been made at June 30, 1999 and at December 31, 1999 including assumptions as to mortality, turnover, discount rates and inflation rates (discount rates 4.5% at June 30, 1999; 5.5% at December 31, 1999, inflation rate 1.5% at June 30, 1999; 2% at December 31, 1999).

The plan amendment gain for the U.S. operating subsidiary results from a plan amendment effective January 1, 1999 requiring increased contributions from salaried retirees for health care coverage, as well as increases in deductible and copays. In addition, life insurance coverage for salaried retirees has been reduced, effective at the same date.

The assets of the Canadian Operating Subsidiary's plans are primarily invested in listed common stock, corporate and government bonds and cash equivalents.

The Company's Canadian Operating Subsidiary provides post-retirement medical benefits and life insurance for certain groups of retired employees. Additional disclosures with respect to these post-retirement benefits are not material and are not presented herein.

NOTE 12: EMPLOYEE BENEFIT PLANS continued

The Company's Canadian Operating Subsidiary maintains profit sharing plans for its employees. The amounts payable to employees are based on defined percentages of annual net income of the Canadian Operating Subsidiary, excluding the Operating Subsidiary's affiliated companies, determined under generally accepted accounting principles in Canada. The related profit sharing expense was $6, $5 and $4 for the years ended December 31, 1997, 1998 and 1999 respectively.

NOTE 13: INCOME TAX

The provision for income tax is as follows:

	Year Ended December 31,		
	1997	1998	**1999**
Current:			
U.S.	–	–	**$ 13**
Canada	1	1	**2**
Trinidad	–	–	**1**
Germany	1	2	**1**
Others	1	2	**1**
Deferred:			
U.S.	–	5	**7**
Mexico	(5)	34	**18**
Canada	24	16	**9**
Trinidad	–	–	**(1)**
Germany	3	(9)	**(8)**
Others	1	–	**–**
Income tax expense	$ 26	$ 51	**$ 43**

The following items represent the principal differences between income taxes computed at the aggregate statutory rates of all jurisdictions and the Company's overall effective tax rate:

	Year Ended December 31,		
	1997	1998	**1999**
Taxes at aggregate statutory rates of all jurisdictions :			
U.S.	–	$ 6	**$ 19**
Mexico	41	52	**(5)**
Canada	30	24	**31**
Germany	6	23	**11**
Trinidad	14	3	**(6)**
France	–	–	**6**
Others	–	–	**(1)**
	$ 91	$ 108	**$ 55**

NOTE 13: INCOME TAX continued

		Year Ended December 31,		
		1997	1998	1999
Increase (decrease) resulting from:				
Tax loss carryforwards	Germany	(3)	(10)	**–**
Tax loss carryforwards	Trinidad	–	(1)	**(6)**
Tax loss carryforwards	France	–	–	**(6)**
Depletion	U.S.	–	–	**4**
Manufacturing tax credits	Canada	(6)	(4)	**(5)**
Large corporation tax and other taxes	Canada	–	–	**1**
Export allowances	Trinidad	(13)	–	**–**
Benefit arising from interest in partnership	Canada	–	(6)	**(17)**
Depreciation	Germany	–	(10)	**(6)**
Depreciation	Trinidad	–	1	**–**
Inflationary effects	Mexico	16	(14)	**17**
Change in valuation allowance	Mexico	(64)	–	**–**
Change in valuation allowance	Germany	–	(9)	**–**
Inventories	Germany	–	2	**–**
Restructuring	Germany	–	(3)	**–**
Effects of foreign currency translation	Mexico	–	–	**4**
Miscellaneous accruals	U.S.	–	–	**(3)**
Others	Various	5	(3)	**5**
Income tax expense		$ 26	$ 51	**$ 43**

Deferred Income tax

Temporary differences and the resulting deferred tax assets and liabilities at December 31, 1998 and 1999 are summarized as follows:

		December 31,	
		1998	1999
Current deferred tax assets:			
Tax loss carryforwards	Ireland	$ 17	**$ 16**
Tax loss carryforwards	Canada	21	**11**
Accrued vacation	U.S.	–	**11**
Allowance for doubtful accounts	France	–	**2**
Inventories	France	–	**12**
Property taxes	U.S.	–	**6**
Others	U.S.	–	**1**
Others	Mexico	2	**–**
Others	France	–	**4**
Others	Germany	3	**1**
Total current deferred tax assets		$ 43	**$ 64**

NOTE 13: INCOME TAX continued

		Year ended December 31, 1998	1999
Noncurrent deferred tax assets:			
Tax loss carryforwards	Mexico	18	**24**
Tax loss carryforwards	U.S.	9	**56**
Tax loss carryforwards	France	–	**63**
Tax loss carryforwards	Canada	–	**15**
Tax loss carryforwards	Germany	7	**–**
Tax loss carryforwards	Trinidad	1	**6**
Environmental accrual	U.S.	9	**–**
Environmental accrual	France	–	**3**
Environmental accrual	Canada	1	**1**
Employee benefit costs	U.S.	447	**404**
Employee benefit costs	Canada	12	**12**
Employee benefit costs	France	–	**17**
Employee benefit costs	Germany	1	**–**
Accrued restructuring costs	U.S.	10	**25**
Accrued restructuring costs	France	–	**11**
Accrued restructuring costs	Canada	–	**2**
Accrued restructuring costs	Germany	14	**–**
Property, plant and equipment	Germany	–	**27**
Property, plant and equipment	Canada	18	**12**
Others	Germany	–	**2**
Others	Mexico	6	**–**
Others	U.S.	23	**–**
Others	Canada	–	**1**
Total noncurrent deferred tax assets		576	**681**
Total deferred tax assets		619	**745**
Valuation allowances:			
Valuation allowance	Trinidad	–	**(6)**
Valuation allowance	France	–	**(99)**
Valuation allowance	Ireland	(17)	**(16)**
Valuation allowance	Germany	(8)	**–**
		(25)	**(121)**
Net deferred tax asset after valuation allowances		594	**624**
Current deferred tax liabilities:			
Inventories	Mexico	(38)	**(43)**
Accrued rental income	Mexico	(2)	**(1)**
Total current deferred tax liabilities		(40)	**(44)**
Noncurrent deferred tax liabilities:			
Property, plant and equipment	Mexico	(97)	**(116)**
Property, plant and equipment	U.S.	(495)	**(477)**
Property, plant and equipment	France	–	**(13)**
Property, plant and equipment	Trinidad	(3)	**(1)**
Property, plant and equipment and others	Germany	(10)	**(19)**
Investment in joint ventures	U.S.	–	**(30)**
Debt issuance costs	Mexico	(3)	**(2)**
Imputed interest	Mexico	(6)	**(5)**
Employee benefit costs	Germany	–	**(2)**
Others	U.S.	–	**(1)**
Others	Canada	(3)	**–**
Total noncurrent deferred tax liabilities		(617)	**(666)**
Total deferred tax liabilities		(657)	**(710)**
		$ (63)	**$ (86)**

NOTE 13: INCOME TAX continued

Tax loss carry forward

The expiration limits for tax loss carry forwards at various operating subsidiaries are as follows:

U.S.	2018 to 2019
Mexico	2001 to 2009
Canada	2001 to 2006
Germany	indefinite
Trinidad	indefinite
Ireland	indefinite
France	indefinite

NOTE 14: FINANCING COSTS

	Year ended December 31,		
	1997	1998	1999
Financing costs capitalized to major capital projects	$ 14	$ 18	**$ 23**

NOTE 15: COMMITMENTS

The Company leases various facilities, land and equipment under noncancelable lease arrangements which expire at various dates through 2031. In most cases, management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

Future minimum lease payments required under operating leases that have initial or remaining noncancelable terms in excess of one year are as follows:

Year ending	Amount
2000	$ 22
2001	20
2002	16
2003	26
2004	13
Thereafter	64
Total minimum lease payments	$ 161

In the normal course of business, the Company enters into various long-term raw material supply contracts which generally provide for the purchase prices to be negotiated annually based on market prices.

In the ordinary course of its business the Company has guaranteed certain debt of its subsidiaries totaling $1,653.

The Company's Operating Subsidiary in the U.S. has an agreement with the Pension Benefit Guaranty Corporation ('PBGC') to provide certain financial assurances with respect to its pension plan. In accordance with this agreement, the Company provided the PBGC a letter of credit in the amount of $160, made a cash contribution of $24 in 1999 ($25 in 1998) to the Pension Trust and committed to certain minimum funding requirements, including to fund normal cost of the Pension Plan plus, for the next four years, an additional $5 per year. In addition, the Company granted to the PBGC a first priority lien on selected assets. The agreement has a term of at least five years or at least until certain financial tests are met, which ever is later, however, the agreement could terminate within five years if the pension plan is terminated or the Company is sold and the purchaser meets certain tests.

In connection with the Company's acquisition of the U.S. Operating Subsidiary, Inland Steel Industries ('ISI') caused its subsidiary Ryerson Tull, Inc. (with which it has subsequently merged) to execute a guaranty in favor of the PBGC in the amount of $50 (the 'RT Guaranty'). The Company agreed that Ryerson Tull shall be subrogated to the rights of the PBGC against the Company and the U.S. Operating Subsidiary to the extent of any payment made by Ryerson Tull under the RT Guaranty.

The Company's Operating Subsidiary in the U.S. has guaranteed $11 and $143 of long-term debt attributable to PCI Associates and I/N Kote, two of its equity investments, respectively.

The Company's Operating Subsidiary in the U.S. has an agreement with a third party to purchase 1.2 million tons of coke annually for approximately 15 years on a take or pay basis at prices determined by certain cost factors from a heat recovery coke battery facility located on land leased to the third party. Under a separate tolling agreement with another third party, it has committed to pay tolling charges over approximately 15 years to desulfurize fuel gas from the coke battery and to convert the heat output from the coke battery to electrical power and stream. As of December 31, 1999 and 1998, the estimated minimum tolling charges remaining over the life of this agreement were approximately $242 and $270 respectively.

The Company's Operating Subsidiary in the U.S. has, as a part of the agreement covering the 1990 sale of the Inland Lime & Stone Company division assets, agreed, subject to certain exceptions, to purchase, at prices which approximate market, the annual limestone needs of the Indiana Harbor Works through 2002.

The Company's Operating Subsidiary in the U.S. has a total amount of firm commitments to contractors and suppliers in connection with construction projects primarily related to additions to property, plant and equipment for an amount of $24 at December 31, 1999 and $7 at December 31, 1998.

Under the 1996 Certificates (See Note 9), the Company's Mexican Operating Subsidiary is committed to sell steel slabs to Mitsubishi Corporation during the term of the agreement, which expires in 2004.

The Company's Mexican subsidiary had temporarily postponed instalation of its new continuous caster machine and has project commitments of $45 out of which $7 has been paid as of December 31, 1999, with the equipment supplier and has re-initiated the process to recommence the project.

The Company's Mexican subsidiary entered into a long term slab supply agreement with a local customer whereby the customer will purchase 75% of its total slab requirement approximating one million tonnes for the year 2000, at the average market price.

The Company's Operating Subsidiary in Trinidad has outstanding capital commitments for an amount of $11 as at December 31, 1999.

The Company, in connection with the acquisition of the CIL Operating Subsidiary, and in pursuant to an agreement with ISCOTT, agreed to offer new shares representing 40% of CIL's total share capital in a public offering to Trinidad and Tobago nationals and locally controlled Trinidad corporations by June 30, 1998. The Agreement also provides that such offering must be made at a fair price and on such other terms to be negotiated, and in default of agreement, by the Trinidad and Tobago Stock Exchange ('TTSE'). The Government initially extended the deadline to December 31, 1998 and has since agreed in principle, as an alternative arrangement, to allow the shares of Ispat International to be listed and offered on the TTSE by December 31, 2000.

The Company, in connection with the acquisition of the Irish Operating Subsidiary, agreed with the Irish government to commit the Operating Subsidiary to invest a minimum of Irish Punt 20 ($26) in capital expenditures by May 30, 2002 in the Irish plant. At December 31, 1999, an amount of Irish Punt 15 ($19) has been invested under this commitment.

The Company also agreed with the Irish government, and is bound under decisions from the Commission of the European Communities, to commit the Irish Operating Subsidiary to follow certain restrictions, including limits in investments to increase its capacity of production limits in the mix and level of production, limits in sales within the European Community and minimum levels of permanent employees. Such restrictions will expire no later than May 30, 2001.

NOTE 16: CONTINGENCIES

In the ordinary course of its business, the Company is party to various legal actions.

The U.S. Operating Subsidiary is involved in various environmental and other administrative or judicial actions initiated by governmental agencies. While it is not possible to predict the results of these matters, it does not expect environmental expenditures, excluding amounts that may be required in connection with the 1993 consent decree in the 1990 EPA lawsuit, to materially affect the results of operations or financial position. Corrective actions relating to the EPA consent decree may require significant expenditures over the next several years that may be material to the results of operations of the financial position. At December 31, 1999 and 1998, the reserves for environmental liabilities totaled $25 and $27 respectively, of which $21 and $21, respectively is related to the sediment remediation under the 1993 EPA consent decree.

Pursuant to the acquisition of the U.S. Operating Subsidiary, ISI, which subsequently merged with Ryerson Tull, Inc., procured an insurance policy covering certain potential expenditures and liabilities with respect to environmental matters (the 'Environmental Insurance Policy'), providing coverage up to $90, identifying the U.S. Operating Subsidiary and its subsidiaries as insured and naming the Company as an additional insured. In addition, ISI agreed to indemnify the Company up to $90 against certain environmental losses which are not covered by the Environmental Policy as a result of deductibles, exclusions or similar limitations, as well as certain other losses.

The Office of the United States Attorney for the Middle District of Louisiana ("the U.S. Attorney") has informed the Operating Subsidiary in the U.S. that it is a target of a federal criminal grand jury investigation and one of several defendants in a civil *qui tam* lawsuit filed by a private individual on behalf of the government, alleging violations of the False Claims Act, 31 U.S.C. Section 3729, et seq. The investigation and the lawsuit relate to the sale of polymer coated steel by the Company to a culvert fabricator for use in federal and state highway construction projects in Louisiana. The Company has not seen or been served with a copy of the complaint in the *qui tam* lawsuit, and is not required formally to respond to it until the seal is lifted and the complaint is served on the Company. With respect to the criminal investigation, the Company has agreed to extend the statute of limitations for the filing of any potential criminal charges against the Company through September 30, 2000.

If a potential claim by the U.S. Attorney were successfully proved with respect to such matter and the damages asserted were established, it would be material to the financial position and results of operations of the Company. However, the Company is investigating the factual basis of such a claim; whether any of the coated culvert is defective and, if so, the extent of such defects and the remedial options; the method by which damages would be calculated if the claims were established; and the relative responsibilities of other corporate defendants to satisfy such a claim. In cooperation with the U.S. Attorney and federal and state highway officials, the Company will conduct field inspections and analysis of many of the coated culverts at issue. At this stage, the Company is unable to determine the extent of its potential liability, if any, and whether this matter could materially affect the Company's financial position or results of operations.

All the allegations by the U.S. Attorney appear to relate to events that occurred prior to the May 27, 1998 execution of the Merger Agreement among Ispat International N.V., the Company, Inland Merger Sub, Inc. and Inland Steel Industries, Inc. (the predecessor company to Ryerson Tull, Inc., and Inland Steel Co. now Ispat Inland Inc.), as amended. Ispat International, N.V. and the Company have notified Ryerson Tull, Inc. of their intention to seek indemnification and other remedies, under the Merger Agreement and on other grounds, for any losses in connection with this matter.

The Company's Operating Subsidiary in the U.S. is anticipated to make capital expenditures of $2 to $5 annually in each of the next five years for the construction, and have ongoing annual expenditures of $40 to $50 for the operation of air and water pollution control facilities to comply with current federal state and local laws and regulations.

On February 11, 2000, the President of the United States announced that under the authority of Section 203 of the Trade Act of 1974, he was imposing import relief for domestic steel wire rod producers. The import relief is in the form of a tariff-rate quota (TRQ) on certain imports of steel wire rod effective March 1, 2000, which will remain in place for three years. The TRQ applies to imports of wire rod from all countries except Canada and Mexico. Also excluded from the TRQ are certain specialty steel wire rod products ("products") either not manufactured in the United States or manufactured in insufficient quantities to meet U.S. demand. In the first year of the TRQ, non-specialty steel wire rod imports from countries subject to the TRQ will face additional duties of 10% once imports exceed 1.58 million net tons, an amount that is equivalent to 1998 import levels of covered products from the countries subject to the TRQ plus 2% (to account for growth in demand). In the second and third years, the quantity of imports exempt from the higher duty will increase by 2% a year, and the level of the surcharge will decline by 2.5 percentage points a year to 7.5% and 5%, respectively.

The TRQ is being applied on a global basis, with no country-specific quota allocations. In addition, the TRQ is being implemented on a quarterly basis. During each quarter, once imports subject to the TRQ exceed one-third of the total within-quota quantity for that quota year, they will be subject to the over-quota rate of duty then in effect.

We do not expect that the TRQ will have a material effect on the Company's ability to compete profitably in the U.S. market. Wire rod imports from the Company's Operating Subsidiary in Canada are exempt from the TRQ altogether, and the vast majority of the imports from the Company's Operating Subsidiaries in Germany and France are specialty products that also are exempt from the TRQ. While imports from the Company's Operating Subsidiary in Trinidad and Tobago are subject to the TRQ, we do not expect that the TRQ will adversely affect its ability to continue shipping to the United States at traditional levels.

The European Commission has raised claims of $51 for back payment of amounts alleged to qualify as improper subsidies from the City of Hamburg. These subsidies are claimed to be contradictory to the European Commission's rulings on competitive markets in the steel industry. No final assessments for back payments have been released to date. However, the European Commission has initiated legal action to settle the matter. All such proceedings are currently pending. The company cannot predict the final outcome of these proceedings.

The U.S. Operating Subsidiary and an independent, unaffiliated producer of raw materials are parties to a long-term supply agreement under which it is obligated to fund an escrow account to indemnify said producer of raw materials against a specific contingency. Contributions to the escrow are determined by the agreement and the funds are restricted from use by the U.S. Operating Subsidiary while in the escrow. The escrow will terminate not later than 2004. At December 31, 1999 and 1998, the escrowed funds amounted to $20.0 and $5.4, respectively, and are included in "Other assets"on the consolidated balance sheets. Full recovery of the escrowed amount is anticipated.

The Company's Operating Subsidiary in Trinidad is involved in an arbitration proceeding, with respect to a scrap supply contract. On March 23, 2000, the arbitration decision was rendered against the Company for a total amount of $10.2 plus interest. The Company believes, based on advice received from legal counsel that the decision is erroneous and the Company has a defendable position. The Company estimates its liability to be approximately $2, which is fully provided for.

NOTE 17: SEGMENT AND GEOGRAPHIC INFORMATION

Management considers the Company's steel operation to be a single business segment. As the Company has no operations in its home country of the Netherlands, all of its sales are considered to be foreign sales. Annual sales to individual customers did not exceed 10% of total net sales in any of the periods presented.

Information with respect to the Company's operations in different geographic areas is as follows:

	U.S.	Mexico	Canada	Trinidad	Europe	Others & eliminations	Consolidated
YEAR ENDED DECEMBER 31, 1997							
Sales to unaffiliated customers	$ –	$ 815	$ 618	$ 206	$ 532	$ –	$ 2,171
Transfers between geographic areas	–	10	–	47	–	(57)	–
Net sales	–	825	618	253	532	(57)	2,171
Operating income	–	170	85	44	23	2	324
Total assets at December 31, 1997	–	1,413	473	451	513	32	2,882
Depreciation	–	10	21	8	11	–	50
Capital expenditures	–	149	27	110	16	–	302

NOTE 17: SEGMENT AND GEOGRAPHIC INFORMATION continued

YEAR ENDED DECEMBER 31, 1998							
Sales to unaffiliated customers	$ 1,075	$ 815	$ 566	$ 189	$ 847	$ –	$ 3,492
Transfers between geographic areas	–	69	3	37	11	(120)	–
Net sales	1,075	884	569	226	858	(120)	3,492
Operating income	63	189	95	14	61	(16)	406
Total assets at December 31, 1998	3,109	1,385	858	504	608	(537)	5,927
Depreciation	47	12	13	9	10	–	91
Capital expenditures	25	102	36	121	75	–	359
YEAR ENDED DECEMBER 31, 1999							
Sales to unaffiliated customers	$ 2,459	$ 623	$ 568	$ 94	$ 936	$ –	$ 4,680
Transfers between geographic areas	8	41	–	94	76	(219)	–
Net sales	2,467	664	568	188	1,012	(219)	4,680
Operating income	140	52	91	(8)	41	(8)	308
Total assets at December 31, 1999	3,100	1,188	897	535	812	(566)	5,966
Depreciation	106	14	14	12	15	3	164
Capital expenditures	55	47	20	61	40	1	224

Transfers between geographic areas are priced similarly to sales to unaffiliated customers.

The Company's Operating Subsidiaries also had foreign export sales to unrelated third parties, which are summarized below as to the location of the Operating Subsidiary and the location of where sales were made.

	U.S.	Canada	Europe	Asia	Latin America	Other	Domestic	Total
1997:								
Mexico	$ 389	$ 61	$ 20	$ 106	$ –	$ –	$ 239	$ 815
Canada	132	–	1	–	–	–	485	618
Trinidad	60	8	3	–	80	30	25	206
Ireland	–	–	78	3	1	–	11	93
Germany	14	1	157	46	1	4	216	439
Consolidated	$ 595	$ 70	$ 259	$ 155	$ 82	$ 34	$ 976	$ 2,171
1998:								
U.S.	$ –	$ 10	$ –	$ –	$ 9	$ –	$ 1,056	$ 1,075
Mexico	399	37	32	58	13	–	276	815
Canada	116	–	–	–	–	–	450	566
Trinidad	53	10	2	–	75	24	25	189
Ireland	–	1	88	–	–	1	12	102
Germany	25	–	297	14	8	6	395	745
Consolidated	$ 593	$ 58	$ 419	$ 72	$ 105	$ 31	$ 2,214	$ 3,492
1999:								
U.S.	$ –	$ 26	$ –	$ –	$ 17	$ –	$ 2,416	$ 2,459
Mexico	275	–	96	94	–	1	157	623
Canada	129	11	1	–	–	–	427	568
Trinidad	–	11	–	–	38	22	23	94
Ireland	–	–	63	–	–	–	10	73
France	19	–	106	1	–	4	136	266
Germany	25	–	264	8	–	1	299	597
Consolidated	**$ 448**	**$ 48**	**$ 530**	**$ 103**	**$55**	**$ 28**	**$ 3,468**	**$ 4,680**

Shareholder Information

Principal Operating Subsidiaries

Ispat Inland Inc.

Ispat Inland Flat Products
30 West Monroe Street,
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Fax: 1 312 899 3197.

Ispat Inland Long Products
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USA.
Tel: 1 312 899 3959.
Fax: 1 312 899 3921.

Ispat Mexicana S.A. de C.V.
Fco. J. Mú jica No. 1-B, Apartado Postal
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Fax: 52 753 22723.

Ispat Sidbec Inc.
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Caribbean Ispat Limited
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Ispat Europe S.A.
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Tel: 3 52 264 901.
Fax: 3 52 264 90 201.

Shareholder Information Relating to the Company's Dutch Annual Accounts

The Annual Report does not contain complete information related to the Company's statutory accounts, which must be adopted at the Annual General Meeting of stockholders, pursuant to Dutch law. A copy of the Dutch statutory accounts can be obtained free of charge by contacting the registered office of Ispat International N.V., Rotterdam Building, Aert van Nesstraat 45, 3012 CA, Rotterdam, The Netherlands,
or, by contacting Kas-Associatie N.V., Spuistraat 172, 1012 VT Amsterdam, The Netherlands.

Safe Harbor Statement

The Company has made, and may continue to make, various forward-looking statements with respect to its financial position, business strategy, projected costs, projected savings, and plans and objectives of management. Such forward-looking statements are identified by the use of forward-looking words or phrases such as "anticipates", "intends", "expects", "plans", "believes", "estimates", or words or phrases of similar import. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, and the statements looking forward beyond 1999 are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from those anticipated by the forward-looking statements.

Certain Defined Terms

The term "ton" as used herein means a short ton and the term "tonne" used herein means a metric tonne. All references to iron ore pellets, direct reduced iron ('DRI') and scrap are calculated using tonnes, and all references to steel products are calculated using tons. The term "steel products" as used herein refers to semi-finished and finished steel products and excludes DRI.

All references to 'Ispat Inland' are to Ispat Inland, Inc., all references to 'Ispat Mexicana' are to Ispat Mexicana, S.A. de C.V., all references to 'Ispat Sidbec' are to Ispat Sidbec Inc., all references to Caribbean Ispat are to Caribbean Ispat Limited, all references to 'Ispat Germany' are collectively to Ispat Hamburger Stahlwerke GmbH ('IHSW'), Ispat Stahlwerk Ruhrort GmbH ('ISRG') and Ispat Walzdraht Hochfeld GmbH ('IWHG'), and all references to 'Ispat Unimetal' are to Ispat Unimetal S.A., Trefieurope and SMR.

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ISPAT INTERNATIONAL N.V.

Member of **THE LNM GROUP**

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