Ispat International N.V.

A GLOBAL FORCE IN STEEL

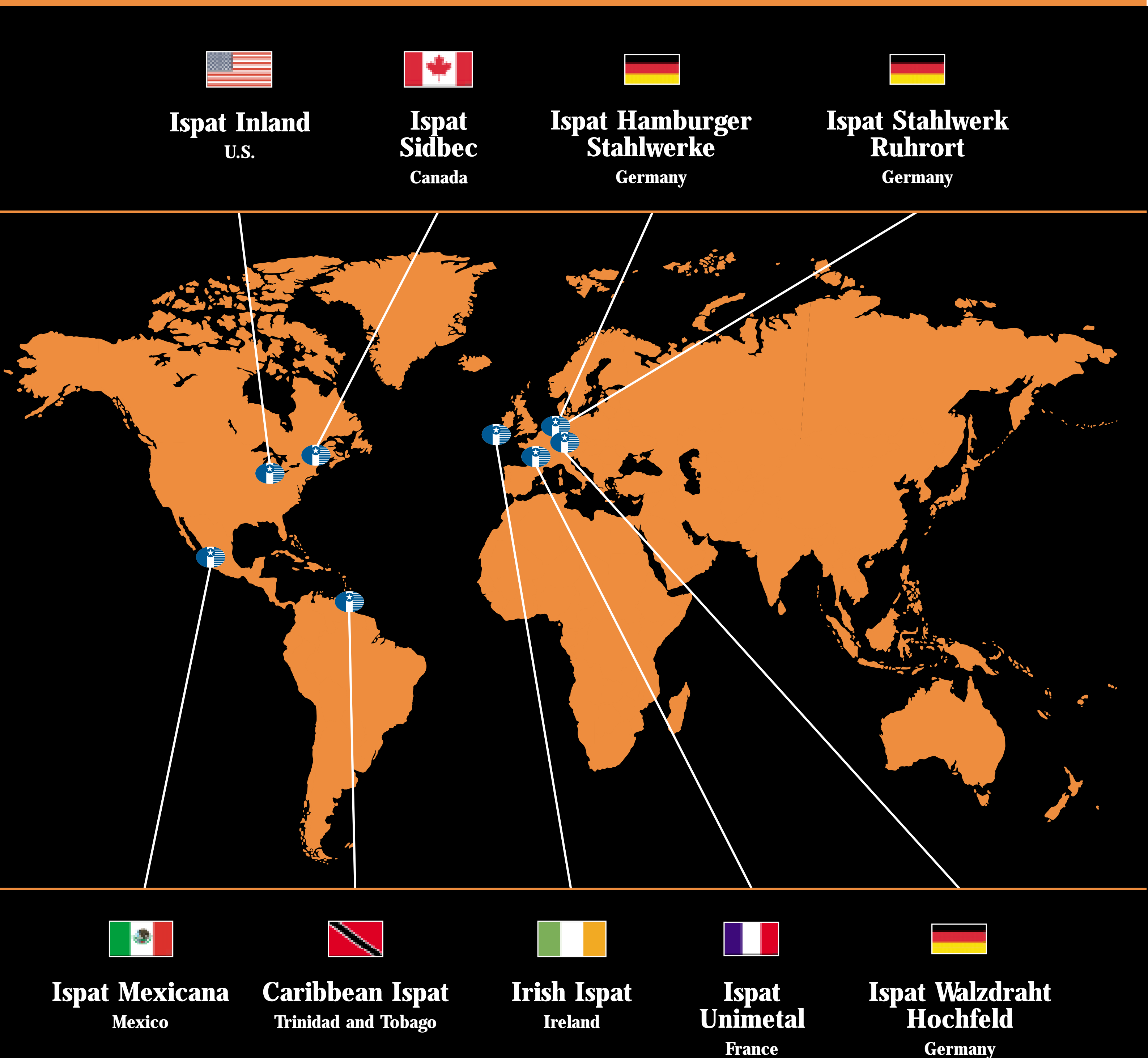
Annual Report 2000

ISPAT INTERNATIONAL N.V.

Member of THE LNM GROUP

Ispat International... Building organizational excellence in our people, our operations and in our aspirations

Ispat International continues to be the world's most global steel company, pursuing the best opportunities for growth in the world steel industry. During 2000, the Company has strengthened its position as the world's most entrepreneurial steel producer by converting challenges in a dynamic steel environment into business opportunities. With a strategy to participate in the consolidation of the global steel sector, leverage from company-wide synergies and enhance our broad range of flat and long steel products, Ispat International is best positioned to create value for its shareholders.



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LETTER TO SHAREHOLDERS

In the 1990s, Ispat International developed an outstanding reputation for acquiring under-performing steel manufacturing plants and rapidly turning them around by internal investment, maximizing production, increasing productivity, cost reduction and market-led product mix improvements. Significant opportunities for consolidation in the global steel industry still exist, as the industry remains largely fragmented. The active consolidation that is taking place among our largest suppliers and customers is reducing the number of dominant players to a handful, and already poses significant challenges to the steel industry. While new mergers believed to be taking place in Europe would accelerate the region's consolidation process, in North America the need for consolidation to help eliminate inefficient capacity and make the domestic steel industry considerably more competitive, continues to remain paramount.

In 2000, steel companies were hurt by escalating energy prices and adverse economic conditions, such as high imports and high customer inventories in North America, causing significant pressure on steel selling prices. These uncontrollable market forces severely affected our Company's margins. Such external factors make it more compelling for Ispat International to continue to realize its vision of building a world-class global steel company, with the resilience to withstand the challenges of a lower margin environment, gain synergies and economies of scale and meet the changing needs of our customers.

Ispat International's operational and financial performance remained encouraging in the first half of 2000. In the second half of the year, the Company's net income was significantly impacted by the difficult market environment for steel, particularly in North America. Consolidated net sales for the year were higher at $5.1 billion and consolidated net income increased to $99 million, as compared to net sales of $4.7 billion and net income of $85 million reported in 1999.

In North America, the challenging market conditions inevitably affected our gross operating margins at Ispat Inland, Ispat Mexicana and Ispat Sidbec. At Ispat Mexicana, we resorted to a planned reduction of output in the fourth quarter, until we see the expected recovery in slab prices in the second half of 2001.

We continued the process of integrating our steelmaking assets in Europe, which has enabled us to advance our consolidation and enhancement of the high value-added long products sector. The full benefits of completed capital projects and a stable long products market significantly helped our operating results. Ispat Hamburger Stahlwerke in Hamburg continued to perform very well. For the first time, its single electric arc furnace produced billets in excess of one million metric tonnes. Operating performance at Ispat Stahlwerke Ruhrort and Ispat Walzdraht Hochfeld also improved during the year. The integration of Ispat Unimetal has continued to progress well.

Prudent fiscal management is one of the hallmarks of the company, and recognizing the increasingly difficult business environment in the second half of the year, we accelerated our conservative approach in the management of capital expenditure and working capital. We generated over $120 million in free cash flow from working capital and we reduced our net debt by $101 million in 2000. At year end, the Company had $292 million in cash and cash equivalents and short-term investments, following which in February 2001 we completed a €150 million Eurobond issue, which enabled us to further increase our liquidity. We also improved Ispat International's long-term debt profile, whereby repayments are now evenly spread over the longer term. I will be recommending to you that we forgo dividends for the year 2000, as this will provide further liquidity to the Company.

In the first quarter of 2001, I welcomed Malay Mukherjee, previously Chief Executive Officer of Ispat Europe, who was appointed Chief Operating Officer in place of Johannes Sittard. Dr. Sittard resigned after working with the Company for over a decade, during which period he has been instrumental in growing Ispat International into a truly global steel producer. Mr. Mukherjee's proven expertise in the steel industry has enabled him to deliver an excellent performance in turning around and managing the process of change at the Company's steelmaking operations at Ispat Mexicana,

Ispat Europe and at Ispat Karmet, a Group affiliate in Kazakhstan.

Earlier in the year, Peter Southwick was appointed President and Chief Operating Officer at Ispat Inland to replace Dale E. Wiersbe who retired. More recently, Gerhard Renz, previously Managing Director of Ispat Germany, was promoted to President and Chief Operating Officer of Ispat Europe. At Caribbean Ispat, John Kuriyan has taken over as Managing Director from Suresh K. Dutta who has left the Company.

I would like to thank all our retiring officers for their contribution to Ispat International over the years, and to acknowledge the dedication and hard work of our employees around the world.

We have increased our emphasis on corporate governance. In accordance with best practices, the composition of the Management Board is being changed and we have increased the number of independent directors on the Audit Committee to conform with recommendations of the Blue Ribbon Committee Report. We believe that our management team is focused on growth, cost reduction and delivering customer value, which are the foundations from which we seek to deliver shareholder value. Under new human resources initiatives, we have also initiated a Global Leadership Development Program.

During 2000, we have significantly sharpened our marketing focus. Already, the establishment of a central marketing function for long products in Europe has shown excellent results. There are a number of specific marketing initiatives underway to create a closer alignment between our product offerings and our customers' requirements, and to identify opportunities for strengthening our marketing strategies. We are continually enhancing the quality and mix of our products and our service, so that we enhance our status as the preferred supplier for our customers.

Outlook

Steel selling prices are expected to recover in the second half of 2001. Going forward, our goal is to realize further benefits from inherent synergies among our business units. Our high level of vertical integration affords us a greater degree of control over our supply chain than most of our competitors. We believe this gives us the freedom to integrate elements of our business to achieve sustainable savings.

We are driving ahead with a more aggressive cost reduction program, including rationalization of manpower across the Company, global purchasing synergies and operating efficiencies. Furthermore, we will continue to reduce administrative and corporate overheads. We should also achieve improved productivity and increased shipments as part of our Operational Excellence Program.

In spite of the severe and unprecedented challenges experienced by the industry, we believe the fundamentals of Ispat International remain sound. The Company is resilient and well managed. Our people have both the professional competence and the determination to meet our business goals. I am confident that Ispat International will emerge from the coming market challenges a stronger organization, well placed to capture any opportunities that might be available. At Ispat International, we remain fully committed to improving shareholder value.

Lakshmi N. Mittal
Chairman and Chief Executive Officer

BUSINESS REVIEW

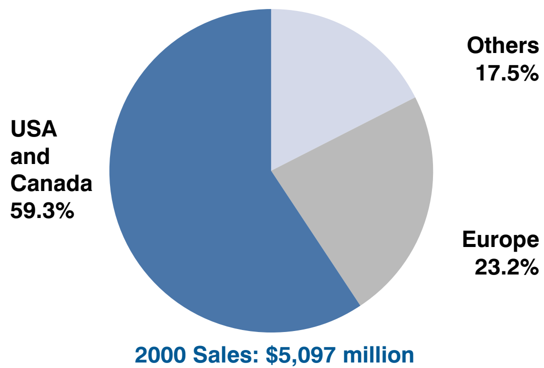
Ispat International is one of the world's largest steel producers, with steel shipments of 16.4 million tons in 2000. The Company has become the world's first truly global steel producer, with steelmaking operations in seven countries, including the U.S., Canada, Mexico, Trinidad, Germany, France and Ireland. Ispat International's North American operations are important producers of high quality carbon sheet and coated products, as well as high quality long products. In Europe, the Company is the largest producer of high quality wire rods.

The Company is also the world's largest producer and consumer of DRI at its integrated mini-mills in Canada, Mexico, Trinidad and Germany. It has significant strategic interests in iron ore mines, pelletizing facilities and deep water port facilities, giving the Company's operations important control over its raw material needs. Ispat International also has significant downstream capabilities for supplying wire drawing and wire products, including free-cutting and speciality steels, which provide a stable mill load and allow the Company to increase its value addition to customers.

In particular, our diversified operations enable us to identify best practices at individual plants and transfer them to other operations, using our Knowledge Integration Program (K-I-P). This facilitates the benchmarking of each subsidiary against the best performers in the Company, and ultimately with the best in the industry. It allows the entire Company to benefit from the combined expertise of its managers, resulting in our subsidiaries being able to continually drive down cost and improve operating efficiencies.

The global steel market was a very challenging environment during 2000. At Ispat International, management efforts were largely focused on refining business performance to achieve further cost reductions, improving our value-added product mix, realizing further synergies across business units, improving liquidity and enhancing management skills.

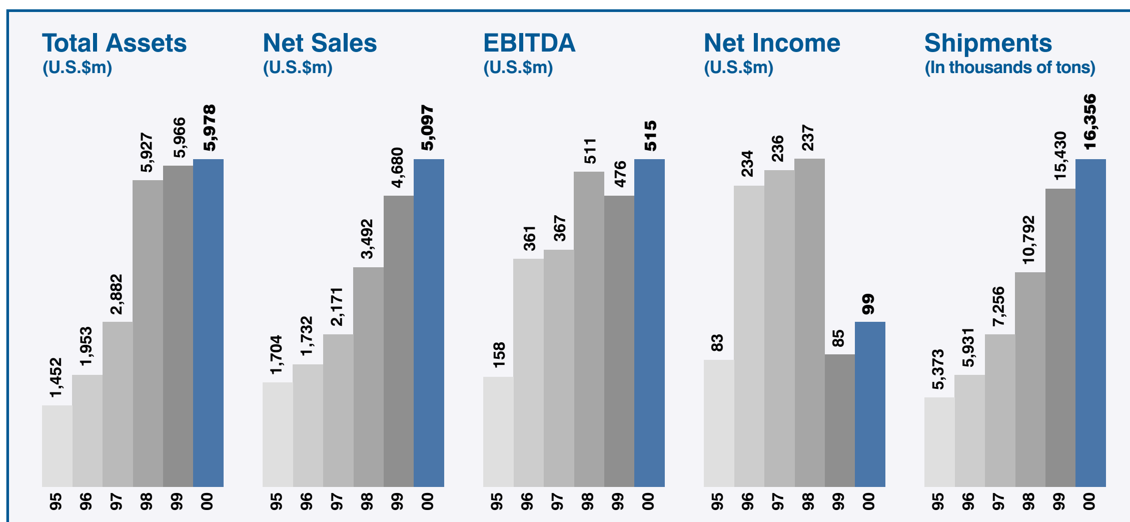
SALES BY GEOGRAPHIC REGION



2000 Sales: $5,097 million

Significantly, the North American and European markets evolved quite differently during the year.

While the second half and, more specifically, the fourth quarter brought increasingly difficult conditions to the North American markets, the situation in Europe has remained relatively stable throughout the year. In broad terms, the market challenges in North America stemmed from two factors. On the one hand, energy costs rose substantially, pushing up manufacturing costs.



On the other hand, high volumes of imported steel led to lower selling prices and prevented manufacturers from clawing back these increases. The inevitable result was a squeeze on margins that took its toll on profitability.

NORTH AMERICA

Ispat Inland Inc.

In the U.S., an oversupply of steel caused by imports and high levels of service centre inventories eroded steel prices. In spite of this, Ispat Inland was able to maintain a fairly stable order book throughout the year. Net sales for the year at the Company's subsidiary, the nation's fifth largest integrated steel producer, were lower by 4% and shipments decreased by 3% as compared to the previous year. Gross margin, excluding one-time charges, decreased from 12.4% to 8.4%, due to higher operating costs arising from unusually high energy prices and increased cost of other purchased inputs.

The Company believes that the North American market is continuing to experience a high level of imports, causing steep declines in steel selling prices, which are expected to improve only in the second half of 2001. To combat the increased pressure on margins, the Company is working on various initiatives to achieve sustainable savings at Ispat Inland. Based on significant cost savings of $275 million achieved in the first eighteen months of its acquisition, Ispat International continued to impart its low cost integrated mini-mill focus at Ispat Inland.

During the year, Ispat Inland and the United Steelworkers of America initiated a process, as agreed in their 1999 negotiations, to improve productivity in all areas, thereby reducing the workforce through attrition.

During 2000, Ispat Inland implemented a number of capital projects, selected because of their potential for significant payback in quality, productivity and cost. The curved mold on the continuous slab caster at No. 4 Basic Oxygen Furnace was replaced at mid-year with a straight mold that enables the company to cast demanding grades of steel, without sacrificing surface quality or casting speed. Through precise engineering, the installation was completed with minimal downtime.

At the 80" Hot Strip Mill, construction began in 2000 on a third walking-beam furnace to replace the remaining pusher furnaces. The new furnace, scheduled for commissioning in the first quarter of 2001, will enable the mill to raise its capacity by 800,000 tons a year while simultaneously saving energy and improving yield.

Ispat Sidbec Inc.

Ispat Sidbec, Canada's fourth largest steelmaker, manufactures a wide range of steel products, including hot, cold and galvanized sheet, wire rods, wire, bar and pipe products. In 2000, imports remained at record levels in Canada, causing a steep decline in steel selling prices for Ispat Sidbec, whose customers are primarily in the domestic market and the U.S.. With steel selling prices falling and natural gas costs rising, a decision was taken to temporarily shut down Ispat Sidbec's DRI plant and supply the majority of the subsidiary's raw material needs from Caribbean Ispat, where more favourable energy contracts are in place, and from scrap. Although market conditions were very tough, Ispat Sidbec increased both net sales and shipments by 6% as compared to 1999, an exceptional performance in the circumstances. However, gross margins fell from 19.6% to 17.0%.

Ispat Mexicana S.A. de C.V.

Ispat Mexicana, Mexico's largest steel exporter, specializes in the production of slabs, a semi-finished steel product used for making tin plate, line pipe for oil and gas transportation, automotive parts and other consumer appliances. Over the year, the company's net sales increased by 32%, and slab shipments increased modestly by 2%, as compared to the previous year. Gross margins increased from 16.2% in 1999 to 22.1% in 2000. During the year, natural gas prices in Mexico rose substantially, raising operating costs. Although average selling prices for slabs increased by 29% during the year, the increase in selling prices in the second half was not sufficient to offset the higher raw material and energy costs. As a result, in the fourth quarter, one third of Ispat Mexicana's slab manufacturing capacity and the subsidiary's DRI HYL module were temporarily shut down.

In a longer perspective, it has become apparent that the slab price cycle, which historically ran over several years, is now much shorter. Recent trends indicate a cycle time of less than a year. Slab prices are expected to bottom out during the first half of 2001. Ispat Mexicana is well positioned to take advantage of favourable market conditions as soon as they emerge.

Caribbean Ispat Limited

During 2000, the U.S. market which accounts for the majority of Caribbean Ispat's sales was adversely affected by continued over-supply of wire rod from non-traditional sources, and by trade action relating to wire rod imports into the U.S. from virtually all countries, under section 201 of the United States Trade Act of 1974. Over the year, Caribbean Ispat increased net sales by 24%, although steel shipments were lower by 4% as compared to 1999. Gross margin fell from 11.6% to 9.8%.

One of Ispat International's important advantages in the global marketplace stems from its world leadership in the production of Direct Reduced Iron. With three DRI plants, Caribbean Ispat in Trinidad is the mainspring of this strategy, as its capacity enables it to supply high quality DRI to other Ispat International subsidiaries. More importantly in view of the problems caused by higher gas prices in North America, it has firm energy supplies at long-term contract prices. During the year, these circumstances enabled Caribbean Ispat to increase DRI shipments by 30%. Although part of this extra volume was used to supply internal needs, the company also exported higher quantities of DRI to the merchant market as compared to the previous years.

EUROPE

In Europe, the strategy at Ispat Germany and Ispat Unimetal is to maintain the Company's position as the leading producer of high quality wire rod, where it has a 20% share of an 11 million ton market. The Group's European facilities in Germany, France, Luxembourg and Ireland have achieved a high level of integration, providing customers with a high quality service, including just-in-time delivery, continuous product upgrades and rigid quality assurance practices.

Ispat Europe's centralized marketing office in Luxembourg was able to implement price increases during the year, and to ensure a cohesive marketing and production approach for the Company's regional operations in the European marketplace. In February 2001, Ispat International N.V. completed a bond offering in respect of Ispat Europe, which successfully raised €150 million. Going forward, we believe, the European long products business is expected to remain stable, both in terms of shipments and prices.

Ispat Germany GmbH

At Ispat Germany, net sales for the year were marginally lower, although shipments were higher by 7% as compared to the previous year, and thanks to the relatively stability of the European economy, several price increases for long products were sustained. Gross margins increased from 9.6% to 14.7%. The production disruptions experienced in 1999, following the dual construction and installation of a billet caster and a bloom caster at the former Thyssen Long Product Division were corrected following a management change. Consequently, Ispat Germany realized the full benefits of capital projects implemented after its acquisition of the operations in Duisburg in 1997. The single electric arc furnace at Ispat Hamburger Stahlwerke, for the first time, produced billets in excess of one million metric tonnes.

The steep energy price rises that adversely affected performance in North America did not occur to the same extent in Europe. We were able to successfully offset increases in any uncontrollable cost by better operational efficiency, increased volume of despatches and higher net realization for our products, partly due to improved product mix. As a result, our operations in both Duisburg and Hamburg performed well in 2000.

Ispat Unimetal Group S.A.

Ispat Unimetal's high quality manufacturing plants are now working alongside the Company's highly

efficient steelmaking operations and rolling mills in Germany, creating products with outstanding potential for adding value. In 2000, the company's contribution to Ispat International's consolidated net sales almost doubled due to the inclusion of Ispat Unimetal for the full year, as compared to six months from the period it was acquired in 1999. Similarly, shipments rose by 128%. Average prices in Euro were flat due to the implementation of a revised product mix strategy for wire rods and wire products.

Building Leadership through People

In order to fully realize the synergies and opportunities of a global company, Ispat International has maintained an organizational mindset that can continuously adapt to the challenges of a dynamic global environment. Its multi-national, multi-cultural organization, with approximately 17,800 employees and steelmaking operations spread across seven countries, gives the Company specific advantages in relation to steel companies that are less diversified.

As the Company has grown into a truly global operation, it has become increasingly important to ensure that its lean management structure has access to management skills of the very highest calibre. In recent years, greater emphasis has therefore been placed on strengthening skills, knowledge and experience throughout the management structure. To achieve this objective, we have developed a Global Executive Development Program, which is reinforced with performance incentives, a stock option scheme and training programs, aimed at improving our collective ability to operate effectively at the highest possible level.

In parallel, the Global Stock Option Plan aims to increase executive involvement in the financial ownership of the Company, and to encourage senior executives to play an active role in the Company's development. Ultimately, all Ispat International's human resources-related initiatives are rooted in a single-minded determination to generate additional shareholder value by increasing revenues, reducing costs and raising productivity through continuous improvement.

MANAGEMENT BOARD AND ADVISORS

Board of Directors

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

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

Zubaid Ahmad.
Member of the Board.

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

Aditya Mittal.
Member of the Board, Director (Finance) and Head of Mergers and Acquisitions.

Usha Mittal.
Member of the Board.

Malay Mukherjee.
Member of the Board, 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.

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

Narayanan Vaghul.
Member of the Board.

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 data)

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..

	Year Ended December 31,				
	1996	1997	1998	1999	**2000**
Statement of Income Data					
Net sales	$ 1,732	$ 2,171	$ 3,492	$ 4,680	**$ 5,097**
Cost of sales (exclusive of depreciation)	1,363	1,717	2,871	4,052	**4,424**
Gross profit (before deducting depreciation)	369	454	621	628	**673**
Gross margin	21.3%	20.9%	17.8%	13.4%	**13.2%**
Depreciation	49	50	91	164	**177**
Selling, general and administrative expenses	52	80	126	156	**181**
Operating income	268	324	404	308	**315**
Operating margin	15.5%	14.9%	11.6%	6.6%	**6.2%**
Other income (expense) – net	66	1	–	15	**23**
Financing costs:					
Net interest expenses	(41)	(55)	(132)	(184)	**(216)**
Net gain (loss) from foreign exchange and monetary position	(22)	(8)	16	(11)	**–**
Income before taxes	271	262	288	128	**122**
Net income	234	236	237	85	**99**
Basic and diluted earnings per common share	2.11	2.02	1.93	0.71	**0.82**
Cash dividends per common share[1]			$ 0.15	$ 0.15	**$ 0.15**

	Year Ended December 31,				
	1996	1997	1998	1999	**2000**
Balance Sheet Data					
Cash and cash equivalents, including short-term investments	$ 279	$ 804	$ 525	$ 317	**$ 292**
Property, plant and equipment – net	759	942	3,179	3,333	**3,299**
Total assets	1,953	2,882	5,927	5,966	**5,978**
Payable to banks and current portion of long-term debt	338	436	549	457	**391**
Long term debt	877	1,104	2,400	2,184	**2,124**
Shareholders' equity	59	662	801	854	**884**
Other Data					
Net cash provided (used) by operating activities	$ 82	$ (95)	$ 253	$ 599	**$ 381**
Net cash provided (used) by financing activities	224	531	987	(432)	**(139)**
Net cash used in investing activities	(93)	(296)	(1,474)	(184)	**(195)**
EBITDA[2]	$ 361	$ 367	$ 511	$ 476	**$ 515**
Total production of DRI (thousand of tonnes)	5,030	5,765	6,292	6,353	**6,872**
Total production of liquid steel (thousand of tons)	6,404	7,775	11,637	15,342	**17,100**
Total shipments of steel products (thousand of tons)	5,931	7,256	10,792	15,430	**16,356**

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, 2000 and 1999 (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, United States; (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 16.4 million tons in 2000. Net sales have increased from $784 in 1994 to $5,097 in 2000. 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.

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

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

IHSW Acquisition: Effective January 1, 1995, the Controlling Shareholder, through an indirect subsidiary acquired the shares of HSW for approximately $6.

Irish Ispat Acquisition: Acquired in May 1996, for Irish Punt 1 and assumed debt of approximately $51. As part of the acquisition, the Irish government made a capital contribution of $30 and the Company made a capital contribution into Irish Ispat of $8.

ISRG/IWHG Acquisition: Acquired in October 1997, for approximately $68.

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

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

Industry Conditions and Pricing Environment: The steel industry is highly cyclical in nature and sensitive to general economic conditions. The Company believes that the global steel markets, which were severely impacted during 1998 due to turmoil in several Asian countries have never returned to pre-crisis levels. The Company's operating and financial performance in 2000 were severely affected by the steep rise in energy costs at several of its operations combined with lower steel selling prices for its flat products, particularly in its North American markets on account of an oversupply of steel triggered by high imports, and a softening in demand from automotive producers. 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 higher energy and other raw material prices and the adverse steel pricing environment.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Total steel shipments for 2000 were 16.4 million tons, as compared to 15.4 million tons for 1999. The increase is primarily due to higher shipments at most of the subsidiaries and the inclusion of Ispat Unimetal Group for the full year in 2000 as compared to 6 months in 1999. Excluding Ispat Unimetal Group, shipments increased by 1%.

Net Sales: Net sales increased by 9% to $5,097 in 2000 from $4,680 in 1999, primarily due to higher shipments by 6% and higher average selling prices by 3%.

At Ispat Inland, net sales decreased by 4% to $2,305 from $2,393, primarily due to a decrease in shipments by 3%. At Ispat Mexicana, net sales increased by 32% to $827 from $625, primarily due to a 29% increase in average selling prices for slabs and higher slab shipments by 2%. At Caribbean Ispat, net sales increased by 24% to $233 from $188 mainly due to higher average selling prices for both DRI and steel shipments and higher DRI shipments by 30%, offset in part by lower steel shipments by 4%. At Ispat Sidbec, net sales increased by 6% to $592 from $561 primarily due to higher shipments by 6%. At Ispat Germany, net

sales decreased marginally to $663 from $669 . Higher shipments by 7% and higher average selling prices in Euro by 7% were offset by the depreciation of the Euro against the U.S. Dollar. At Ispat Unimetal Group, net sales increased to $534 from $268 , primarily due to the inclusion of the results for the full year in 2000 compared to 6 months in 1999.

Gross Profit: Gross profit increased by 7% to $673 in 2000 from $628, primarily due to higher shipments by 6%, higher average selling prices by 3% and inclusion of the results of Ispat Unimetal Group for the full year in 2000 compared to 6 months in 1999, offset in part by higher average costs. As a percentage of net sales, gross profit decreased marginally to 13.2% in 2000 from 13.4% in 1999.

At Ispat Inland, gross margin, excluding the impact from one-time charges as discussed earlier decreased to 8.4% from 12.4%, primarily due to higher operating costs arising from unusually higher energy prices and increase in cost of other purchased inputs. At Ispat Mexicana, gross margin increased to 22.1 % from 16.2%, primarily due to higher selling prices of slabs, offset in part by higher operating costs primarily arising from higher energy costs and higher input prices. At Caribbean Ispat, gross margin decreased to 9.8% from 11.6%, primarily due to higher operating costs partly offset by higher selling prices. At Ispat Sidbec, gross margin decreased to 17.0% from 19.6%, primarily due to increase in operating costs arising from higher energy prices. At Ispat Germany, gross margin increased to 14.7% from 9.6%. Higher average selling prices by 7% in Euro was offset in part by higher average costs by 1% in Euro. At Ispat Unimetal Group, gross margin decreased marginally to 12.6% from 13.0% primarily due to higher average costs by 1% in Euro.

Operating Income: Operating income increased by 2% to $315 in 2000 from $308 in 1999, primarily due to higher gross profit as discussed above offset in part by higher SG&A expenses and higher depreciation. As a percentage of net sales, operating income decreased marginally to 6.2% from 6.6%.

At Ispat Inland, excluding the impact from one-time charges discussed earlier, operating income as a percentage of net sales decreased to 2.3% from 6.1%, primarily due to lower gross profit and lower gross margin as discussed above. At Ispat Mexicana, operating income as a percentage of net sales, increased to 17.5% from 10.6%, primarily due to the increase in gross margin as discussed above. Caribbean Ispat achieved break-even in 2000 compared to an operating loss in 1999 primarily due to lower SG&A expenses. At Ispat Sidbec, operating income as a percentage of net sales decreased to 12.2% from 14.9% primarily due to lower gross margin as discussed above. At Ispat Germany, operating income as a percentage of net sales increased to 8.0% from 4.4%, primarily due to higher gross margin as discussed above offset in part by higher SG&A expenses and higher depreciation. At Ispat Unimetal Group, operating income as a percentage of net sales decreased to 4.6% from 6.8% primarily due to higher SG&A expenses and higher depreciation.

Financing Costs: Net interest expense in 2000 was $216 as compared to $184 in 1999 primarily due to interest capitalized during construction period of projects in 1999, and higher average cost of borrowings.

Net Income: Net income increased by 16% to $99 in 2000 from $85 in 1999, due to the foregoing reasons and lower taxation.

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 at December 31, 1999 and 2000, 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, 2000, all expressed in millions of U.S. dollars. These consolidated financial statements 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, at December 31, 1999 and 2000 and for each of the three years in the period ended December 31, 2000 and the consolidated financial statements of Ispat Unimetal S.A. at December 31, 1999 and 2000, and for the six-months period ended December 31, 1999 and for the year ended December 31, 2000 (each of which consists of consolidated subsidiaries of the Company), which financial statements reflect total assets constituting 18% of consolidated total assets at December 31, 1999 and 2000, and total net sales constituting 15%, 16% and 21%, respectively, of consolidated total net sales for the years ended December 31, 1998, 1999 and 2000. 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 United States of America. 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.

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 at December 31, 1999 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles in the United States of America.

Deloitte & Touche
Accountants
Rotterdam, The Netherlands
March 16, 2001, except as to paragraph 6 of Note 9,
which is as of March 30, 2001.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 1999	December 31, 2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 170	**$ 214**
Short-term investments	147	**78**
Trade accounts receivable, net of allowance for doubtful accounts of $30 as at December 31, 1999 and 2000	679	**601**
Inventories (Note 4)	1,045	**1,015**
Prepaid expenses and other	84	**69**
Deferred tax assets (Note 13)	31	**28**
Total Current Assets	2,156	**2,005**
Property, Plant and Equipment – net (Note 5)	3,333	**3,299**
Investments in Affiliates and Joint Ventures (Note 6)	305	**335**
Deferred Tax Assets (Note 13)	58	**93**
Intangible Pension Assets	11	**102**
Other Assets	103	**144**
Total Assets	$ 5,966	**$ 5,978**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to banks and current portion of long-term debt (Note 8)	$ 457	**$ 391**
Trade accounts payable	606	**640**
Accrued expenses and other liabilities	332	**347**
Deferred tax liabilities (Note 13)	45	**56**
Total Current Liabilities	1,440	**1,434**
Long-Term Debt (Notes 9 and 10)	2,184	**2,124**
Deferred Tax Liabilities (Note 13)	130	**137**
Deferred Employee Benefits (Note 12)	1,227	**1,294**
Other Long-Term Obligations	131	**105**
Total Liabilities	5,112	**5,094**
Commitments and Contingencies (Notes 14 and 15)		
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	**479**
Retained Earnings	320	**401**
Cumulative Other Comprehensive Income	50	**–**
Total Shareholders' Equity	854	**884**
Total Liabilities and Shareholders' Equity	$ 5,966	**$ 5,978**

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,		
	1998	1999	**2000**
Net Sales	$ 3,492	$ 4,680	**$ 5,097**
Costs and expenses:			
Cost of sales (exclusive of depreciation shown separately below)	2,871	4,052	**4,424**
Depreciation	91	164	**177**
Selling, general and administrative	126	156	**181**
	3,088	4,372	**4,782**
Operating income	404	308	**315**
Other income (expense) – net	–	15	**23**
Financing costs:			
Interest (expense) – net of capitalized interest of $18 in 1998, $23 in 1999 and $2 in 2000	(178)	(209)	**(241)**
Interest income	46	25	**25**
Net gain (loss) from foreign exchange	16	(11)	**–**
	(116)	(195)	**(216)**
Income before taxes	288	128	**122**
Income tax expense: (Note 13)			
Current	5	18	**20**
Deferred	46	25	**3**
	51	43	**23**
Net income	$ 237	$ 85	**$ 99**
Basic and diluted earnings per common share	$ 1.93	$ 0.71	**$ 0.82**
Weighted average common shares outstanding (in millions)	123	120	**120**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of U.S. Dollars)

	Year Ended December 31,		
	1998	1999	**2000**
Net Income	$ 237	$ 85	**$ 99**
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment – net of income taxes of $nil in 1998, $nil in 1999 and $6 in 2000	(3)	(5)	**(10)**
Minimum pension liability adjustment – net of income taxes of nil in 1998, $3 in 1999 and $12 in 2000	(1)	(5)	**(26)**
Others	3	(4)	**(14)**
	(1)	(14)	**(50)**
Comprehensive income	$ 236	$ 71	**$ 49**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common Stock				Cumulative Other Comprehensive Income		
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Pension and Others	Shareholders' Equity
Balance at December 31, 1997	126	$ 4	$ 558	$ 35	$ 65	$ –	$ 662
Net Income		–	–	237	–	–	237
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
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
Net Income		–	–	99	–	–	99
Other Comprehensive Income		–	–	–	(10)	(40)	(50)
Treasury Stock (Note 11)		–	(1)	–	–	–	(1)
Dividends on common shares @ $ 0.15 per common share		–	–	(18)	–	–	(18)
Balance at December 31, 2000	**120**	**$ 4**	**$ 479**	**$ 401**	**$ 47**	**$ (47)**	**$ 884**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of U.S. Dollars)

	Year Ended December 31, 1998	1999	2000
Operating activities:			
Net income	$ 237	$ 85	**$ 99**
Adjustments required to reconcile net income to net cash provided from operations:			
Depreciation	91	164	**177**
Deferred employee benefit costs	(19)	(43)	**(47)**
Net foreign exchange loss (gain)	(16)	11	**–**
Deferred income tax	46	25	**3**
Undistributed earnings from joint ventures	(18)	(33)	**(26)**
Other	28	(16)	**(12)**
Changes in operating assets and liabilities, net of effects from purchases of subsidiaries:			
Trade accounts receivable	(9)	52	**53**
Short-term investments	45	184	**64**
Inventories	(11)	136	**27**
Prepaid expenses and other	(16)	(20)	**(27)**
Trade accounts payable	(42)	116	**62**
Accrued expenses and other liabilities	(63)	(62)	**8**
Net cash provided from operating activities	253	599	**381**
Investing activities:			
Purchase of property, plant and equipment	(359)	(214)	**(184)**
Proceeds from sale of investments including affiliates and joint ventures	–	4	**23**
Investments in affiliates and joint ventures	–	15	**(25)**
Acquisition of net assets of subsidiaries, net of cash acquired	(1,115)	9	**–**
Other	–	2	**(9)**
Net cash used in investing activities	(1,474)	(184)	**(195)**
Financing activities:			
Proceeds from payable to banks	677	315	**2,294**
Proceeds from long-term debt	1,260	37	**297**
Payments of payable to banks	(673)	(453)	**(2,341)**
Payments of long-term debt	(180)	(313)	**(370)**
Purchase of treasury stock	(78)	–	**(1)**
Dividends	(19)	(18)	**(18)**
Net cash provided (used) in financing activities	987	(432)	**(139)**
Net increase (decrease) in cash and cash equivalents	(234)	(17)	**47**
Effect of exchange rate changes on cash	3	(1)	**(3)**
Cash and cash equivalents:			
At beginning of the year	419	188	**170**
At end of the year	$ 188	$ 170	**$ 214**

Supplemental disclosures of cash flow information

	1998	1999	2000
Cash paid during the year for:			
Interest – net of amounts capitalized	$ 186	$ 219	**$ 188**
Income taxes	4	31	**3**

Supplemental schedule of non-cash investing and financing activities:

Acquisition Date	Assets Acquired	Fair Value of Assets Acquired	Cash Paid	Debt Assumed
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	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 common stock of the Operating Subsidiaries.

Basis of presentation

The consolidated financial statements, which include the accounts of Ispat International and its subsidiaries all of which are controlled by Ispat International, have been prepared in accordance with U.S. Generally Accepted Accounting Principles ('U.S. GAAP') (see also Note 2). Intercompany balances and transactions have been eliminated on consolidation.

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 subsidiaries of Ispat International, each of which is a wholly owned 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.

Foreign currency translation and translation of financial statements

Transactions in currencies other than the functional currency of a subsidiary are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are remeasured at rates of exchange prevailing at the balance sheet date and the related transaction gains and losses are reported in the statements of income.

Upon consolidation, the results of operation of the subsidiaries and affiliates whose functional currency is other than the U.S. Dollar are translated into U.S. Dollars at weighted average exchange rates in the year and assets and liabilities are translated at year end exchange rates. Translation adjustments are presented as a separate component of other comprehensive income in the financial statement and are included in net earnings only upon sale or liquidation of the underlying foreign subsidiary or affiliated company.

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

New Accounting Pronouncements – Statement Financial Accounting Standards ('SFAS') No. 133, Accounting for Derivative Instruments and Hedging Activities ('SFAS 133') as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, is effective for the Company as of January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet date at fair value. Gains or losses resulting from changes in the value of derivatives are accounted for depending on the intended use of the derivative and whether they qualify for hedge accounting. The adoption of SFAS 133, effective January 1, 2001, will result in an increase in other comprehensive income, net of tax, of $18 reported as the cumulative effect of adopting an accounting principle.

Accounting for certain transactions involving stock compensation

Financial Accounting Standards ('FASB') Interpretation 44, 'Accounting for Certain Transactions Involving Stock Compensation', ('FIN 44'), was adopted by the Company effective July 1, 2000. FIN 44 provides an interpretation of Accounting Principles Board Opinion 25, 'Accounting for Stock Issued to Employees' ('APB 25') on accounting for employee stock compensation and describes its application to certain transactions. It applies on a prospective basis to events occurring after July 1, 2000, except for certain transactions involving options granted to non-employees, repriced fixed options, and modification to add reload option features, which apply to awards granted after December 31, 1998. The provisions of FIN 44 have not impacted transactions entered into during the 6 months ended December 31, 2000.

Other recent accounting pronouncements

In the fourth quarter the Company adopted certain recently issued accounting pronouncements primarily related to the classifications of items in the income statement. In December 1999 the Securities and Exchange Commission ('SEC') issued Staff Accounting Bulletin No. 101, 'Revenue Recognition in Financial Statements', which summarizes the SEC's staff interpretation of generally accepted accounting principles related to revenue recognition and classification. During the third quarter 2000, the FASB's Emerging Issues Task Force ('EITF') issued EITF consensus No. 99-19, 'Reporting Revenue Gross as a Principal versus Net as an Agent', which addresses whether certain costs items should be as a reduction of revenues or as a component of cost of sales, and EITF consensus No. 00-10, 'Accounting for Shipping and Handling Fees at Cost', which addresses the classification of costs for shipping goods to customers. The adoption of these new pronouncements had no net effect on the financial position or results of operations of the Company.

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'. At December 31, 2000 and 1999 and for each of the three years ended December 31, 2000, 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 future 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. If the undiscounted future net cash flows are less than the carrying amount of the asset, the asset is deemed impaired. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset.

Investment in affiliates and joint ventures

Investments in majority owned affiliates and joint ventures where control does not exist and 20% to 50% owned affiliates and joint ventures in which the Company has the ability to exercise significant influence are accounted for under the equity method of accounting whereby the investment is carried at cost of acquisition, plus the Company's equity in undistributed earnings or losses since acquisition, less dividends received.

Investments in less than 20% owned affiliates are accounted for by the cost method. Such investments are not publicly traded.

The Company periodically reviews its investments in affiliates for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. The amount of any write-down is included in the results of operations as a realized loss. No write-downs have been recognized in any of the years covered by this report.

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.

Retirement benefits

The Company has defined benefit pension plans covering substantially all of its employees. Benefits are based on, generally, the employee's years of service and compensation. The Company's plans are funded in conformity with the funding requirements of applicable government regulations. For those 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.

In addition to providing pension benefits, the Company sponsors several unfunded defined post-retirement plans that provide health care and life insurance benefits to substantially all active and retired employees and their covered dependent and beneficiaries. These plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features, such as deductibles and coinsurance. Covered employees generally are eligible for these benefits when they have reached a certain age and are based on length of service.

Revenue recognition

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 installation of property, plant and equipment, is capitalized. Additionally, in the absence of financings specifically for the construction or installation of property, plant and equipment, interest expense is capitalized at the weighted average rate for all debt during the construction and installation period applied to the construction in process.

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 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 and liabilities are measured using enacted rates in effect for the year in which the differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of operations in the period in which the enactment date changes. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets 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 exposures to fluctuations in the 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 foreign 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. The computation of diluted earnings per common share is similar to basic earnings per common share, except that diluted earnings per share reflects the potential dilution that could occur if dilutive securities and other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings (losses) of the Company. The Company's potentially dilutive securities, which consist of 1,314,000 options at December 31, 1999 and 2,512,000 options at December 31, 2000, are anti-dilutive and, therefore, are not included in the computation of weighted average shares used in computing diluted earning per share.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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" ('SFAS 133') 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 25, 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 123.

Segment reporting

The Company operates in a single business segment, which is composed of 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 2000 classifications.

NOTE 3: ACQUISITIONS

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

On July 1, 1999, the Company acquired Ispat Unimetal, comprised of Ispat Unimetal S.A. and its two wholly-owned subsidiaries Trefileurope ('Trefileurope') and Societe Metallurgique de Revigny S.N.C. ('SMR'), from Usinor for €99.5 ($106.9), which consisted, solely, of the assumption of debt.

The above acquisitions were accounted for by the purchase method of accounting. Accordingly, property, plant and equipment of businesses acquired was recorded at the time of acquisition based on reports provided by independent professionally qualified appraisers. Land was recorded at market value and other components at the current replacement cost for similar capacity unless the expected future use of the assets indicated a lower value to the Company. The purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed. Based on the final allocations of the purchase prices to the assets acquired and the liabilities assumed, no goodwill was recognized. 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 14.

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 1998. The pro forma data give effect to the actual operating results prior to the acquisition, adjusted to include the pro forma effect of interest expense, amortization of goodwill and income taxes; they do not reflect any benefits from economies which might be achieved from combining operations. 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, 1998
Net sales	$ 4,783
Operating income	478
Net income	232
Basic and diluted earnings per common share	1.89

If the acquisitions of Ispat Unimetal, Trefileurope and SMR had occurred on January 1, 1998 and 1999, respectively, pro forma net sales, pro forma operating income, pro forma net income and pro forma basic and diluted earnings per common share for 1998 and 1999 would not have been materially different from the amounts reported.

NOTE 4: INVENTORIES

	December 31, 1999	December 31, 2000
Finished products	$ 337	**$ 343**
Production in process	292	**280**
Raw materials	291	**255**
Manufacturing supplies, spare parts and other	125	**137**
	$ 1,045	**$ 1,015**

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Land	Buildings and improvements	Machinery and equipment	Construction in process	Total
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
Balance at December 31, 2000					
Gross value	75	566	3,559	107	4,307
Accumulated depreciation	–	(143)	(865)	–	(1,008)
Net carrying value	**$ 75**	**$ 423**	**$ 2,694**	**$ 107**	**$ 3,299**

NOTE 6: INVESTMENTS IN AFFILIATES

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

Investee	Operating activity	Ownership percentages	Type of ownership	December 31, 1999	2000
Located in United States					
Empire Iron Mining Partnership ('E.I.M.P.')	Taconite/ Pellets	40%	Partnership	$ 57	**$ 53**
PCI Associates	Pulverized coal	50%	Partnership	21	**21**
I/N Tek[1]	Cold rolling	60%	Partnership	48	**49**
I/N Kote	Galvanizing	50%	Partnership	108	**122**
Located in Mexico					
Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. ('Peña Colorada')	Mining and pelletizing plant	50%	Common stock	18	**20**
Servicios Siderúrgicos Integrados, S.A. de C.V. ('Sersiin')	Port operations, lime, industrial gases and engineering workshop	50%	Common stock	21	**24**
Located in Canada					
Sorevco	Galvanizing plant	50%	Limited partnership	10	**8**
Delta Tube	Tubes	40%	Limited partnership	2	**2**
Located in Germany					
Westfälische Drahtindustrie GmbH	Wire drawing	33.3%	Common stock	8	**9**
Other	–	–	–	12	**27**
				$ 305	**$ 335**

(1) I/N Tek, a general partnership formed for a joint venture between the Company and Nippon Steel Corporation ('NSC'), owns and operates a cold-rolling facility. I/N Tek is 60% owned by a wholly owned subsidiary of the Company and 40% owned by NSC. The Company has rights to the productive capacity of the facility, except in certain limited circumstances and, under a tolling arrangement with I/N Tek, has an obligation to use the facility for the production of cold rolled steel. The Company does not exercise control over I/N Tek, as all significant management decisions of the joint venture require agreement by both the partners. Due to this lack of control by the Company, the Company accounts for its investment in I/N Tek under the equity method.

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

	Year ended December 31, 1998	1999	2000
Condensed Statement of Income Data			
Gross revenue	$ 1,778	$ 1,724	**$ 1,728**
Gross profit	214	211	**277**
Net income	107	123	**94**

	December 31, 1999	2000
Condensed Balance Sheet Data		
Current assets	$ 459	**$ 434**
Total assets	1,813	**1,744**
Current liabilities	458	**450**
Total liabilities	1,211	**1,126**
Net assets	602	**618**

NOTE 7: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties, all of which are affiliates and joint ventures of the Company, in the normal course of operations were as follows:

	Year ended December 31,		
	1998	1999	2000
Transactions			
Purchases of raw material:			
Peña Colorada	$ 31	$ 31	**$ 34**
Sersiin	18	20	**23**
E.I.M.P	55	115	**118**
PCI Associates (Tolling fee)	16	39	**46**
Product sales:			
Sorevco	18	25	**19**
I/N Kote	158	370	**343**
Other	7	7	**6**
Product purchases:			
I/N Tek (Tolling charges)	69	144	**146**
Other	43	26	**7**
Balances			
Receivables:			
Others	8	4	**4**
Payables:			
Sersiin	15	8	**20**
Others	6	10	**5**

In addition to the transactions with affiliates and joint ventures, each of Ispat Karmet and P.T. Ispat Indo, indirect wholly-owned subsidiaries of the controlling shareholder, have entered into management services agreements 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 by 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 $689 of which $638 is committed and $51 is uncommitted. At December 31, 2000, the Company had a total of $219 in borrowings outstanding under such bank lines and working capital facilities(1999 - $496), of which $202 is presented under current liabilities (1999 - $256) and $17 is presented as long-term debt (1999 - $290) The Company had temporary bank overdrafts of $26 at December 31, 2000 (1999 - $50). Borrowings under the lines are primarily denominated in U.S. dollars, except for borrowings of $68 and $52 at December 31, 1999 and 2000, respectively, under a Deutsche mark 270 million revolving credit facility (Deutsche mark 275 revolving credit facility in 1999), $6 and $17 at December 31, 1999 and 2000, respectively, under a 147 million Canadian dollar facility (147 million Canadian dollar facility in 1999), $13 and $9 at December 31, 1999 and 2000, respectively under a 10.5 million Irish Punt or equivalent in any other currency (10.5 million Irish Punt or equivalent in any other currency in 1999) and $7 and $2 at December 31, 2000 under French Franc and Italian Lira credit facilities respectively ($3 under Italian Lira credit facilities in 1999). 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 bank lines, working capital facilities and temporary bank overdrafts ranged from 3.9% to 8.0% in 1999 and 5.1% to 8.6% in 2000.

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 into 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 $1,094 at December 31, 2000.

NOTE 9: LONG-TERM DEBT

	December 31, 1999	December 31, 2000
First Mortgage Bonds:		
Series U, Tranche B, $350, due July 16, 2005	$ 345	**$ 341**
Series U, Tranche C, $350, due July 16, 2006	345	**341**
Series R, 7.9% due January 15, 2007	56	**43**
Series 1977, 5.75% due February 1, 2007	25	**23**
Series 1993, 6.8% due June 1, 2013	44	**44**
Series 1995, 6.85% due December, 2012	19	**19**
Senior Secured Credit Facilities[1]:		
Tranche A, $150, LIBOR plus 1.25% – 2.25%	120	**78**
Tranche B, $125, LIBOR plus 1.75% – 2.75%	123	**121**
Tranche C, $125, LIBOR plus 2.25% – 3.25%	123	**121**
Credit line agreement denominated in U.S. Dollars, floating interest	285	**415**
Unsecured Structured Senior Export Certificates, 10.125%	220	**157**
Unsecured Senior Notes, 10.375%	130	**–**
Industrial Development Revenue Bonds:		
Pollution Control Project No 11, 7.125% due June 1, 2007	22	**22**
Pollution Control Project No 13, 7.250% due November 1, 2011	43	**42**
Exempt Facilities Project No 14, 6.7% due November 1, 2012	6	**5**
Exempt Facilities Project No 15, 5.75% due October 1, 2011	52	**52**
Exempt Facilities Project No 16, 7% due January 1, 2014	8	**8**
Loan payable to Export-Import Bank of the U.S., LIBOR plus 0.30%	49	**39**
Loans payable to financial institutions	43	**36**
Senior Secured Notes, 10.4%	107	**107**
Loans payable to International Finance Corporation, LIBOR plus 3.25% – 3.38%	64	**51**
Revolving Credit Facilities – 7.09% to 7.71%	–	**152**
Other	156	**96**
Total long-term debt	2,385	**2,313**
Less current portion of long-term debt	201	**189**
Total long-term debt	$ 2,184	**$ 2,124**

(1) Rates are contingent on the achievement of certain financial ratios.

First Mortgage Bonds

Series U, Tranche B and C (the 'Term Loans') are with a syndicate of financial institutions (the 'Term Loan Lenders') for whom Credit Suisse First Boston is the agent. Each of the Tranche B and Tranche C Loan is repayable in quarterly installments of $1 until maturity. The lenders are committed to renewing the Letter of Credit annually for five years, as or contingent on the Company and Borrower making certain representations and warranties.

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 (3) the London Interbank Offered Rates ('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 agreement, falls to specified levels. The effective rate of interest paid on Series U First Mortgage Bonds was 9.6% for the year ended December 31, 2000.

The Company entered into a hedge as required under the 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 Ispat International.

NOTE 9: LONG-TERM DEBT continued

A substantial portion of the Company's facilities at its Indiana Harbor Works is subject to a lien to First Mortgage. This property had a book value of approximately $1,689 at December 31, 2000.

The U.S. Operating Subsidiary must also maintain a minimum Consolidated EBITDA (as defined in the Credit Agreement). The U.S. Operating Subsidiary has amended the Credit Agreement, effective March 30, 2001, to eliminate the minimum Consolidated EBITDA requirement for 2001 and allow the U.S. Operating Subsidiary to include loans or capital contributions from Ispat as EBITDA in determining compliance with the covenant in future periods. Under terms of the amendment, the interest rates on the Tranche B and Tranche C loans will increase to LIBOR plus 3.75% and the fee for the LC will increase to 3.75%. These rates will be reduced if the U.S. Operating Subsidiary's leverage falls to specified levels. The amendment also provides for some additional restrictions over certain activities. Finally, Ispat agreed to lend $60 million to the U.S. Operating Subsidiary at the execution of the amendment, in addition to the $50 million funded earlier in the first quarter. This $110 million cannot be repaid until the U.S. Operating Subsidiary's leverage falls to specified levels.

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 2000 the effective average rate is 8.37% (1999 effective average rate was 7.57%). The facility will mature in July 2003 and is repayable in quarterly installments of $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 2000 the effective average rate is 7.72% (1999 effective average rate was 7.42%). The facility will mature in July 2004 and is repayable in quarterly installments of $0.3 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 2000 the effective average rate is 8.22% (1999 effective average rate was 7.92%). The facility will mature in January 2005 and is repayable in quarterly installments of $0.3 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. The Company has an interest rate swap agreement for $196 (1999 - $198) of the outstanding borrowings, which effectively fixed the interest base rate at 4.95% on the swapped portion.

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

Balance represents loans payable to Mexican banks under a credit line agreement denominated in U.S. dollars with annual floating interest rates ranging from 8.1% to 10.6% in 2000 (7.5% to 9.1% in 1999). The loans are repayable on maturity with maturities ranging from 2001 to 2009.

Unsecured Structured Senior Export Certificates, 10.125%

The Unsecured Structured Senior Export Certificates due 2003 (the '1996 Certificates') are denominated in U.S. dollars with interest payable quarterly at 10.125% per annum. The principal amount of the senior certificates is payable in quarterly installments 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.

On November 23, 2000, the senior export notes were downgraded by Standard & Poors resulting in a triggering event under the agreement. Consequently, pursuant to section 5.2 (a) (ii) of the trust agreement, the 1996 Certificates are required to be redeemed in an aggregate principal amount equal to aggregate principal amount, plus accrued interest, if any, thereon to the date of redemption, plus the applicable 'Certificate Make Whole Premium'.

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.

NOTE 9: LONG-TERM DEBT continued

Unsecured Senior Notes, 10.375%

Unsecured Senior Notes due March 2001 (the 'Senior Notes') were denominated in U.S. dollars with interest payable semi-annually at 10.375% per annum. These notes were fully repaid in 2000 with a prepayment premium of $2.

Thyssen Stahl AG, denominated in Deutsche Marks

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 in 1999.

Loan payable to Export-Import Bank of the United States

The Loan payable to a financial institution guaranteed by the Export-Import Bank of the United States ('Exim Bank') is denominated in U.S. dollars. The loan accrues interest at annual floating rates of LIBOR plus 0.30% (totaling 7.0% at December 31, 2000). The principal is payable in semi-annual installments beginning on April 15, 1998 and maturing in 2004.

Loans payable to financial institutions

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

Senior Secured Notes, 10.4%

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

Loans payable to International Finance Corporation

Loans payable to the International Finance Corporation are denominated in U.S. dollars and collateralized by property, plant and equipment with a net book value of $428 at December 31, 2000. Principal and interest are due in semi-annual installments beginning December 1998 with interest accruing at LIBOR plus 3.25% to 3.38%, maturing in 2004 through 2006.

At the request of the Trinidad Operating Subsidiary the International Finance Corporation and their Participants have agreed to a waiver of the DRI pricing covenant for 2000 an amendment to the DRI pricing and certain ratio covenants for 2001 and an amendment to certain ratio covenants as of December 31, 2000. In addition, the loan agreement was amended, changing the DRI pricing covenant as well as reducing certain ratio covenants going forward.

Revolving Credit Facilities

Revolving credit facilities are denominated in U.S. dollars and are from the Chase Manhattan Bank, as agent. These credit facilities are shown as long term debt as the Company has the ability and intent to refinance these obligations as they mature under the respective credit agreements. At December 31, 1999, these were classified as a short-term obligation since the amount outstanding was attributable to the Ispat Inland Administrative Service Company facility and this facility had an expiration date of November 30, 2000. The average interest rates on these facilities range from 7.09% to 7.71% and $60 of the outstanding balance is repayable in January 2004 and $92 in November 2005.

Other

Various loans with interest rates ranging from 2.5% to 10.5% for other loans.

Maturities of long-term debt are as follows:

Years ending December 31,	
2001	$ 189
2002	200
2003	200
2004	266
2005	647
Subsequent years	811
Total	$ 2,313

NOTE 9: LONG-TERM DEBT continued

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 at December 31, 2000 (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 the Company's financial instruments at December 31, 1999 and 2000 are summarized below.

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 and cash equivalents and accounts receivable and short-term investments approximate their fair values. Cash equivalents are carried at cost which approximates market value and accounts receivable and short-term investments 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, 1999		**December 31, 2000**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Instruments payable bearing interest at variable rates	$ 1,534	$ 1,526	**$ 1,564**	**$ 1,564**
Instruments payable bearing interest at fixed rates	851	798	**749**	**741**
Long-term debt, including current portion	$ 2,385	$ 2,324	**$ 2,313**	**$ 2,305**
Payable to banks	$ 256	$ 256	**$ 202**	**$ 202**

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, Foreign Currency Forward Contracts	
	1999	**2000**
Notional amount	$ 417	**$ 77**
Fair value	413	**76**
Carrying amount	414	**76**

The fair value information presented herein is based on information available to management at 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 valued for purposes of these financial statements.

NOTE 10: FINANCIAL INSTRUMENTS AND CREDIT RISK continued

Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and from movements in interest rates and foreign exchange rates. The Company does not anticipate nonperformance by counterparties. The Company generally does not require collateral or other security to support financial instruments with credit risk.

Concentrations of credit risk (whether on or off-balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Financial instruments that potentially subject the Company to credit risk primarily consist of trade accounts receivable and derivative contracts.

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 derivative 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. At December 31, 2000, 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 7,106,160 of its own Class A shares on the open market for a total consideration of $ 115 in all periods through December 31, 2000 (289,000 in 2000 and nil in 1999). These shares have been acquired for the purpose of the Company's employee stock option plan. See further discussion below.

During 2000, the Company awarded 24,540 common shares to a certain senior executive as bonus shares. Such shares were issued from treasury stock.

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 afore-mentioned shares were issued from treasury stock.

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 gains from the sale of its assets or records share premium from the issuance of (new) common shares. Certain of the Company's Operating Subsidiaries are subject to restrictions under the terms of their debt agreements for paying dividends. As a result, Ispat International had $107 in retained earnings which are free of restriction for the payment of dividend at December 31, 2000. Dividends are payable by Ispat International in either U.S. dollars or in Dutch Guilders.

NOTE 11: SHAREHOLDERS' EQUITY continued

Stock Option Plan

In 1999, the Company adopted 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 25, 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. As indicated above, all options were granted at an exercise price equal to or greater than the fair market value on the date of grant and accordingly, no compensation expense has been recognized in these financial statements pursuant to APB 25. Had compensation cost for the Ispat Plan been determined based on the fair value at the grant date for awards in 1999 and 2000 consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Year ended December 31,	
	1999	2000
Net Income – as reported	$ 85	**$ 99**
Net Income – pro forma	75	**85**
Basic and diluted earnings per common share – as reported	$ 0.71	**$ 0.82**
Basic and diluted earnings per common share – pro forma	0.62	**0.71**

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:

	Year of grant	
	1999	2000
Dividend yield	0.86	**3.85**
Expected annualized volatility	63%	**66%**
Discount rate – Bond equivalent yield	6.07%	**5.27%**
Expected life in years	8	**8**

The status of the Ispat Plan with respect to the Company is summarized below at December 31, 2000:

	Number of Shares	
	1999	2000
Opening balance at January 1	–	**1,314,000**
Granted during the year (Exercise Price of $11.94 in 1999 and $8.57 in 2000)	1,314,000	**1,361,000**
Cancelled or expired	–	**163,000**
Outstanding at December 31,	1,314,000	**2,512,000**
Present value of exercise price	$ 7.40	**$ 5.65**

The following stock options are excercisable at December 31, 2000:

Year	Options	Average price
2000	444,833	$ 8.29
2001	891,666	8.43
2002	891,666	8.43
2003	446,833	8.57

NOTE 12: EMPLOYEE BENEFIT PLANS

Defined benefit plans

The Company's Operating Subsidiaries in the U.S., Canada, Trinidad, Germany, France and Ireland provide defined benefit pension plans to their employees. A brief summary of the plans provided by the subsidiaries in the countries in which the Company operates is as follows:

U.S. Operating Subsidiary

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.

Substantially all of the U.S. Operating Subsidiary's employees are covered under post-retirement life insurance and medical benefit plans that require deductible and co-insurance payments from retirees. The post-retirement life insurance benefit formula used in the determination of post-retirement 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 post-retirement benefits. Effective January 1, 1994, a voluntary Employee 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.

Canadian Operating Subsidiary

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.

Trinidad Operating Subsidiary

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.

German Operating Subsidiary

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.

French Operating Subsidiary

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.

Irish Operating Subsidiary

At the Irish Operating Subsidiary, the retirement benefits to employees are funded by contributions from the group and the employees. The assets are held separately from those of the group, being invested through separately administered pension funds. Contributions are determined based on regular actuarial valuations and are charged against profits in the periods in which they are payable. Variations from the regular pension costs are spread in a systematic basis over the estimated average service life of current employees in the scheme.

Mexican Operating Subsidiary

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.

NOTE 12: EMPLOYEE BENEFIT PLANS continued

The components of the net periodic benefit cost of the defined benefit plans for the years ended December 31 are as follows:

	Pension Benefits U.S. Operating Subsidiary		
	1998(1)	1999	**2000**
Components of net periodic benefit cost:			
Service cost	$ 12	$ 25	**$ 29**
Interest cost	65	143	**159**
Expected return on plan assets	(86)	(190)	**(194)**
Amortizations	–	(1)	**7**
	$ (9)	$ (23)	**$ 1**

(1) July 17 1998 through December 31, 1998.

	Pension Benefits Canadian Operating Subsidiary		
	1998	1999	**2000**
Components of net periodic benefit cost:			
Service cost	$ 5	$ 5	**$ 5**
Interest cost	15	16	**16**
Expected return on plan assets	(12)	(13)	**(14)**
Amortizations	1	1	**1**
Recognized actuarial gain	(1)	(1)	**(1)**
	$ 8	$ 8	**$ 7**

	Pension Benefits Trinidad Operating Subsidiary		
	1998	1999	**2000**
Components of net periodic benefit cost:			
Service cost	$ 1	$ 1	**$ 2**
Interest cost	1	2	**2**
Expected return on plan assets	(3)	(4)	**(5)**
	$ (1)	$ (1)	**$ (1)**

	Pension Benefits German Operating Subsidiary		
	1998	1999	**2000**
Components of net periodic benefit cost:			
Service cost	$ 1	$ 1	**$ –**
Interest cost	1	1	**1**
	$ 2	$ 2	**$ 2**

	Pension Benefits French Operating Subsidiary	
	1999(1)	**2000**
Components of net periodic benefit cost:		
Service cost	$ –	**$ 1**
Interest cost	1	**1**
	$ 1	**$ 2**

(1) July 1 1999 through December 31, 1999.

	Pension Benefits Irish Operating Subsidiary		
	1998	1999	**2000**
Components of net periodic benefit cost:			
Service cost	$ 1	$ 1	**$ 1**
Interest cost	1	1	**1**
	$ 2	$ 2	**$ 2**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

The following assumptions were used:

	1998	1999	2000
Discount rates for obligations	7.25%	6.50%-8.00%	**7.00%-8.00%**
Assumed rates of compensation increases	4.75%	4.00%-4.75%	**4.00%**
Expected long-term rate of return on assets	7.25%	7.75%-9.50%	**7.75%-9.50%**

The change of benefit obligation and plan assets and reconciliation of funded status through the measurement date are as follows:

	Trinidad Operating Subsidiary Year Ended December 31,	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 22	**$ 27**
Service cost	1	**2**
Interest cost	1	**2**
Participants' contributions	–	**1**
Plan amendment	1	**–**
Actuarial (gains) losses	3	**–**
Benefits/expenses paid	(1)	**(1)**
Benefit obligation at end of the period	$ 27	**$ 31**
Change in fair value of plan assets		
Fair value of plan assets at beginning of the period	42	**46**
Actual return on plan assets	3	**2**
Employers' contribution	1	**1**
Participants' contribution	1	**1**
Benefits/expenses paid	(1)	**(1)**
Fair value of plan assets at end of the period	$ 46	**$ 49**
Fund status of plans	18	**17**
Unrecognized net actuarial (loss) gains	(12)	**(9)**
Unrecognized transition asset	(3)	**(3)**
Unrecognized prior service cost	9	**8**
Prepaid pension at end of period	$ 12	**$ 13**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

	Irish Operating Subsidiary Year Ended December 31,	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 26	**$ 22**
Service cost	1	**1**
Interest cost	1	**1**
Actuarial (gains) losses	(2)	**1**
Benefits/expenses paid	(1)	**(1)**
Foreign currency exchange rate differences	(3)	**(2)**
Benefit obligation at end of the period	$ 22	**$ 22**
Change in fair value of plan assets		
Fair value of plan assets at beginning of the period	32	**30**
Actual return on plan assets	3	**6**
Benefits/expenses paid	(1)	**(1)**
Foreign currency exchange rate differences	(4)	**(2)**
Fair value of plan assets at end of the period	$ 30	**$ 33**
Funded status of the plans	8	**10**
Unrecognized net actuarial (loss) gains	3	**3**
Unrecognized transition asset	(2)	**(1)**
Unrecognized prior service cost	(8)	**(11)**
Prepaid pension at end of period	$ 1	**$ 1**

The change of benefit obligation and plan assets and reconciliation of under-funded status through the measurement date are as follows:

	U.S. Operating Subsidiary Year Ended December 31,(2)	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 2,088	**$ 2,033**
Service cost	25	**29**
Interest cost	143	**159**
Plan amendment (1)	161	**–**
Actuarial (gains) losses	(220)	**44**
Benefits/expenses paid	(164)	**(171)**
Benefit obligation at end of the period	$ 2,033	**$ 2,094**
Change in fair value of plan assets		
Fair value of plan assets at beginning of the period	1.963	**2,098**
Actual return on plan assets	275	**(36)**
Employers' contribution	24	**31**
Benefits/expenses paid	(164)	**(171)**
Fair value of plan assets at end of the period	$ 2,098	**$ 1,922**
Underfunded status of the plans	65	**(172)**
Unrecognized net actuarial (loss) gains	(210)	**65**
Unrecognized prior service cost	96	**89**
Accrued pension liability at end of period	$ (49)	**$ (18)**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

	U.S. Operating Subsidiary Year Ended December 31,(2)	
	1999	2000
Additional minimum liability	–	**(138)**
Intangible asset	–	**89**
Accumulated other comprehensive income	–	**49**
Amount recognized on balance sheet	$ (49)	**$ (18)**

(1) In connection with the U.S. Operating Subsidiary's new labor agreement with USWA, the pension plans were amended, effective August 1, 1999, to provide for plan changes as a result of a new labor agreement. The pension plan was amended primarily to provide for increased benefit levels. As a result of these plan amendments, the U.S. Operating Subsidiary remeasured its pension obligations under SFAS No. 87, "Employers' Accounting for Pensions" as of August 1, 1999. This remeasurement incorporated the effect of the union plan changes as well as the effects of changes in actuarial assumptions to reflect more current information.

(2) The actuarial computation for the U.S. Operating Subsidiary was performed at November 30, 2000 while the actuarial computation for the other Operating Subsidiaries was performed at December 31, 2000.

	Canadian Operating Subsidiary Year Ended December 31,	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 210	**$ 254**
Service cost	5	**5**
Interest cost	16	**16**
Participants' contributions	1	**1**
Actuarial (gains) losses	19	**(1)**
Benefits/expenses paid	(12)	**(11)**
Foreign currency exchange rate differences	15	**(9)**
Benefit obligation at end of the period	$ 254	**$ 255**
Change in fair value of plan assets		
Fair value of plan assets at beginning of the period	160	**193**
Actual return on plan assets	24	**12**
Employers' contribution	8	**11**
Participants' contributions	1	**1**
Benefits/expenses paid	(12)	**(11)**
Foreign currency exchange rate differences	12	**(7)**
Fair value of plan assets at end of the period	$ 193	**$ 199**
Underfunded status of the plans	(61)	**(56)**
Unrecognized net actuarial (loss) gains	13	**10**
Unrecognized transition asset	2	**–**
Unrecognized prior service cost	13	**15**
Accrued pension liability at end of period	$ (33)	**$ (31)**
Additional minimum liability	$ (10)	**$ (1)**
Intangible asset	11	**13**
Accumulated other comprehensive income	(12)	**(12)**
Amount recognized on balance sheet	$ (33)	**$ (31)**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

	German Operating Subsidiary Year Ended December 31,	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 20	**$ 17**
Service cost	1	**–**
Interest cost	1	**1**
Benefits/expenses paid	(2)	**–**
Foreign currency exchange rate differences	(3)	**(1)**
Benefit obligation at end of the period	$ 17	**$ 17**
Underfunded status of the plans	$ (17)	**$ (17)**
Accrued pension liability at end of period	$ (17)	**$ (17)**

	French Operating Subsidiary Year Ended December 31,	
	1999	2000
Change in benefit obligation		
Benefit obligation at beginning of the period	$ 18	**$ 16**
Service cost	–	**1**
Interest cost	–	**1**
Actuarial (gains) losses	(2)	**–**
Foreign currency exchange rate differences	–	**(1)**
Benefit obligation at end of the period	$ 16	**$ 17**
Underfunded status of the plans	$ (16)	**$ (17)**
Accrued pension liability at end of period	$ (16)	**$ (17)**

Post-retirement benefits

The Company's Operating Subsidiaries in the U.S., Canada and France provide post-retirement benefits, including medical benefits and life insurance benefits to retirees. The two principal post-retirement plans relate to the U.S. and the French Operating Subsidiaries.

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

The net periodic post-retirement benefit cost was as follows:

	U.S. Operating Subsidiary Period ended December 31,		
	1998	1999	2000
Service cost	$ 7	$ 11	**$ 8**
Interest cost	31	59	**56**
Amortization	–	(14)	**(28)**
Recognized (Gain)	–	(3)	**–**
Net periodic benefit cost	$ 38	$ 53	**$ 36**

NOTE 12: EMPLOYEE BENEFIT PLANS continued

	Canadian Operating Subsidiary Period ended December 31,		
	1998	1999	**2000**
Interest cost	$ 1	$ 1	**$ 1**
Recognized (Gain)	(1)	1	**–**
Net periodic benefit cost	$ –	$ 2	**$ 1**

	French Operating Subsidiary Period ended December 31,	
	1999	**2000**
Interest cost	$ –	**$ 1**
Net periodic benefit cost	$ –	**$ 1**

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

	August 1, 1999	November 30, 1999	**November 30, 2000**
Discount rates for obligations	7.75%	8.00%	**8.00%**
Rate of compensation increase	4.00%	4.00%	**4.00%**
Health care cost trend rate	4.50%	4.50%	**4.50%**
Medical participation rate – current retirees	100.00%	95.00%	**95.00%**
Medical participation rate – future retirees	100.00%	80.00%	**80.00%**

The following tables sets forth the post-retirement benefit obligation at the dates indicated:

	U.S.Operating Subsidiary Year Ended November 30,	
	1999	**2000**
Benefit obligation at beginning of period	$ 953	**$ 710**
Service cost	11	**8**
Interest cost	60	**56**
Plan amendment(1)	(57)	**–**
Actuarial loss/(gain)	(209)	**51**
Benefits paid	(48)	**(55)**
Benefits obligation at end of period	$ 710	**$ 770**
Fair value of assets	–	**–**
Underfunded status of plan	(710)	**(770)**
Unrecognized net (gain)	(175)	**(116)**
Unrecognized prior service cost	(147)	**(127)**
Accrued post – retirement benefit obligation at end of period	$ (1,032)	**$ (1,013)**

(1) The plan amendment gain for the U.S. operating subsidiary for the period ended November 30, 1999 results from a plan amendment effective January 1, 1999 requiring increased contributions from salaried retirees for health care coverage, as well as increases in the deductible and co-pays. In addition, life insurance coverage for salaried retirees was reduced, effective at the same date. The gain for the 1999 period was also affected by the new labor agreement with the USWA, which provided for employee and retiree co-payments, vision care, retiree life insurance benefits and retiree contributions.

NOTE 12: EMPLOYEE BENEFIT PLANS continued

	Canadian Operating Subsidiary Year Ended November 30, 1999	2000
Benefit obligation at beginning of period	$ 10	**$ 12**
Interest cost	1	**1**
Actuarial loss/(gain)	1	**2**
Benefits paid	(1)	**(1)**
Foreign currency exchange rate changes	1	**–**
Benefits obligation at end of period	$ 12	**$ 14**
Underfunded status of plan	(12)	**(14)**
Unrecognized prior service cost	–	**2**
Accrued post – retirement benefit obligation at end of period	$ (12)	**$ (12)**

	French Operating Subsidiary Year Ended November 30, 1999	2000
Benefit obligation at beginning of period	$ 21	**$ 19**
Service cost	–	**1**
Interest cost	1	**1**
Actuarial loss/(gain)	(2)	**–**
Benefits paid	–	**(1)**
Foreign currency exchange rate changes	(1)	**(1)**
Benefits obligation at end of period	$ 19	**$ 19**
Underfunded status of plan	(19)	(19)
Accrued post – retirement benefit obligation at end of period	$ (19)	**$ (19)**

An increase of 1% in the health care cost trend rate of U.S. Operating Subsidiary would increase the benefit obligation by $101 and the annual net periodic cost by $10. A 1% decrease would reduce the benefit obligation by $83 and the annual net periodic annual net cost by $8.

An increase of 1% in the health care cost trend rate of Canadian Operating Subsidiary would increase the benefit obligation by $1. A 1% decrease would reduce the benefit obligation by $1.

An increase of 1% in the health care cost trend rate of French Operating Subsidiary would increase the benefit obligation by $2. A 1% decrease would reduce the benefit obligation by $2.

NOTE 13: INCOME TAX

The breakdown of the income tax expense is as follows:

	Year Ended December 31,		
	1998	1999	2000
Current:			
U.S.	$ –	$ 13	**$ (12)**
Mexico	–	–	**26**
Canada	1	2	**2**
Trinidad	–	1	**1**
Germany	2	1	**3**
France	–	–	**(1)**
Others	2	1	**2**
Deferred:			
U.S.	5	7	**(11)**
Mexico	34	18	**14**
Canada	16	9	**3**
Trinidad	–	(1)	**(13)**
Germany	(9)	(8)	**9**
Income tax expense	$ 51	$ 43	**$ 23**

The following table reconciles the income tax expense compared at the statutory rate of each tax jurisdictions and the Company's overall effective tax rate:

	Year Ended December 31,		
	1998	1999	2000
Taxes at aggregate statutory rates of all jurisdictions :			
U.S.	$ 6	$ 19	**$ (19)**
Mexico	52	(5)	**6**
Canada	24	31	**18**
Germany	23	11	**20**
Trinidad	3	(6)	**–**
France	–	6	**8**
Others	–	(1)	**1**
	$ 108	$ 55	**$ 34**

NOTE 13: INCOME TAX continued

		Year Ended December 31,		
		1998	1999	**2000**
Increase (decrease) resulting from:				
Tax loss carryforwards	Germany	(10)	–	**(13)**
Tax loss carryforwards	Trinidad	(1)	(6)	**–**
Tax loss carryforwards	France	–	(6)	**(8)**
Depletion	U.S.	–	4	**(4)**
Manufacturing tax credits	Canada	(4)	(5)	**(3)**
Large corporation tax and other taxes	Canada	–	1	**1**
Benefit arising from interest in partnership	Canada	(6)	(17)	**(17)**
Depreciation	Germany	(10)	(6)	**–**
Depreciation	Trinidad	1	–	**–**
Inflationary effects	Mexico	(14)	17	**27**
Change in valuation allowance	Mexico	–	–	**5**
Change in valuation allowance	Germany	(9)	–	**–**
Inventories	Germany	2	–	**–**
Restructuring	Germany	(3)	–	**5**
Effects of foreign currency translation	Mexico	–	4	**2**
Miscellaneous accruals	U.S.	–	(3)	**–**
Others	Various	(3)	5	**(6)**
Income tax expense		$ 51	$ 43	**$ 23**

Deferred Income tax

Temporary differences and the resulting deferred tax assets and liabilities at December 31, 1999 and 2000 are summarized as follows:

		December 31,	
		1999	**2000**
Current deferred tax assets:			
Tax loss carryforwards	Ireland	$ 16	**$ 15**
Tax loss carryforwards	Canada	11	**–**
Accrued vacation	U.S.	11	**11**
Allowance for doubtful accounts	France	2	**1**
Inventories	France	12	**13**
Proprty taxes	U.S.	6	**1**
Accrued lawsuit settlement	U.S.	–	**6**
Inventories	U.S.	–	**4**
Others	U.S.	1	**6**
Accrued expenses	Mexico	–	**2**
Others	France	4	**2**
Others	Germany	1	**1**
Total current deferred tax assets		$ 64	**$ 62**

NOTE 13: INCOME TAX continued

		Year Ended December 31,	
		1999	2000
Noncurrent deferred tax assets:			
Tax loss carryforwards	Mexico	$ 24	**$ –**
Tax loss carryforwards	U.S.	56	**–**
Tax loss carryforwards	France	63	**–**
Tax loss carryforwards	Canada	15	**–**
Tax loss carryforwards	Trinidad	6	**–**
Environmental accrual	France	3	**4**
Environmental accrual	Canada	1	**1**
Employee benefit costs	U.S.	404	**385**
Employee benefit costs	Canada	12	**14**
Employee benefit costs	France	17	**15**
Accrued restructuring costs	U.S.	25	**20**
Accrued restructuring costs	France	11	**4**
Accrued restructuring costs	Canada	2	**–**
Property, plant and equipment	Germany	27	**–**
Property, plant and equipment	Canada	12	**26**
Comprehensive income items	U.S.	–	**18**
Net operating losses and alternative minimum tax	U.S.	–	**104**
Net operating losses and alternative minimum tax	Canada	–	**4**
Net operating losses and alternative minimum tax	Trinidad	–	**19**
Net operating losses and alternative minimum tax	France	–	**57**
Net operating losses and alternative minimum tax	Germany	–	**15**
Net operating losses and alternative minimum tax	Mexico	–	**15**
Others	Germany	2	**14**
Others	Canada	1	**4**
Total noncurrent deferred tax assets		681	**719**
Total deferred tax assets		$ 745	**$ 781**
Valuation allowances			
Valuation allowance	Trinidad	$ (6)	**$ (3)**
Valuation allowance	France	(99)	**(70)**
Valuation allowance	Ireland	(16)	**(15)**
		(121)	**(88)**
Net deferred tax asset after valuation allowances		$ 624	**$ 693**

NOTE 13: INCOME TAX continued

		Year Ended December 31,	
		1999	2000
Current deferred tax liabilities			
Inventories	Mexico	$ (43)	**$ –**
Inventories	Germany	–	**(1)**
Amortization expense	U.S.	–	**(2)**
Deduction in purchase in lieu of cost of sales	Mexico	–	**(48)**
Accrued income rental	Mexico	(1)	**–**
Total current deferred tax liabilities		$ (44)	**$ (51)**
Noncurrent deferred tax liabilities			
Property, plant and equipment	Mexico	(116)	**(113)**
Property, plant and equipment	U.S.	(477)	**(482)**
Property, plant and equipment	France	(13)	**(26)**
Property, plant and equipment	Trinidad	(1)	**(5)**
Property, plant and equipment	Germany	(19)	**(30)**
Investment in joint ventures	U.S.	(30)	**(46)**
Debt issuance costs	Mexico	(2)	**(3)**
Imputed interest	Mexico	(5)	**(3)**
Employee benefit costs	Germany	(2)	**(1)**
Others	U.S.	(1)	**–**
Others	Mexico	–	**(5)**
Total noncurrent deferred tax liabilities		(666)	**(714)**
Total deferred tax liabilities		(710)	**(765)**
		$ (86)	**$ (72)**

At December 31, 2000, the Company had a valuation allowance of $88 to reduce its deferred tax assets to estimated realizable value. The valuation allowance primarily relates to the deferred tax assets arising from tax loss operating carryforwards and capital loss carryforwards in France and Ireland as well as other temporary differences. In France and Ireland, tax loss operating carryforwards and capital loss carryforwards have no expiration date. The utilization of tax operating carryforwards is, however, restricted to the taxable income of the subsidiary generating the losses. In addition, capital loss carryforwards can only be offset against capital gains. The reduction in the total valuation allowance for the year ended December 31, 2000 arises principally from a reduction in the temporary differences between the fiscal and commercial valuation of certain balance sheet items, as well as a limited utilization of the tax loss carry forward. Offsetting this reduction was an decrease in the valuation allowance attributable to the French net operating losses. At December 31, 2000, based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are anticipated to reverse by prudent and feasible tax-planning strategies, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowances. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

The Company has not provided any deferred income taxes on the undistributed earnings of its foreign subsidiaries based upon its determination that such earnings will be indefinitely reinvested. At December 31, 2000, the cumulative undistributed earnings of these subsidiaries were approximately $495 million. If such earnings were not considered indefinitely reinvested, deferred foreign income taxes would have been provided, after consideration of estimated foreign tax credits. However, determination of the amount of deferred federal and foreign income taxes is not practical.

Tax loss carry forward

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

U.S.	-	2018 to 2019
Mexico	-	2001 to 2010
Canada	-	2001
Germany	-	indefinite
Trinidad	-	indefinite
Ireland	-	indefinite
France	-	indefinite

NOTE 14: COMMITMENTS

The Company leases various facilities, land and equipment under non-cancelable 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 non-cancelable terms in excess of one year are as follows:

Year ending	Amount
2001	$ 19
2002	16
2003	15
2004	15
2005	14
Thereafter	57
Total minimum lease payments	$ 136

Rent expense amounted to $7, $31 and $35 for the years ended December 31, 1998, 1999 and 2000, respectively.

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 $1,612.

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 $31 in 2000, $24 in 1999 and $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, whichever 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.

The Company's Operating Subsidiary in the U.S. has guaranteed $7 and $117 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, the Company's U.S. Operating Subsidiary it has committed to pay tolling charges over approximately 15 years to desulpharize fuel gas from the coke battery and to convert the heat output from the coke battery to electrical power and stream. At December 31, 2000 and 1999, the estimated minimum tolling charges remaining over the life of this agreement were approximately $214 and $242 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 $13 at December 31, 2000, $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 May 31, 2003.

The Company's Mexican operating subsidiary had temporarily postponed installation of its new continuous caster machine and has project commitments with the equipment supplier of $45 out of which $10 has been paid at December 31, 2000. The process to recommence the project has been initiated.

NOTE 14: COMMITMENTS continued

The Company's Mexican operating subsidiary entered into a long term slab supply agreement with a local customer whereby the customer will purchase 75% of its total slab requirements 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 $8 at December 31, 2000 and $11 at December 31, 1999.

The Company, in connection with the acquisition of the CIL Operating Subsidiary, and 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 extended the deadline to make the offering in the second half of 2000 and has also agreed in principle, as an alternative arrangement, to allow the shares of Ispat International to be listed and offered on the TTSE. The Company is currently working with the Government and the TTSE to resolve the requirement.

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 ($24) in capital expenditures by May 30, 2002, in the Irish plant. At December 31, 2000, an amount of Irish Punt 17 ($20) 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 require the Irish Operating Subsidiary to follow certain restrictions, including limits in investments that would increase its capacity or production limits, such as the mix and level of production, limits in sales within the European Community and minimum levels of permanent employees. Such restrictions expire no later than May 30, 2001.

NOTE 15: 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 Environmental Protection Agency ("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, the financial position and the liquidity of the Company. At December 31, 2000 and 1999, the reserves for environmental liabilities totaled $25 and $25 respectively, of which $21 and $21, respectively is related to the sediment remediation under the 1993 EPA consent decree.

The office of the United States Attorney for the Middle District of Louisiana ("the U.S. Attorney") had informed the U.S. Operating Subsidiary that it was 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 related to the sale of polymer coated steel by the U.S. Operating Subsidiary to a culvert fabricator for use in federal and state highway construction projects in Louisiana. Since being notified of the lawsuit and investigation, the Company and the U.S. Operating Subsidiary have provided their complete cooperation with investigators. To fully resolve this matter, the Company paid a settlement of $15 in January 2001, which is half of the total settlement among the United States, the state of Louisiana, the relators, and the defendants. The settlement has been approved by the U.S. District Court in Baton Rouge, Louisiana.

All the allegations by the U.S. Attorney relate to events that occurred prior to the May 27, 1998 execution of the Merger Agreement among the Company, the U.S. Operating Subsidiary, Inland Merger Sub, Inc. and Inland Steel Industries, Inc. (the predecessor company to Ryerson Tull, Inc.), as amended. The Company and the U.S. Operating subsidiary have notified Ryerson Tull, Inc. of their intention to seek indemnification and other remedies, under the Merger Agreement and on other grounds, for the settlement amount and for all other 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 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 announced his decision related to Section 201 pertaining to imports of wire rods into the U.S.. The Company has so far not been affected by this and it is not anticipated that Section 201 will have a significant impact on the Company.

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 no later than 2004. At December 31, 2000, 1999 and 1998, the escrowed funds amounted to $36, $ 20 and $5, 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 plus interest. The Company believes, based on advice from legal counsel, that the decision is erroneous and the Company has a defendable position. The appeal of the decision is currently being heard in Trinidad & Tobago. The Company estimates its liability to be approximately $2, which is fully provided for.

NOTE 16: 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 any individual customer 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:

	Americas				Europe				
	U.S.	Mexico	Canada	Trinidad	France	Germany	Ireland	Others & Eliminations	Consolidated
Year ended December 31, 1998									
Sales to unaffiliated customers	$ 1,075	$ 815	$ 566	$ 189	$ –	$ 744	$ 103	$ –	$ 3,492
Transfers between geographic areas	–	69	3	37	–	9	2	(120)	–
Net sales	1,075	884	569	226	–	753	105	(120)	3,492
Operating income	63	189	95	14	–	61	–	(16)	406
Depreciation	47	12	13	9	–	8	2	–	91
Capital expenditures	25	102	36	121	–	70	5	–	359
Year ended December 31, 1999									
Sales to unaffiliated customers	$ 2,459	$ 623	$ 568	$ 94	$ 266	$ 598	$ 72	$ –	$ 4,680
Transfers between geographic areas	8	41	–	94	2	71	3	(219)	–
Net sales	2,467	664	568	188	268	669	75	(219)	4,680
Operating income	140	52	91	(8)	18	29	(6)	(8)	308
Total assets at December 31, 1999	3,100	1,188	897	535	306	428	78	(566)	5,966
Depreciation	106	14	14	12	2	8	5	3	164
Capital expenditures	55	47	20	61	8	24	8	1	224
Year ended December 31, 2000									
Sales to unaffiliated customers	$ 2,427	$ 787	$ 595	$ 106	$ 520	$ 581	$ 81	$ –	$ 5,097
Transfers between geographic areas	12	54	14	127	15	81	6	(309)	–
Net sales	2,439	841	609	233	535	662	87	(309)	5,097
Operating income	36	116	89	–	25	53	(1)	(3)	315
Total assets at December 31, 2000	3,185	1,678	907	549	293	409	68	(1,111)	5,978
Depreciation	106	15	16	18	5	10	4	3	177
Capital expenditures	83	30	19	10	13	10	3	16	184

NOTE 17: SUBSEQUENT EVENTS

On February 1, 2001, the Company completed an offering of €150 million 11.875% Senior Secured Notes due 2011, through its wholly-owned subsidiary, Ispat Europe Group, S.A., a Luxembourg limited liability company, to qualified institutional buyers under Rule 144A and pursuant to Regulation S of the Securities Act of 1933, as amended. Ispat International and the German Operating Subsidiaries at Hamburg and Duisburg, each act as guarantors of the notes.

SHAREHOLDER INFORMATION

Principal Operating Subsidiaries

Ispat Inland Inc.

Ispat Inland Flat Products
3210 Watling Street,
East Chicago, Illinois 46312,
USA.
Tel: 1 219 399 1200.
Fax: 1 219 399 5544.

Ispat Inland Long Products
3210 Watling Street,
East Chicago, Illinois 46312,
USA.
Tel: 1 219 399 1200.
Fax: 1 219 399 5544.

Ispat Mexicana S.A. de C.V.
Fco. J. Mújica No. 1-B,
Apartado Postal No. 19-A,
C.P. 60950, Lázaro Cárdenas,
Michoacan, México.
Tel: 52 753 20669.
Fax: 52 753 22723.

Ispat Sidbec Inc.
4000, route des Aciéres,
Contrecoeur (Québec),
J0L 1C0,
Canada.
Tel: 1 450 587 8600.
Fax: 1 450 587 8777.

Caribbean Ispat Limited
Mediterranean Drive, Point Lisas,
Couva,
Republic of Trinidad and Tobago,
West Indies.
Tel: 1 868 636 2211.
Fax: 1 868 636 5696.

Ispat Hamburger Stahlwerke GmbH
Dradenaustraße 33, D-21129
Hamburg, Germany.
Tel: 49 40 7408 206.
Fax: 49 40 7408 218.

Ispat Stahlwerk Ruhrort GmbH
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Fax: 49 203 52 66332.

Ispat Walzdraht Hochfeld GmbH
Wörthstraße 125, D-47053
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Fax: 49 203 606 7654.

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Fax: 1 312 899 3921.

Ispat Europe S.A.
34-38 Avenue de la Libérté,
L-1930 Luxembourg.
Tel: 3 52 264 901.
Fax: 3 52 264 90 201.

SHAREHOLDER INFORMATION continued

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 2000 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.

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