ISPAT INTERNATIONAL N.V.

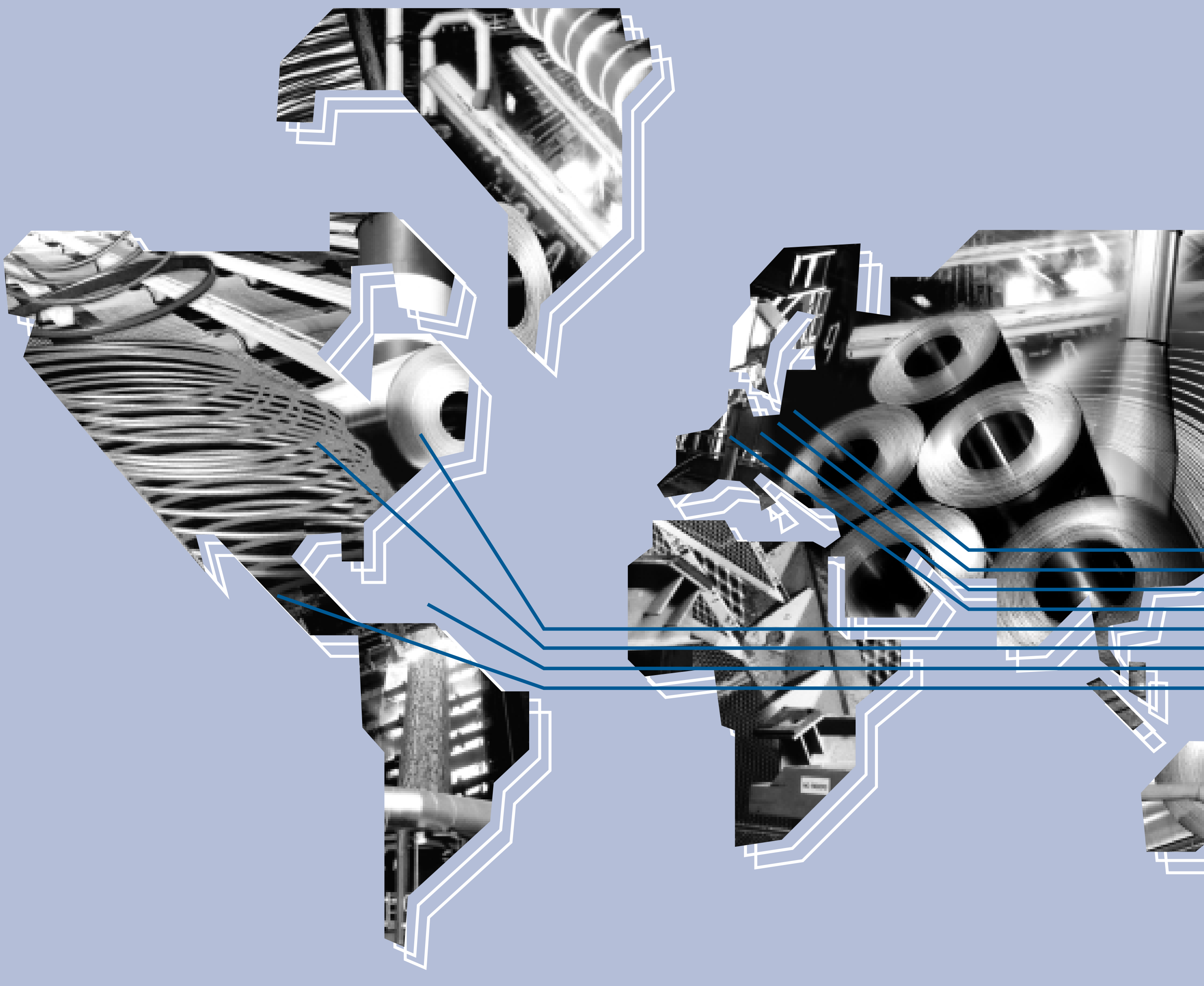
Member of The LNM Group

STEEL IS OUR STRENGTH - THE MARKETS ARE OUR CHALLENGE

Annual Report 2001

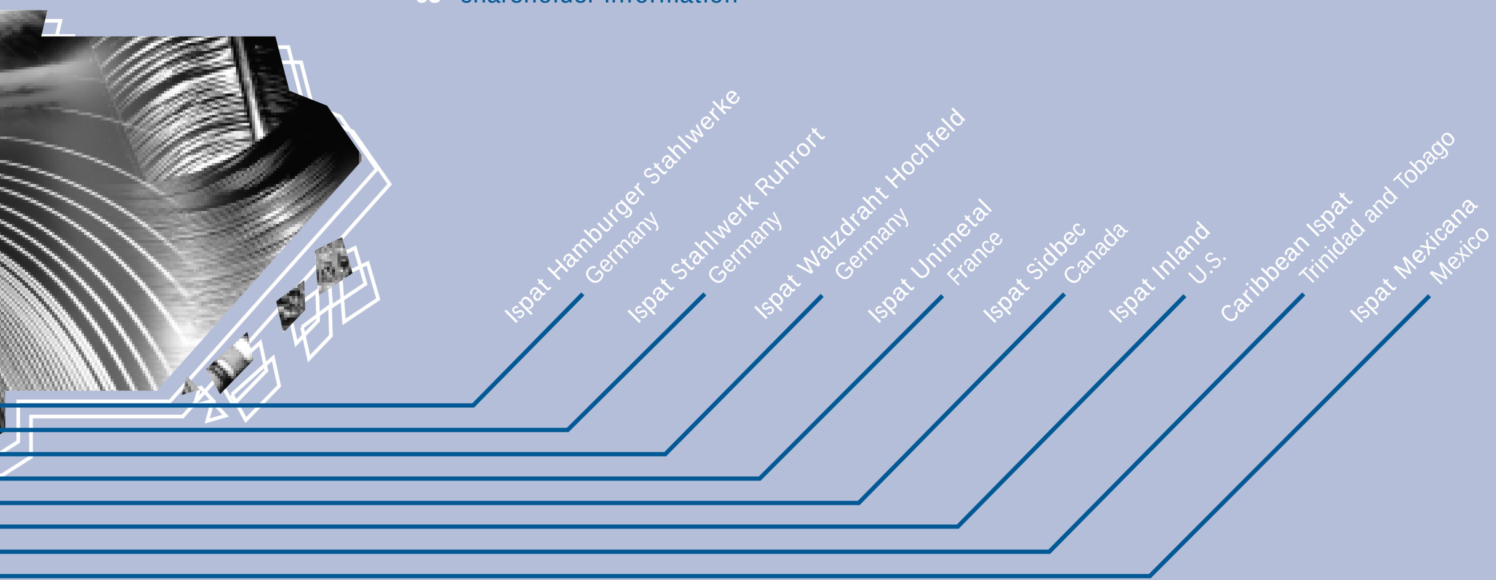
ISPAT INTERNATIONAL...BUILDING ORGANIZATIONAL EXCELLENCE IN OUR PEOPLE, OUR OPERATIONS AND IN OUR ASPIRATIONS

Ispat International is a global force in steel, with a strong manufacturing base in Europe and the U.S., supplying hot and cold rolled steel, coated steel, wire rods, wire products, slabs, bars, rebars, billets and blooms and DRI. We continuously strive to move up the value-added product chain with the goal of being a truly global producer and supplier in all our main product segments.



ISPAT INTERNATIONAL N.V. AND SUBSIDIARIES

CONTENTS



LETTER TO SHAREHOLDERS

STEEL IS OUR STRENGTH - OUR CHALLENGE LIES IN MANAGING OUR BUSINESS TO SUCCESSFULLY OVERCOME THE DIFFICULTIES PRESENTED BY OUR MARKETS.

IN SPITE OF REPORTING A NET LOSS OF $312 MILLION, THE CASH USED BY THE COMPANY FOR ITS OPERATING AND INVESTING ACTIVITIES WAS ONLY $86 MILLION.

2001 was one of the most daunting years that Ispat International has ever faced. It was characterised by extraordinary economic and market events leading to a severe downturn in the steel industry cycle, causing average selling prices - especially in North America - to reach their lowest levels in 20 years. Production cutbacks and the closure of steel companies experiencing severe financial difficulties did little to ease the supply-demand situation due to continual imports at low prices. Simultaneously, uncontrollable factors such as energy prices were running at record highs during the year. Business confidence, internationally, was further undermined by the tragic events of September 11.

Due to sustained action taken by Ispat International in the management of issues that are critical to its business objectives, the Company was able to partly mitigate the overall negative cash impact of lower selling prices, lower sales volume and increases in uncontrollable costs, aggregating $558 million. Across Ispat International, our management teams intensified their efforts and embarked upon strategies to further improve the way we use our assets, maximize market opportunities and build a sustainable capital structure at each of our companies. Over the years, the skills and talents of our employees have built Ispat International into one of the world's largest and most efficient steel companies, and I believe that this challenging period has served to strengthen them even further.

During the year, Malay Mukherjee, President and Chief Operating Officer, together with all business heads, focused executive attention on developing further synergies and cost reduction opportunities in order to remove unnecessary overheads. Our subsidiaries implemented a comprehensive cost reduction effort, which involved all levels of the organization and all elements of cost. They have repeatedly shown that we can achieve these objectives within demanding time-scales. As a result of these efforts, Ispat International generated $104 million in cost reduction. I believe that the benefits of the 2001 cost reduction program will continue to generate further efficiencies in 2002 and thereafter.

In spite of reporting a net loss of $312 million, the cash used by the Company for its operating and investing activities was only $26 million, if the $60 million prepayment of pension costs relating to 2002 and a part of 2003 at Ispat Inland is excluded. We were able to significantly improve working capital management, thereby generating $238 million in cash, while maintaining customer service levels and product quality in an extremely challenging environment. The Company met over $250 million of scheduled debt repayments during the year.

Consolidated sales for the year decreased by 16% to $4.5 billion, as compared to sales of $5.3 billion in 2000. Shipments declined to 14.1 million tons from 16.4 million tons over the same period.

Our emphasis on corporate governance increased as the Company's audit committee, exclusively comprising non-executive directors, ensured that important issues related to the financial statements are highlighted in advance. We would also be taking steps to ensure that there is majority representation of independent directors on the board of Ispat International N.V.

Although market events in Europe were less hostile as compared to the Company's North American operations, Irish Ispat's operations were shut down in the first half of 2001. This decision was taken in view of continuing losses at Irish Ispat and after months of evaluating ways to make the plant more competitive in light of current market conditions.

Our management team's ongoing priority is to focus its efforts on moving Ispat International's operations and liquidity to a solid position for future financial stability and growth.

OUTLOOK

The global economic and market environment will continue to present uncertainties and challenges. We believe we possess a strong asset base and our management strategies are aimed at making Ispat International a highly successful steel company. We will continue to search for and identify opportunities to drive costs down in a single-minded quest to make our business operations more competitive. Our focus is to achieve excellence in controllable areas so that we are well positioned to maximize the benefits of the upturn in our external environment. As part of our Operational Excellence Program, functional and cross-functional teams from all main operating units continually benchmark best practices in areas including steelmaking, market development, finance, purchasing, technology and maintenance in order to achieve superior results.

We expect the economic recovery, rationalization of domestic steelmaking capacities and lower imports into North America and other influencing factors to impact positively on demand for our products and selling prices in 2002. Consequently, Ispat Mexicana will significantly ramp up production of slabs. We also expect higher shipments at most of our other subsidiaries.

Our strategy is to continuously move up the value-added product chain through product-mix improvements. Ispat International's leadership in DRI is one such element that adds to quality and cost competitiveness. We believe there is further scope to optimize working capital management, and to achieve higher operating efficiencies and performance standards in steelmaking, customer service and product quality.

I am confident that we are addressing the most important priorities for ensuring that Ispat International demonstrates the growth that has made it one of the world's most global steel companies over the last decade. Our 16,300 employees, who are remarkable in their enthusiasm and commitment to the Company's future, have focused on all the right areas to ensure that Ispat International is well positioned for the expected recovery in the steel industry in 2002. I would also like to express our appreciation to our customers, suppliers and stakeholders for their continued support.

Sincerely,

LAKSHMI N. MITTAL
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

JUNE 12, 2002.

BUSINESS REVIEW

OVERVIEW

Ispat International's business strategy is to enhance shareholder value by strengthening its position as a low cost producer of high-quality steel and playing a key role in the consolidation of the global steel industry. The Company is the world's eighth largest steel producer. Since 1992, steel shipments have increased from approximately 1.5 million tons to approximately 14.1 million tons in 2001, sold to customers in over 85 countries world-wide, with the largest markets being in Europe and North America. The Company's main steelmaking operations have a high degree of vertical integration with important downstream and upstream linkages strategically located close to iron ore mines and deep water ports.

Ispat International has a high degree of product and geographic diversification. Products include high-quality cold rolled, electro galvanized and coated steels, slabs, special bar quality and wire rods. Ispat Inland in North America produces the most comprehensive portfolio of ultra-high-strength steels (UHSS) in the world, including newly developed dual-phase products as Di-Form 500 and Di-Form 590. UHSS is used extensively in the UltraLite Steel Auto Body (ULSAB) - the steel industry's prototype for future vehicles - and for the subsequent developments of closures, suspension systems, trucks and advanced vehicle concepts. Ispat Inland is shipping these steels today, enabling automakers to build lighter vehicles that improve economy, increase passenger safety and resist dents.

Together with the Company's long product operations in France and Germany, Ispat International is one of the world's largest producers of high quality wire rods. 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.

The global steel industry remains highly cyclical and sensitive to general economic conditions, with competition also coming from alternative materials such as plastics, aluminium, ceramics, glass and concrete. In the last few years, the steel industry has witnessed many cycles. Beginning in the second half of 1995, there was a general downturn in the global steel markets, and consequently, generally reduced price realizations. Ispat International's operations were adversely affected by the decline in world steel prices in 1996. However, beginning in the second half of 1998, due to severe economic turmoil in several Asian countries and Russia, the global demand and supply equilibrium was severely impacted. As a result, global steel prices fell sharply. The cycle was reversed and markets were stable until the first half of 2000.

2001 was an exceptionally challenging year for the mainstream world steel industry, characterised by excessive production capacity and lower demand caused by economic slowdown in major industrial sectors in the world. The total number of bankruptcies in North American steel-oriented companies reached thirty-one, and several major producers ceased operations entirely. Sales of finished products were adversely affected at the Company's subsidiaries due to general economic weakness, high levels of steel imports at low prices in the Company's main markets (especially in the United States and Canada), high inventory levels at customers' businesses, higher energy costs and the impact of exchange rate movements. All of the Company's subsidiaries suffered broad sales price erosion. In regional terms, sales price erosion was more pronounced in North America than in Europe. Although finished product sales volumes were uniformly lower at all subsidiaries, there was generally no major loss of market share.

In response to the adverse business environment, management accelerated cost reduction efforts across the Company, covering a wide spectrum of cost elements, including manpower rationalization, operational efficiency, purchasing and administrative costs. In addition, the Company also worked to control its metallic costs. Ispat International, which is one of the world's largest DRI producers and consumers had a total DRI production of 4.9 million tonnes in 2001. The availability of internally produced DRI has important quality and cost advantages and enables Ispat International to produce more high quality grades of steel than mills using scrap as primary metallic feedstock. In 2001, this cost advantage was partly eroded due to a combination of unusually high natural gas prices at certain subsidiaries and historically low scrap prices. During the year, the Company's overall metallics management strategy at its operations in Canada, Mexico and Germany was optimized by the combination of increased scrap usage and purchase of DRI from

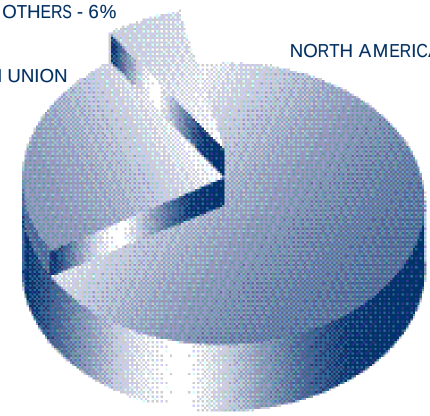
BUSINESS REVIEW

CONTINUED

Caribbean Ispat in Trinidad, which has a long-term supply contract for natural gas.

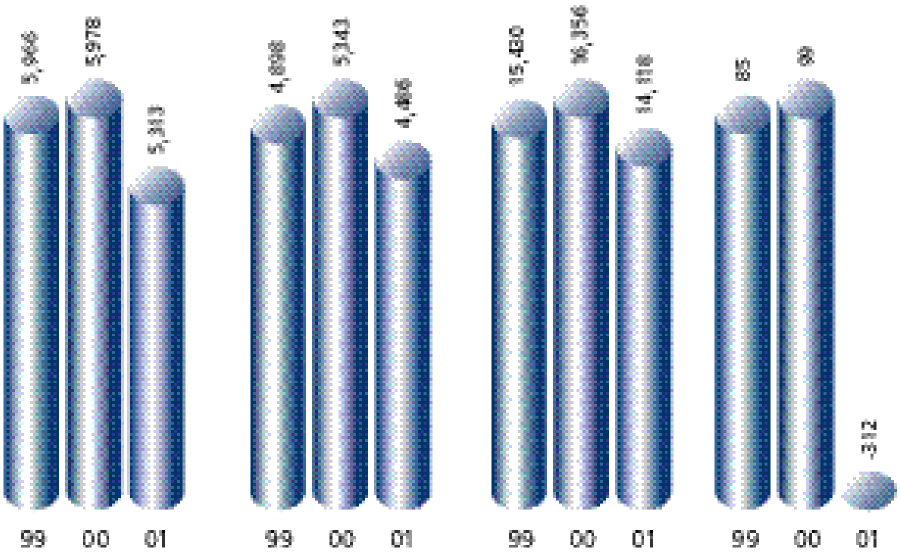
The Company was extremely selective in capital expenditure which was restricted to maintenance only. Total capital expenditure for the year was reduced by 47% to $97 million. The Company continued to maintain among the highest standards in the industry in areas affecting health and safety, the environment, customer service and quality and global operating benchmarks of excellence in many areas. Ispat International is participating with about a dozen European steel producers in "Made of Steel" a pan-European initiative aimed at reinforcing the image of steel over the next three years as a contemporary and fool-proof material.

SALES BY GEOGRAPHIC REGION



2001 TOTAL SALES: $4,486

TOTAL ASSETS (U.S.$M) | SALES (U.S.$M) | SHIPMENTS (IN THOUSANDS OF TONS) | NET INCOME (U.S.$M)



BUSINESS REVIEW

CONTINUED

NORTH AMERICA

ISPAT INLAND INC.

Ispat Inland is the fifth largest integrated steel producer in the U.S., located at East Chicago, Indiana, based on shipments of 5.4 million tons. The company produces a wide range of steels, of which approximately 99% consists of carbon and high-strength, low-alloy steel grades, including cold rolled and galvanised steel. Ispat Inland's Flat Products division, manages the Company's iron ore operations, conducts its iron-making operations, and produces the major portion of its raw steel. The division manufactures and sells steel sheet, strip and certain related semi-finished products for the automotive, steel service center, appliance, office furniture and electrical motor markets. Ispat Inland's Bar division manufactures and sells special quality bars and certain related semi-finished products to the automotive industry directly, as well as through service centers and other channels.

Ispat Inland's goal is to be a preferred supplier of steel products by emphasizing best-in-class delivery and quality, while maintaining competitive service to a leading customer base. Ispat Inland's determination to provide quality products was recognized by the respected trade magazine Automotive Industries in February 2002. In its Quest for Excellence survey, U.S. automakers chose Ispat Inland as the No. 1 supplier of ferrous metals.

The combination of factors that contributed to make 2001 one of the toughest years ever experienced by the U.S. steel industry had an adverse effect on Ispat Inland's financial performance. Average steel prices for its products fell to their lowest levels in 20 years under the weight of persistently high levels of imports, and the economic slowdown in the U.S. Net sales declined by 13% to $2,008 million from $2,305 million in 2000 primarily due to lower average selling prices by 9% and a 4% decrease in shipments. Gross profit margin decreased to 0.5% from 8.4%. The company posted a negative operating margin as compared to an operating margin of 2.3% in 2000.

Overall, Ispat Inland achieved significant cost reduction, arising from production efficiencies, benefits from global purchasing synergies, manpower reduction and reduction in overhead costs despite reduced shipments and high energy costs. The company achieved this in spite of maintaining quality standards and strengthening customer relationships and market share. These initiatives have helped Ispat Inland to create a business that is well prepared to take advantage as pricing in the North American steel market begins to recover.

ISPAT SIDBEC INC.

Ispat Sidbec is Canada's fourth largest steelmaker, based on 2001 shipments of approximately 1.4 million tons of finished steel products. The company's wide product range includes hot, cold and galvanised sheet, wire rods, wire products, bar and pipe products sold primarily in Canada and the U.S..

Located in the Province of Québec, Ispat Sidbec has two DRI plants with a total production capacity of 1.5 million tonnes. During 2001, Ispat Sidbec optimized its metallics management by not operating its DRI plants, because of high natural gas prices. Instead, metallics requirements were met with lower cost scrap and DRI imported from Caribbean Ispat.

Despite the very tough market conditions, Ispat Sidbec generated positive operating income during the year. However, Ispat Sidbec did not escape the unfavourable impact of higher levels of imports entering the North American markets, as well as the prevailing pressure of low selling prices and high-energy costs. Shipments reduced by 14% compared to the previous year. Net sales decreased by 22% to $463 million mainly due to steel shipments and average selling prices, which were lower by 14% and 9%, respectively and the weakness of the Canadian dollar. At Ispat Sidbec, gross profit margin decreased to 9.0% from 17.0% in 2000.

ISPAT MEXICANA S.A. DE C.V.

Ispat Mexicana produces slabs, a semi-finished product, used for making line pipe for oil and gas transportation, automotive parts and other consumer appliances. Its main customer base is in the NAFTA region. Due to the difficult market demand and pricing environment globally for slabs, net sales declined by 43% to $470 million at Ispat Mexicana, reflecting the action taken by the company to operate the plant at approximately 2.6 million tons or two-thirds capacity, following the onset of weaker demand and selling prices for the year, which were lower by 17%.

BUSINESS REVIEW

CONTINUED

Ispat Mexicana, one of the lowest cost producers of slab in the world, was also severely hit by the developments in the natural gas market. During the later part of 2000 and the early part of 2001, as gas prices had reached record high levels, Ispat Mexicana, along with the other industries in Mexico signed a one-time, three-year gas contract at a fixed price of US$4 per mmbtu offered by the Government. Gas prices started declining thereafter, and the contract, combined with a depreciation of the Bazilian real, negatively impacted Ispat Mexicana's competitive cost structure.

In other areas, the company has been successful in lowering its operating costs further in 2001 through various operational and cost reduction measures. At Ispat Mexicana, gross profit margin was 3.6% as compared to 22.1% in 2000 and operating margin was negative as compared to 17.5%. The company remains a highly efficient, high quality slab producer and is well placed to benefit from the projected recovery of the slab market in the second half of 2002 and 2003.

CARIBBEAN ISPAT LIMITED

Trinidad-based Caribbean Ispat is the largest steelmaker in the Caribbean, based on 2001 shipments of 753,000 tons of steel products. The company produces wire rods for many industrial applications, including the manufacture of fences, cables, chains, springs, fasteners, wire strands and wire ropes, and for use in the construction industry. Its main markets are in the U.S., South and Central America and the Caribbean. The company also has three highly efficient DRI plants that are central to Ispat International's world leadership in DRI production, which also enables the Company's operating subsidiaries to benefit from flexibility in their metallics management strategies. During the year, DRI sales at Caribbean Ispat increased significantly due to improved plant operations.

During 2001, the market for wire rods continued to be negatively impacted by oversupply and the low selling prices for wire rods, due to section 201 trade action relating to wire rod imports into the U.S.. In spite of lower average selling prices of steel and DRI by 6%, net sales increased by 22% to $285 million from $233 million in 2000, mainly due to the significant increase in DRI shipments. Gross profit margin at Caribbean Ispat decreased to 4.7% from 9.8% in 2000, primarily due to lower selling prices and higher costs.

EUROPE

ISPAT EUROPE GROUP S.A.

Ispat Europe's operations, based in the European heartland of Germany, France and Luxembourg, produce a wide range of long products including high quality wire rods, blooms, billets and wire products. In Germany, Ispat Hamburger Stahlwerke operates the only integrated mini-mill in Europe. The company's wire rods are traditionally sold to customers mainly in the European Union, and as the company is adjacent to a deep water port, it is able to service export markets, as well. Ispat Stahlwerk Ruhrort produces high quality, continuously cast billets for further production into wire rods at Ispat Walzdraht Hochfeld for resale. Ispat Unimetal is the largest high quality wire rods and bars producer in the France with core markets in the European Union. The company manufactures a wide range of high quality billets, bar and rods in coils, such as tire cord, free-cutting, cold heading, forgings, pre-stressed concrete wire and other wire drawing qualities.

Ispat International has among the largest wire drawing facilities in Europe, manufacturing a number of downstream products such as steel wire, wire mesh and bright bars. These downstream manufacturing facilities include Trefileurope, with operations in France, Belgium and Italy, SMR in France and Kent Wire (Ispat) in the U.K.. Markets for Ispat Europe's downstream products include the automobile industry and users of steel wires for a range of applications such as springs, elevator hoisting cables and wire mesh.

Ispat Europe maintained market share, but along with other European steel producers, was adversely affected by lower shipments caused by weak demand in core European markets and a downward pressure on selling prices for certain products. The resulting squeeze on margins was exacerbated by increases in uncontrollable costs relating to energy, metallics and other inputs. However, these negative impacts were partly offset by successful efforts to reduce the subsidiary's own controllable costs, and by enhanced working capital management.

In the context of the world-wide downturn in the steel industry, the efforts by the Company's European operations were reflected in Ispat Europe Group's financial and commercial performance. Ispat Europe's net sales totaled $1,127 million, as compared to $1,197 million of net sales

BUSINESS REVIEW

CONTINUED

in the year 2000. Total steel shipments for the year were 3.9 million tons as compared to 4.1 million tons in 2000. While selling prices are expected to remain under pressure, forecasts indicate an upward trend in volumes and selling prices, indicating a recovery across the market in the second half of 2002.

KNOWLEDGE INTEGRATION

Ispat International recognises that in today's global business environment, the availability of a highly skilled and experienced management team becomes an even more effective way of ensuring competitive expertise and advantage. Ispat International's Global Executive Development Program (GEDP) was established to encourage executives to provide high levels of expertise and to make a genuine difference to overall business performance. During 2001, a renewed emphasis was placed on sharpening all of the Company's operating strategies. This involved the appointment of key executives with specific responsibility to lead the Company's marketing efforts in long and flat products, both in Europe and North America.

The Company's focus on continuous improvement is supported by K-I-Ps, a quality, cost and efficiency program designed to ensure each operation benefits from the combined expertise of its managers, resulting in our subsidiaries being able to achieve operational excellence. Technical and operating experiences and best practices are identified, shared and transferred to all business units. The programs also ensure that business units get the most out of global purchasing synergies, leading to improved profitability and operating efficiencies through mutual assistance. K-I-Ps also provide the forum for communicating with employees and reinforcing their alignment with the Company's priorities and targets, as well as an exchange of ideas between business units at a senior level. Ispat International's K-I-Ps make a real difference to the way its business units compete in the global steel industry, and to continually enhance the way in which steel is produced and supplied.

MANAGEMENT BOARD AND ADVISORS

BOARD OF DIRECTORS

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

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

Malay Mukherjee
Member of the Board, President and Chief Operating Officer

Ambassador Andrés Rozental
Member of the Board

Fernando Ruíz Sahagon
Member of the Board

Peter D. Southwick
Member of the Board, President and Chief Operating Officer, Ispat Inland Inc.

Narayanan Vaghul
Member of the Board

AUDIT COMMITTEE

Narayanan Vaghul
Chairman of the Audit Committee

Ambassador Andrés Rozental

Fernando Ruíz Sahagon

AUDITORS

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

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599 Lexington Avenue
New York NY 10022-6069
USA

De Brauw Blackstone Westbrock
Advocaten & Notarissen
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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 United States.

	Years Ended December 31.				
	1997	1998	1999	2000	2001
STATEMENT OF INCOME DATA					
Sales[1]	$ 2,171	$ 3,492	$ 4,898	$ 5,343	$ 4,486
Cost of sales (exclusive of depreciation)[1]	1,717	2,871	4,270	4,670	4,273
Gross profit (before deducting depreciation)	454	621	628	673	213
Gross margin	20.9%	17.8%	12.8%	12.6%	4.7%
Depreciation	50	91	164	177	216
Selling, general and administrative expenses	80	126	156	181	155
Other operating expenses	–	–	–	–	36
Operating income	324	404	308	315	(194)
Operating margin	14.9%	11.6%	6.3%	5.9%	(4.3%)
Other income (expense) - net	1	–	15	23	13
Financing costs:					
Net interest expenses	(55)	(132)	(184)	(216)	(228)
Net gain (loss) from foreign exchange and monetary position	(8)	16	(11)	–	(9)
Income before taxes	262	288	128	122	(418)
Net income	236	237	85	99	(312)
Basic and diluted earnings per common share	2.02	1.93	0.71	0.82	(2.58)
Cash dividends per common share[2]		$ 0.15	$ 0.15	$ 0.15	
BALANCE SHEET DATA					
Cash and cash equivalents, including short-term investments	$ 804	$ 525	$ 317	$ 292	$ 85
Property, plant and equipment - net	942	3,179	3,333	3,299	3,109
Total assets	2,882	5,927	5,966	5,978	5,313
Payable to banks and current portion of long-term debt	436	549	457	391	338
Long term debt	1,104	2,400	2,184	2,124	2,041
Shareholders'equity	662	801	854	884	338
OTHER DATA:					
Net cash provided (used) by operating activities	(95)	253	599	381	40
Net cash used in investing activities	(296)	(1,474)	(184)	(195)	(48)
Net cash provided (used) by financing activities	531	987	(432)	(139)	(123)
EBITDA[3]	$ 367	$ 511	$ 476	$ 515	$ 26
Total production of DRI (thousand of tonnes)	5,765	6,292	6,353	6,872	4,918
Total shipments of steel products (thousand of tons)	7,256	10,792	15,430	16,356	14,118

1 In 2001, the Company adopted EITF 00-10 (issued by the FASB Emerging Issues Task Force) which requires the inclusion of all shipping and handling costs billed to customers in the Sales figure as well as in Cost of Sales. The Company accordingly recast prior period numbers for 1999 and 2000 to reflect the same. In the above Table, the Sales and Cost of Sales numbers for 1997 and 1998 are based on the treatment used prior to the adoption of EITF 00-10 wherein Sales are net of freight and handling costs; and Sales and Cost of Sales numbers for 1999, 2000 and 2001 are based on the EITF 00-10 methodology. The application of EITF 00-10 does not affect earnings, as it only involves inclusion of shipping and handling costs in both Sales and Cost of Sales.

2 Cash dividends are presented on cash basis.

3 EBITDAis 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

The summary consolidated financial and other information, including the accounts of Ispat International N.V. and all its majority owned subsidiaries have been prepared in accordance with U.S. GAAP. The consolidated financial statements and other information for 2001 includes results of Irish Ispat Limited for the first three months(1). All material inter-company balances and transactions have been eliminated. Total shipments of steel products include inter-company shipments.

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

All references to "Ispat International" are to "Ispat International N.V."; to "Ispat Inland" are to Ispat Inland Inc.; to "Imexsa" or "Ispat Mexicana" are to Ispat Mexicana, S.A. de C.V.; to "Ispat Sidbec" are to Ispat Sidbec Inc.; to "Caribbean Ispat" are to Caribbean Ispat Limited; to "Ispat Germany" are collectively to Ispat Hamburger Stahlwerke GmbH ("IHSW"), Ispat Stahlwerk Ruhrort GmbH ("ISRG") and Ispat Walzdraht Hochfeld GmbH ("IWHG"); and to "Ispat Unimetal Group" are to Ispat Unimetal, Trefileurope and SMR.

EBITDA is defined as net income plus income tax expense / (benefit), net interest expense and depreciation.

All references to "Sales" include freight and handling costs and fees as per EITF Issue No. 00-10(2). All references to "Net Sales" exclude freight and handling costs and fees.

OVERVIEW AND SUMMARY

Ispat International N.V. is one of the world's largest and most global steel producers, with major steelmaking operations in the United States, Canada, Mexico, Trinidad, Germany and France. The Company produces a broad range of coated, cold rolled and hot rolled products, high quality wire rods and semi-finished flat and long products. In 2001, Ispat International shipped 14.1 million tons of high quality steel products to customers in about eighty-five countries, predominantly - over 90% of sales revenue - in participating countries of NAFTA (North American Free Trade Agreement) and the European Union.

The steel industry is highly cyclical in nature and 2001 was one of the worst years in recent history for the industry. The global economic situation caused sales volumes and prices to go down drastically. Selling prices declined to record low levels, and stayed at those levels for a longer period of time as compared to many of the past cyclical troughs. These negative trends were further exacerbated by significant increases in the cost of key inputs, mainly energy and iron ore.

Ispat International was severely affected by the above developments. The Company responded by intensifying its focus on internal improvements. The Company carried out

1 On 15th June 2001, the Company announced the shutdown of its steel making operations in Ireland and the calling of a creditors'meeting for the appointment of a liquidator. Consequently, beginning in the second quarter of 2001, the results of Irish Ispat Limited have not been consolidated.

2 In September 2000, the Financial Accounting Standards Board Emerging Issues Task Force ("EITF") reached a final consensus on EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs." This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling be classified as revenue. The Company historically netted shipping charges billed to customers with shipping and handling costs, which were included in Net Sales in the Consolidated Statements of Operations. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. The Company adopted the consensus on EITF Issue No. 00-10 in the fourth quarter of fiscal 2001. As a result of EITF Issue No. 00-10, the Company has adopted a policy to include shipping and handling costs in its Cost of Sales; accordingly, the Company recast all prior periods presented to reflect shipping and handling amounts billed to customers as Revenues and the corresponding expenses as Cost of Sales.

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

CONTINUED

major cost reduction programs aimed at achieving significant and sustainable cost savings, as well as working capital reduction and cash management initiatives which together enabled it to mitigate to some extent the very considerable adverse impact of the external factors.
Sales volumes and sales revenues in 2001 were down by 14% and 16% respectively compared to 2000. There was an operating loss of $194 million in 2001 as compared to an operating income of $315 million in 2000. The Net Loss for 2001 was $312 million as against Net Income of $99 million for 2000. EBITDAwas $26 million in 2001 against $515 million in 2000. EBITDAadjusted for unusual items, as discussed later, was $119 million in 2001 against $522 million in 2000. The negative impact of lower selling prices, lower sales volume and increases in uncontrollable costs like energy was approximately $558 million. The Company achieved approximately $104 million of savings from a focused cost reduction program and working capital reduction (excluding cash and cash equivalents) of $238 million.

CRITICAL ACCOUNTING POLICIES

The information and analysis on the Company's operational results and financial condition are based on figures contained in the Company's financial statements, which have been prepared in accordance with accounting standards generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires Company management to make judgments in the selection and application of accounting policies and in some cases, make judgmental estimates and assumptions in the application of those accounting policies; both of which could affect the reported amounts in respect of certain key numbers like revenue, costs, operating and net income as well as certain assets and liabilities. These judgments and estimates are a normal part of the process of preparing financial statements. While the use of different assumptions and estimates in key areas could have caused the results to be different from those reported, the Company believes that the possibility of material differences between two periods is considerably reduced by being consistent in the application of management judgment. The Company endeavors to adhere to the principle of consistency at all times, and material changes in the accounting policies or in their application are highlighted.

The accounting policies that the management considers important, in terms of the likelihood of a material impact arising from a change in the assumptions or estimates used in the application of the accounting policy in question, are outlined below.

ESTIMATION OF USEFUL LIVES FOR CALCULATION OF DEPRECIATION:

The Company calculates depreciation on straight-line method. For this purpose, useful lives of different categories of assets have been fixed based on technical assessments. There has been no change in the estimates with regard to the useful lives used in calculating depreciation in 2001.

IMPAIRMENT OF LONG LIVED ASSETS:

Statement of Financial Accounting Standards ("SFAS") No. 144 requires companies to write down the carrying value of long lived assets where their value has been permanently impaired due to technological or economic reasons. The Company applied this accounting standard in relation to its 2001 financial statements and concluded that no material impairment provisions were necessary. Material production plants of the Company that were temporarily idled during the year were (a) the DRI plants at Ispat Sidbec, which were not operated during the year and the DRI plants at Ispat Hamburger Stahlwerke GmbH, which were not operated for part of the year, because of economic reasons, mainly the high price of natural gas and the low prices of alternative metallics such as scrap (b) the DRI plants at Ispat Mexicana which were not operated for part of the year mainly because of reduced captive consumption due to reduced level of steel production and (c) the 21 inch bar mill at Ispat Inland, which was temporarily idled for part of the year because of low demand for its products. In all cases, an assessment of possible impairment was made and it was concluded that there was no permanent impairment because these production facilities continued to have the capability to deliver positive long term cash flows. In the case of certain ocean going vessels owned by one of the Company's subsidiaries, an impairment charge of $22 million was made in 2001 on account of estimated impairment, arising out of lower market value. If future demand and market conditions are less favorable than those projected by management, additional asset write-downs may be required.

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

CONTINUED

INVENTORY VALUATION AND OBSOLESCENCE PROVISIONS:

The Company values inventories at the lower of (a) the full cost of producing or acquiring the product or raw/semi finished material, or (b) the net realizable value, using the average costs and First in First Out ("FIFO") methods. Write down for obsolescence is based on the age and movement pattern of the product or item in question. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

ALLOWANCE FOR DOUBTFUL RECEIVABLES:

The Company's accounts receivable management policy requires management to make periodical assessments of collectibility of all receivables. A provision is taken, when such a review indicates the reasonable possibility that a receivable may not be collected in full, of an amount corresponding to the estimated non recoverable amount. In 2001, an amount of $6 million was provided for trade debts considered unrecoverable. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

PROVISIONS FOR PENSIONS AND OTHER POST EMPLOYMENT BENEFITS (SFAS 87 AND 106):

The Company's operating subsidiaries in different countries have different types of pension plans for their employees. Likewise, most of the subsidiaries in North America also offer post employment benefits, primarily post employment health care. The expense associated with these employee benefits, as well as the carrying amount of the related liability/asset in the Balance Sheet is based on a number of assumptions on such items as the discount rate, expected wage increases, expected return on plan assets, future healthcare cost trend etc. Changes in any of these assumptions, particularly in the case of the U.S. and Canadian subsidiary, could have a material impact on the associated liabilities. In 2001, changes in some of the key assumptions used to evaluate minimum pension liabilities resulted in an after tax charge of $213 million to Other Comprehensive Income.

DEFERRED TAX ASSETS:

The Company charges tax expenses or accounts for tax credits based on the differences between the financial statement amounts and the tax base amounts of assets and liabilities. Deferred tax assets are also recognized for the estimated future effects of tax loss carry-forward. The Company periodically reviews the amount of the Deferred Tax assets in the different jurisdictions in which it operates to assess the possibility of realizing such assets based on projected earnings. It takes an appropriate valuation allowance where it appears likely, based on these projections, that the deferred tax assets will not be realized. A valuation allowance of $11 million was taken at the Company's operating subsidiary in Trinidad & Tobago in 2001.

RESULTS OF OPERATIONS

Historically, the Company has grown through acquisitions. There were no acquisitions in 2000 and 2001, and consequently the results of operations for 2001 did not benefit from earnings of subsidiaries acquired during the year or previous year. The Board of the Company has decided that no significant acquisition activity will be pursued until the Company's operating results return to healthy levels, stressing the importance of focusing exclusively on improving operational performance and cash flow in the current situation.

REVENUE:

The Company's operating results are driven by sales volume, product mix, selling price and cost. Earnings are particularly sensitive to changes in sales prices, which directly impact earnings, and volume, which affects both revenue and cost.

Sales declined by 16% from $5,343 million in 2000 to $4,486 million in 2001. These Sales numbers are based on the application of EITF Issue No. 00-10 (issued by the FASB Emerging Issues Task Force ("EITF") in September 2000 and adopted by the Company this year) and includes all shipping and handling fees and costs billed to customers. Prior period numbers have been recast to reflect the same. The application of EITF Issue No. 00-10 does not affect earnings, as it only involves inclusion of shipping and handling fees and costs in Sales and Cost of Sales.

The financial statements present numbers inclusive of shipping and handling fees and costs. However, the Company believes that net sales numbers based on net

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

CONTINUED

realizations from sales transactions more truly reflect sales performance. The Company uses net sales numbers for managing its business. All the analyses presented here onwards are based on net sales numbers.

Total steel shipments decreased by 14% to 14.1 million tons in 2001 from 16.4 million tons in 2000. Net Sales decreased during the same period from $5,097 million to $4,280 million, a decline of 16%. Net Sales of finished products were adversely affected at the Company's subsidiaries due to general economic weakness, high levels of steel imports at low prices in our principal markets (especially in the United States and Canada), high inventory levels at customers'businesses (especially North American service centers) and the impact of exchange rate movements. All of the Company's subsidiaries suffered broad sales price erosion. In regional terms, sales price erosion was more pronounced in North America than in Europe. Although finished product sales volumes were uniformly lower at all units, there was generally no major loss of market share. Slab sales at Ispat Mexicana were severely affected, with sales declining by 43%, as a result of the slump in steel industry; while DRI sales at Caribbean Ispat increased significantly due to improved plant operations.

THE FOLLOWING TABLE GIVES A SUMMARY OF KEY NET SALES NUMBERS:

Subsidiary	Net Sales(3) 2001 $ Million	2000 $ Million	Net Sales %	Changes in Steel Shipments %	Net Sales Price (Steel Products) %
Ispat Inland	2,008	2,305	(13)	(4)	(9)
Ispat Mexicana	470	827	(43)	(33)	(17)
Ispat Sidbec	463	592	(22)	(14)	(9)
Caribbean Ispat(4)	285	233	22	1	(6)
Ispat Germany	619	663	(7)	(4)	(2)
Ispat Unimetal Group	508	534	(5)	(4)	(1)

COSTS:

In spite of the Company's ongoing cost reduction efforts, per unit costs were higher in 2001 than in 2000. This increase was mainly due to lower level of operations resulting from lower shipments, as well as significant increases ($108 million) in certain uncontrollable cost elements, mainly natural gas and iron ore. The Company planned and implemented a focused, organization wide cost reduction program, and achieved savings of approximately $104 million covering a wide spectrum of cost elements, including manpower rationalization, operational efficiency, purchasing and administrative costs. In addition, the Company also worked to control its metallics costs by (a) managing the sourcing of DRI to reduce the impact of the steep increase in natural gas prices, (b) where possible, using more scrap to take advantage of the lower scrap prices, and (c) alternative sourcing of blooms and billets in some subsidiaries. However, these efforts, though effective, only partly mitigated the increase in costs.

Selling, general and administrative expenses ("SG&A") were lower by nearly 14% compared to the previous year, mainly due to focused cost reduction program. This is in spite of a write off of approximately $6 million for doubtful receivables at the Canadian subsidiary. Also, the SG&A figure includes the cost associated with the Accounts Receivable Purchase ("Receivable Securitization") facility at Ispat Germany and at Ispat Unimetal Group. This cost, which would be included as part of interest expense if the facility had been a conventional working capital credit facility, was approximately $4 million in 2001 ($3 million in 2000).

3 Net Sales numbers above exclude unusual items and are standalone numbers for certain operating subsidiaries.

4 Net Sales at Caribbean Ispat increased primarily due to increased DRI shipments.

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

CONTINUED

Depreciation was higher because of the inclusion of $39 million of certain unusual items viz. (a) write-down in value of e-Commerce software by $17 million and (b) an impairment charge with respect to certain ocean going vessels of $22 million.

The Company's Consolidated Statement of Income for 2001 includes certain unusual items. The following is a summary of these items, along with a description of the item, the related amount and the line item in the Statement of Income where it is included.

Item	Amount ($ Millions)	Included in:
COST ITEMS		
Irish Ispat closure	17	Other operating expenses
Provision for arbitration award relating to a scrap supply contract	19	Other operating expenses
Write-down in value of e-Commerce software	17	Depreciation
Impairment loss on ocean going vessels	22	Depreciation
Slab Reheating Furnace start-up costs	28	Cost of Sales
Write-off of investments in e-Commerce activities	19	Other Income/Expenses
Workforce restructuring Provision	18	Cost of Sales
REVENUE ITEM		
Credit for settlement of lawsuit	8	Cost of Sales

Corresponding numbers for unusual items included in the 2000 financial statements were:

Item	Amount ($ Millions)	Included in:
COST ITEMS		
Settlement of lawsuit with State of Louisiana	15	Cost of Sales
Workforce restructuring Provision	4	Cost of Sales
REVENUE ITEM		
Profit on sale of assets	12	Other Income/Expenses

GROSS PROFIT AND OPERATING INCOME:

The Company experienced a significant decline in both Gross Profit and Operating Income in 2001 as compared to 2000 due to the reasons outlined above. Gross Profit decreased by 68% from $673 million in 2000 to $213 million in 2001. Operating Income declined from $315 million in 2000 to an Operating Loss of $194 million in 2001. Excluding the impact of the unusual items described above, operating loss for 2001 was $81 million.

The Gross Profit Margin (Gross Profit as a % of Net Sales) declined from 13.2% in 2000 to 5.0% in 2001. Operating Margin (Operating Profit as a % of Net Sales) in 2000 was 6.2% as against an Operating Loss in 2001.

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

CONTINUED

The comparative numbers of Gross Profit Margin(5) and Operating Margin(5) at the Company's operating subsidiaries were as follows:

	Gross Profit Margin(%)		Operating Margin(%)	
Subsidiary	**2001**	**2000**	**2001**	**2000**
Ispat Inland	0.5	8.4	Negative	2.3
Ispat Mexicana	3.6	22.1	Negative	17.5
Ispat Sidbec	9.0	17.0	1.1	12.2
Caribbean Ispat	4.7	9.8	Negative	0.0
Ispat Germany	11.5	14.7	5.1	8.0
Ispat Unimetal Group	10.6	12.6	2.9	4.6

FINANCING COSTS:

Net interest expense (interest expense less interest income) was $228 million in 2001 compared to $216 million in 2000. The Company's net interest expense went up even though the level of total borrowing went down during the year. This was due largely to an increase in the average cost of borrowing. The main reasons for the increase in average borrowing costs were:

a In February 2001, Ispat Europe issued Euro 150 million of Senior Secured Notes, due 1st February 2011 at a coupon of 11.875%, which was higher than the Company's average cost of all other borrowings at the time,

b Inclusion of non cash expenses of $15 million in accordance with SFAS No. 133, from marking to market value, in an interest hedge contract, and

c There was an increase in spread on certain Floating Rate debt, mainly at Ispat Inland and Ispat Sidbec, as part of amendments made to the loan agreements.

The increase in average borrowing costs were partly offset by the savings in interest cost on floating rate debt due to a fall in LIBOR and a reduction of debt.

In addition, loss from foreign exchange was $9 million in 2001 compared to $Nil in 2000.

The Company has entered into receivable securitization arrangements in Ispat Germany and Ispat Unimetal Group, and the corresponding costs associated with these facilities, of $3 million in 2000 and $4 million in 2001, are included in Selling, general and administrative expenses.

INCOME TAX:

The Company recorded a current tax expense of $8 million in 2001 ($20 million in 2000) and recorded a deferred tax benefit of $114 million in 2001 (expense of $3 million in 2000). The deferred tax benefit was mainly at the Company's U.S., Canadian and Mexican subsidiaries and relates mainly to tax loss carry forward. Based on the Company's assessment, it is more likely than not that these subsidiaries will earn sufficient taxable income in the future to fully utilize the tax loss carry forward. At Caribbean Ispat, on the other hand, the Company took a valuation allowance of $11 million, thereby fully reserving for the deferred tax asset at that subsidiary.

NET INCOME:

The Company incurred a Net Loss of $312 million in 2001 compared to a Net Income of $99 million in 2000 due to the reasons discussed above.

LIQUIDITY AND CASH FLOW

The Company's principal sources of liquidity are cash generated from its operations and various working capital

5 Margins above exclude unusual items and are standalone numbers for certain operating subsidiaries.

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

CONTINUED

credit lines at its subsidiaries. As discussed above, 2001 was an extremely difficult year for the steel industry, but the Company took various steps to aggressively control costs, reduce working capital, sell non core assets, minimize capital expenditure and manage cash. Working capital was reduced by $238 million without compromising customer service levels. Certain non core assets were sold, including aircraft for $21 million. Capital expenditure was reduced by 47% from $184 million in 2000 to $97 million in 2001. As a result of these measures, although the Company suffered a Net Loss of $312 million, the impact on net cash was minimized to a large extent.

The Company funded $109 million in Ispat Inland pension plan, $61 million of which represents a pre-payment of the entire 2002 obligation and a portion of 2003 obligation.

During the year, total debt (excluding Ispat Europe bonds) was reduced by $254 million, mainly through making scheduled repayments on various loans. New borrowings completed during 2001 included the Ispat Europe Bond issue of Euro 150 million Senior Secured Notes maturing on 1st February 2011 with a coupon of 11.875%.

The Company's cash position at the end of 2001 was tight, with cash and cash equivalents of $85 million available, primarily at the operating subsidiaries, as compared to $292 million at the end of 2000.

The Company had available $251 million under various credit lines at the end of 2001. This compares with an availability of $318 million at the end of 2000. The utilization of, and availability under these credit lines at each subsidiary were as follows:

Subsidiary	Limit(6)		Utilization		Availability(6)	
($ Millions)	2001	2000	2001	2000	2001	2000
Ispat Inland	320	335	217	202	103	133
Ispat Sidbec	105	108	13	23	92	85
Caribbean Ispat	81	90	81	73	0	17
Ispat Germany	48	131	10	52	38	79
Ispat Unimetal Group	39	10	21	10	18	0
Others	–	15	–	11	–	4
TOTAL	593	689	342	371	251	318

In addition, both Ispat Germany and Ispat Unimetal Group are parties to Receivable Securitization arrangements (sometimes referred to as "off Balance Sheet financing") under which they had combined availability of $103 million as at the end of 2001 as per the following details:

Subsidiary	Limit(6)		Utilization		Availability(6)	
($ Millions)	2001	2000	2001	2000	2001	2000
Ispat Germany-Receivable	119	–	41	–	78	–
Ispat Unimetal Group-Receivable	94	100	69	66	25	34
TOTAL	213	100	110	66	103	34

All of the Company's subsidiaries met all of their debt service obligations (scheduled principal and interest payments) in 2001 and complied with all the covenants under the various loan agreements, after obtaining appropriate waivers in certain cases.

6 Corresponding exercisable/available limits are lower, which are based on the level of inventory/receivable.

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

CONTINUED

The Company initiated discussions with lenders of the relevant subsidiaries as early as the fourth quarter of 2001 to obtain certain amendments, waivers or rescheduling of payments. The Company has already received or has reached agreement in principle regarding several amendments and waivers. With these amendments, waivers and rescheduling agreements in place and with the anticipated improvements in the steel market situation, the Company believes that it will be able to continue to meet its debt related obligations in the future, as well as return to an improved financial position.

The Company has placed a very high priority on improving its liquidity, reducing debt and strengthening its Balance Sheet. It will continue to focus aggressively, as in the past, on these areas.

BALANCE SHEET

DEBT:

The Company's total debt, both short and long term, was $2,379 million as at December 31, 2001. The corresponding figure at the end of 2000 was $2,515 million. Most of this debt is at the Company's operating subsidiaries and is secured or will be secured following the conclusion of the debt restructuring of Ispat Mexicana, by a lien or mortgage on their tangible assets. Some of this debt is also guaranteed by the parent company (see below). These numbers do not include: (a) amounts drawn under receivable securitization facilities at Ispat Germany and Ispat Unimetal Group, of $103 million at 2001 end and $66 million at 2000 end (details given in the section dealing with Liquidity and Cash Flow, above) and (b) a standby Letter of Credit in the amount of $160 million provided to the Pension Benefit Guaranty Corporation ("PBGC") for which the Company's United States subsidiary is the Account Party. This Letter of Credit is renewable annually and terminates in July 2003, unless otherwise extended.

The parent company Ispat International has guaranteed some of the debt of its subsidiaries. At December 31, 2001, the total amount of debt guaranteed by the parent company was $1.6 billion (2000: $1.6 billion).

SHAREHOLDERS' EQUITY:

As a result of changes in certain key assumptions used in estimating pension cost and liability, the Company's U.S. and Canadian subsidiaries recorded additional minimum pension liability (SFAS 87). This adjustment was recorded in Other Comprehensive Income and the amount was approximately $333 million, or approximately $213 million net of income tax. This had the effect of reducing the amount of Shareholders'Equity in the Balance Sheet. Together with the Net Loss for the year of $312 million and certain other routine (and non-material) charges to Other Comprehensive Income, the Shareholders'Equity declined from $884 million at December 31, 2000 to $338 million at December 31, 2001.

RECENT DEVELOPMENTS

TRADE ISSUES:

As a result of the recent investigation under U.S. law ("Section 201"), the President of the United States, on March 5, 2002, imposed trade remedies affecting imports into the United States of numerous steel products. These remedies included 30% tariff rate increases for hot-rolled sheet, cold-rolled sheet, coated sheet, and hot-rolled bar - with these rates declining to 24% in year two and 18% in year three. These remedies may result in an increase in U.S. prices for these products and Ispat Inland, whose product range consists mainly of these four product lines, is likely to benefit.

Imports from Mexico and Canada were exempted from the Section 201 tariff rate increases pursuant to provisions of the North American Free Trade Agreement ("NAFTA"). Those exceptions should permit Ispat Mexicana and Ispat Sidbec to maintain historical access to U.S. markets during the three-year period of relief. The NAFTA exemption could be modified if it is determined that increased imports constitute a "surge" within the meaning of U.S. law.

The March 2002 Section 201 remedy does not cover wire rod. However, in March 2000, as a result of an earlier Section 201 proceeding, the U.S. government imposed a tariff rate quota on imports of that product. Mexican and Canadian wire rod producers were exempted under NAFTA in that proceeding. Caribbean Ispat, whose main product is wire rod, received a 247,000 tons annual quota with a 5% duty above this level. Also, there is an annual quota for countries of the European Union and the European subsidiaries have a share in the same, with a 5% duty above the level.

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

CONTINUED

In 2001 and 2002, U.S. trade agencies also made affirmative determinations under U.S. antidumping ("AD") and countervailing duty ("CVD") laws for steel wire rod. The ultimate effect on the Company's subsidiaries is not yet clear, but Caribbean Ispat, Ispat Sidbec, and the Ispat Europe companies have been required to post bonds or pay cash on their exports to the U.S.

The European Union announced on March 25, 2002 that it would impose additional duties ranging from 14% to 26% on 19 steel products imported above levels established in new quotas. The products covered include certain bars and coils produced by Ispat Europe.

On March 22, 2002, the Canadian government announced that it has initiated a safeguard investigation by asking its International Trade Tribunal ("ITT") to investigate whether increased imports of certain steel products are causing injury to Canadian steel producers. The ITT will issue its findings on the injury question in July 2002.

Overall, the Company's U.S., Canadian and Mexican subsidiaries may derive benefits from these tariff decisions while the European subsidiaries might see little or no impact.

While several of the developments described above may be expected to benefit certain subsidiaries of the Company, there can be no assurance that potential benefits will ultimately accrue because of WTO challenges, exclusion requests, and various economic uncertainties.

ISPAT MEXICANA'S DEBT RESTRUCTURING

In response to the tight financial situation caused by the reduction in sales volumes and prices and other negative developments, the Company's Mexican operating subsidiary, Imexsa, launched an Exchange Offer in respect of its 10 1/8% Senior Export Certificates and entered into negotiations with its bank lenders to obtain extension of maturities and rescheduling of principal repayments, as well as certain waivers and loan agreement amendments.

On May 31, 2002, Imexsa reached agreements in principle with each of its bank lenders and holders representing over 75% of the outstanding amount of the Senior Certificates. The main changes covered by these agreements in principle were: (a) extension of maturities and rescheduling of principal repayments, (b) an increase of 50 basis points in the interest payable on the New Senior Export Certificates, (c) additional security, in the form of liens on certain assets of Imexsa and a pledge of the shares of Imexsa and its immediate parent, (d) an excess cash flow provision, under which excess cash generated by Imexsa will be used to retire debt in an agreed proportion between the New Senior Certificates and existing bank debt, (e) a new working capital facility, (f) a subordinated loan of $20 million from Ispat International for working capital purposes, and (g) waivers of, and changes to, certain covenants in the bank loan agreements.

Under the agreed upon terms, Imexsa's scheduled repayments in 2002 will be $58 million as compared to $132 million.

On February 27th 2002 and May 31st 2002, the trustee of the 10 1/8% Senior Export Certificates drew on a letter of credit issued by Credit Suisse First Boston ("CSFB") on behalf of Ispat International in an amount of $19 million, which was used to fund certain principal and interest payments on the certificates. As a result of these drawings a debt of $19 million was assumed by Ispat International in replacement of a similar amount of debt at Ispat Mexicana.

RATING AGENCY ACTIONS:

As a result of the difficult financial situation of the Company, particularly its Mexican subsidiary, the Company's ratings were downgraded. In January 2002 Standard & Poor's ("S&P") brought down the Company's ratings from B+ to CC and placed them on credit watch, the main reason given for this being the on-going Exchange Offer of Ispat Mexicana, the Company's Mexican subsidiary. S&P also downgraded the ratings of the Company's key subsidiaries other than Ispat Mexicana to CCC+.

On May 31, 2002, S&P announced further rating changes, lowering the Company's corporate rating to SD, Ispat Mexicana's credit rating to D and modifying the credit watch status of the Company's European, U.S. and Canadian subsidiaries to Positive from Developing, with the possibility of an upgrade after a subsequent review.

INDEPENDENT AUDITOR'S 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, 2000 and 2001, 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, 2001, 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 combined financial statements of the Ispat Hamburg Group of Companies, the financial statements of Caribbean Ispat Limited and the consolidated financial statements of Ispat Unimetal S.A. as of December 31, 2001 and for the year ended December 31, 2001. Also, we did not audit the combined financial statements of the Ispat Hamburg Group of Companies and the financial statements of Caribbean Ispat Limited as of December 31, 2000 and for each of the two years in the period ended December 31, 2000 and the consolidated financial statements of Trefileurope S.A. as of December 31, 2000 and for the six months period ended December 31, 1999 and for the year ended December 31, 2000 (each of which is a consolidated subsidiary of the Company), which financial statements reflect total assets constituting 15% and 18%, respectively, of consolidated total assets at December 31, 2000 and 2001, and total sales constituting 13%, 15% and 25%, respectively, of consolidated total sales for the years ended December 31, 1999, 2000 and 2001. 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, 2000 and 2001, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles in the United States of America.

Deloitte & Touche
Accountants
Rotterdam, The Netherlands
June 5, 2002

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 2001
	(Millions of U.S. Dollars, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 214	$ 85
Short-term investments	78	–
Trade accounts receivable, net of allowance for doubtful accounts of $30 as at December 31, 2000 and $31 at December 31, 2001	601	451
Inventories (Note 4)	1,015	805
Prepaid expenses and other	69	65
Deferred tax assets (Note 13)	28	37
Total Current Assets	2,005	1,443
Property, Plant and Equipment–net (Note 5)	3,299	3,109
Investments in Affiliates and Joint Ventures (Note 6)	335	299
Deferred Tax Assets (Note 13)	93	273
Intangible Pension Assets	102	83
Other Assets	144	106
Total Assets	$ 5,978	$ 5,313
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to banks and current portion of long-term debt (Note 8)	$ 391	$ 338
Trade accounts payable	640	540
Accrued expenses and other liabilities	347	303
Deferred tax liabilities (Note 13)	56	28
Total Current Liabilities	1,434	1,209
Long-Term Debt (Notes 9 and 10)	2,124	2,041
Deferred Tax Liabilities (Note 13)	137	134
Deferred Employee Benefits (Note 12)	1,294	1,493
Other Long-Term Obligations	105	98
Total Liabilities	5,094	4,975
Commitments and Contingencies (Notes 15 and 16)		
Shareholders'Equity (Note 11)		
Common Shares:		
Class A shares, NLG 0.01 par value per share at December 31, 2000 and €0.01 par value per share at December 31, 2001. 500,000,000 shares authorized, 54,850,000 shares issued and outstanding	–	–
Class B shares, NLG 0.10 par value per share at December 31, 2000 and €0.10 par value per share at December 31, 2001. 72,150,000 shares authorized, 72,150,000 shares issued and outstanding	4	7
Additional Paid-in Capital	479	480
Retained Earnings	401	92
Cumulative Other Comprehensive Income	–	(241)
Total Shareholders'Equity	884	338
Total Liabilities and Shareholders'Equity	$ 5,978	$ 5,313

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 1999	2000	2001
	(Millions of U.S. Dollars, except share and per share data)		
Sales	$ 4,898	$ 5,343	$ 4,486
COSTS AND EXPENSES:			
Cost of sales (exclusive of depreciation shown separately below)	4,270	4,670	4,273
Depreciation	164	177	216
Selling, general and administrative	156	181	155
Other operating expense (Note 14)	–	–	36
	4,590	5,028	4,680
Operating income (loss)	308	315	(194)
Other income (expense) - net	15	23	13
FINANCING COSTS:			
Interest expense—net of capitalized interest of $23 in 1999, $2 in 2000 and $2 in 2001	(209)	(241)	(242)
Interest income	25	25	14
Net loss from foreign exchange	(11)	–	(9)
	(195)	(216)	(237)
Income (loss) before taxes	128	122	(418)
INCOME TAX EXPENSE (BENEFIT): (Note 13)			
Current	18	20	8
Deferred	25	3	(114)
	43	23	(106)
Net income (loss)	$ 85	$ 99	$ (312)
Basic and diluted earnings per common share	$ 0.71	$ 0.82	$ (2.58)
Weighted average common shares outstanding (in millions)	120	120	121

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 1999	2000	2001
	(Millions of U.S. Dollars)		
Net income (loss)	$ 85	$ 99	$ (312)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Foreign currency translation adjustment—net of income taxes of $nil in 1999, $6 in 2000 and $2 in 2001	(5)	(21)	(20)
Minimum pension liability adjustment—net of income taxes of $3 in 1999, $12 in 2000 and $120 in 2001	(5)	(26)	(213)
Derivative financial instruments	–	–	(8)
Others	(4)	(3)	–
	(14)	(50)	(241)
Comprehensive income (loss)	$ 71	$ 49	$ (553)

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income: Foreign Currency Translation Adjustment	Cumulative Other Comprehensive Income: Derivative Financial Instrument	Cumulative Other Comprehensive Income: Pension and Others	Shareholders' Equity
	(Millions of U.S. Dollars and Millions of Shares)							
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		–	–	–	(21)	–	(29)	(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	36	–	(36)	884
Net loss		–	–	(312)	–	–	–	(312)
Other Comprehensive Income (Loss)		–	–	–	(20)	(8)	(213)	(241)
Treasury stock (Note 11)	2		4	–	–	–	–	4
Redenomination in Euro (Note 11)		3	(3)	–	–	–	–	–
Other (Note 11)		–	–	3	–	–	–	3
Balance at December 31, 2001	122	$ 7	$ 480	$ 92	$ 16	$ (8)	$ (249)	$ 338

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 1999	2000	2001
	(Millions of U.S. Dollars)		
OPERATING ACTIVITIES:			
Net income (loss)	$ 85	$ 99	$ (312)
Adjustments required to reconcile net income to net cash provided from operations:			
Depreciation	164	177	216
Deferred employee benefit costs	(43)	(47)	(106)
Other non-cash item	–	–	17
Net foreign exchange result	11	–	9
Deferred income tax	25	3	(114)
Undistributed earnings from joint ventures	(33)	(26)	12
Other	(16)	(12)	2
Changes in operating assets and liabilities, net of effects from purchases of subsidiaries:			
Trade accounts receivable	52	53	114
Short-term investments	184	64	78
Inventories	136	27	169
Prepaid expenses and other	(20)	(27)	24
Trade accounts payable	116	62	(81)
Accrued expenses and other liabilities	(62)	8	12
Net cash provided from operating activities	599	381	40
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(214)	(184)	(97)
Proceeds from sale of assets and investments including affiliates and joint ventures	4	23	37
Investments in affiliates and joint ventures	15	(25)	8
Acquisition of net assets of subsidiaries, net of cash acquired	9	–	–
Other	2	(9)	4
Net cash used in investing activities	(184)	(195)	(48)
FINANCING ACTIVITIES:			
Proceeds from payable to banks	315	2,294	2,416
Proceeds from long-term debt	37	297	125
Payments of payable to banks	(453)	(2,341)	(2,418)
Payments of long-term debt	(313)	(370)	(250)
Purchase of treasury stock	–	(1)	(1)
Sale of treasury stock	–	–	5
Dividends	(18)	(18)	–
Net cash used by financing activities	(432)	(139)	(123)
Net increase (decrease) in cash and cash equivalents	(17)	47	(131)
Effect of exchange rate changes on cash	(1)	(3)	2

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONTINUED

	1999	2000	2001
	Year Ended December 31, (Millions of U.S. Dollars)		
CASH AND CASH EQUIVALENTS:			
At the beginning of the year	188	170	214
At the end of the year	$ 170	$ 214	$ 85

	1999	2000	2001
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest—net of amounts capitalized	$ 219	$ 188	$ 244
Income taxes	$ 31	$ 3	$ 4

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Acquisition Date	Assets Acquired	Fair Value of Assets Acquired	Cash Paid	Debt Assumed
		(Millions of U.S. Dollars)		
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 SHARE AND PER SHARE DATA)

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 steel and steel related products. The Company owns and operates steel companies in the United States of America ("U.S."), Mexico, Canada, Trinidad and Tobago ("Trinidad"), Germany and France. 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. Prior to the formation of Ispat International, the Operating Subsidiaries were under common control by a sole shareholder.

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 Stahlwerk GmbH	January 1, 1995	Germany
Irish Ispat Limited(2)	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 of 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.

2 On June 15, 2001 the Company announced the shutdown of its steelmaking operations in Haulbowline, County Cork, Ireland and the calling of a creditors meeting for the appointment of a liquidator.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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

In September 2000, the FASB issued SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125” (“FAS 140”). FAS 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral. The accounting standards of FAS 140 are effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company has determined that the adoption of FAS 140 had no material impact on its financial position or results of operations in this fiscal year.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 (“SFAS 142”), “Goodwill and Other Intangible Assets”, which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company has determined that SFAS 142 will not have any impact on its consolidated financial statements.

On August 16, 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations”, which is effective for all fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. On October 3, 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”, which is effective for all fiscal years beginning after December 15, 2001. SFAS No. 144 addresses accounting and reporting for the impairment or disposal of long-lived assets, including discontinued operations, and establishes a single accounting model for long-lived assets to be disposed of by sale. The Company is evaluating both pronouncements to determine their impact, if any, on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

OTHER SIGNIFICANT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 (“SFAS 133”) (as amended by SFAS 137 and SFAS 138), Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item are recognized in earnings. If the derivative is designated as a cash flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income (“OCI”) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The adoption of SFAS 133 resulted in a cumulative pre-tax reduction to income of $nil ($nil after-tax) and a cumulative pre-tax reduction to OCI of $18 ($12 after-tax). The reduction to income was mostly attributable to the ineffective portion of fair value and cash flow hedges. The increase to OCI was mostly attributable to gains on cash flow hedges offset by deferred losses that had been recorded under accounting principles as December 31, 2000. All derivative gains and losses included in OCI as of January 1, 2001 were reclassified into earnings during fiscal 2001.

As of December 31, 2001 the Company had certain cash flow hedges with regard to expected cash flows pertaining to interest, foreign exchange and commodities. During 2001 the Company recognized a net gain of $7 from cash flow hedges, consisting of a gain of $9 in Cost of Sales and a loss of $2 in other income. All hedges were highly effective; therefore, the results are attributable to the portion of the change in the fair value of the derivative hedging instruments excluded from the assessment of the effectiveness of the hedges. Cash flow hedges of forecasted transactions resulted in an aggregate debit balance of $8 remaining in accumulated other comprehensive income at December 31, 2001. The Company expects to transfer approximately $8 of that amount to earnings during 2002 when the forecasted transactions actually occur. All forecasted transactions currently being hedged are expected to occur by December 2002.

ACCOUNTING FOR SHIPPING AND HANDLING COSTS

In September 2000, the Financial Accounting Standards Board Emerging Issues Task Force (“EITF”) reached a final consensus on EITF Issue No. 00-10, “Accounting for Shipping and Handling Fees and Costs.” This consensus requires that all amounts billed to a customer in a sale transaction related to shipping and handling be classified as revenue. The Company historically netted shipping charges billed to customers with shipping and handling costs, which were included in Net Sales in the Consolidated Statements of Operations. With respect to the classification of costs related to shipping and handling incurred by the seller, the EITF determined that the classification of such costs is an accounting policy decision that should be disclosed. The Company adopted the consensus on EITF Issue No. 00-10 in the fourth quarter of fiscal 2001. As a result of EITF Issue No. 00-10, the Company has adopted a policy to include shipping and handling costs in its Cost of Sales; accordingly, the Company reclassified all prior periods presented to reflect shipping and handling amounts billed to customers as Revenues and the corresponding expenses as Cost of Sales.

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, 2001 and 2000 and for each of the three years ended December 31, 2001, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

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 statement of 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 all its investments in affiliates and joint ventures 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 unrealized loss.

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 postretirement 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 these benefits are based on length of service.

REVENUE RECOGNITION

Revenues are primarily recognized when products are shipped or services are provided to customers, the sales price is fixed and determinable, collectibility is reasonably assured, and title and risks of ownership have passed to the buyer. Costs associated with revenues, including shipping and other transportation costs, are recorded in cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

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. 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 or installation period applied to the construction in process.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs 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 or receivable 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

Basic 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,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

which consist of 2,512,000 options at December 31, 2000 and 2,202,000 options at December 31, 2001, are antidilutive and, therefore, are not included in the computation of weighted average shares used in computing diluted earnings per share.

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 123") 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.

ACCOUNTS RECEIVABLE SECURITIZATION

The Company accounts for the securitization of accounts receivable in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." At the time the receivables are sold, the balances are removed from the consolidated balance sheets. Costs associated with the sale of receivables, primarily related to the discount on sale, are included in selling, administrative, and general expenses in the consolidated statements of income.

SEGMENT REPORTING

The Company operates in a single business segment, which is composed of the manufacturing of steel and steel related products.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior period's financial statements in order to conform to the 2001 classifications.

NOTE 3—ACQUISITIONS

On July 1, 1999, the Company acquired Ispat Unimetal, comprised of Ispat Unimetal S.A. and its two wholly owned subsidiaries Trefileurope S.A. ("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.

NOTE 4 - INVENTORIES

	December 31, 2000	December 31, 2001
Finished products	$ 343	$ 278
Production in process	280	210
Raw materials	255	196
Manufacturing supplies, spare parts and other	137	121
	$ 1,015	$ 805

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	Land	Improvements	Buildings and Equipment	Machinery and in Process	Construction Total
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
BALANCE AT DECEMBER 31, 2001					
Gross value	71	544	3,551	66	4,232
Accumulated depreciation	–	(128)	(995)	–	(1,123)
Net carrying value	$ 71	$ 416	$ 2,556	$ 66	$ 3,109

NOTE 6 - INVESTMENTS IN AFFILIATES AND JOINT VENTURES

The Company's investments in affiliates and joint ventures, which include joint ventures are as follows:

Investee	Operating Activity	Ownership Percentage	Type of Ownership	December 31, 2000	December 31, 2001
LOCATED IN UNITED STATES					
Empire Iron Mining Partnership (“E.I.M.P.”)	Taconite/Pellets	40%	Partnership	$ 53	$ 38
PCI Associates	Pulverized coal	50%	Partnership	21	24
I/N Tek(1 - see page 36)	Cold rolling	60%	Partnership	49	4
I/N Kote	Galvanizing	50%	Partnership	122	136

Investee	Operating Activity	Ownership Percentage	Type of Ownership	December 31, 2000	December 31, 2001
LOCATED IN MEXICO					
Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. (“Peña Colorada”)	Mining and pelletizing plant	50%	Common stock	20	24
Servicios Siderúrgicos Integrados, S.A. de C.V. (“Sersiin”)	Port operations, lime, industrial gases and engineering workshop	50%	Common stock	24	8
LOCATED IN CANADA					
Sorevco	Galvanizing plant	50%	Limited partnership	8	6
Delta Tube	Tubes	40%	Limited partnership	2	2
LOCATED IN GERMANY					
Westfälische Drahtindustrie GmbH	Wire drawing	33.3%	Common stock	9	10
Other (2 - see page 36)	–	–	–	27	3
				$ 335	$ 299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

1 I/N Tek, a general partnership formed for a joint venture between a wholly owned subsidiary of 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.

2 Year 2000 includes $19 of e-Commerce investments which were fully written off in the year 2001.

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

	December 31		
	1999	2000	2001
CONDENSED STATEMENT OF INCOME DATA			
Gross revenue	$ 1,724	$ 1,728	$ 1,508
Gross profit	211	277	115
Net income	123	94	24

	At December 31,	
	2000	2001
CONDENSED BALANCE SHEET DATA		
Current assets	$ 434	$ 380
Total assets	1,744	1,643
Current liabilities	450	422
Total liabilities	1,126	1,082
Net assets	618	561

NOTE 7 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	Year Ended December 31,		
	1999	2000	2001
TRANSACTIONS			
Purchases of raw material:			
Peña Colorada	$ 31	$ 34	$ 26
Sersiin	20	23	14
E.I.M.P	115	118	106
PCI Associates (Tolling fee)	39	46	43
Sales:			
Sorevco	25	19	16
I/N Kote	370	343	311
Other	7	6	9
Purchases:			
I/N Tek (Tolling charges)	144	146	143
Other	26	7	4
Sale of plant property & equipment: - *net of loan*			
LNM Holdings N.V.	–	–	16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

	At December 31, 2000	At December 31, 2001
Receivables	$ 4	$ 8
Payables:		
Sersiin	20	1
Others	5	8

In addition to the transactions with affiliates and joint ventures, each of LNM Holdings N.V., Ispat Karmet and P.T. Ispat Indo, wholly-owned subsidiaries of the controlling shareholder, have entered into management services agreements with the Company pursuant to which LNM Holdings N.V., 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 - PAYABLES 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 $593 of which $540 is committed and $53 is uncommitted. These facilities do not include securitization of receivable facilities which are discussed in Note 18. At December 31, 2001, the Company had a total of $342 in borrowings outstanding under such bank lines and working capital facilities (2000–$219), of which $159 is presented under current liabilities (2000–$202) and $183 is presented as long-term debt (2000–$17). The Company had temporary bank overdrafts of $31 at December 31, 2001 (2000–$26). Borrowings under the lines are primarily denominated in U.S. dollars, except for borrowings of $10 at December 31, 2001 under a Euro 55 million inventory securitization credit facility, $17 and $2 at December 31, 2000 and 2001, respectively, under a 147 million Canadian dollar facility (147 million Canadian dollar facility in 2000), and $14 and $2 at December 31, 2001 under French Franc and Italian Lira credit facilities respectively ($7 and $2 under French Franc and Italian Lira credit facilities respectively in 2000). 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. Weighted-average interest rates on the bank lines, working capital facilities and temporary bank overdrafts ranged from 5.1% to 8.6% in 2000 and 4.9% to 6.6% in 2001.

Certain of the credit facilities contain restrictive covenants that require the Company's subsidiaries to (i) 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) maintain specified levels of net worth and (iii) 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 $788 at December 31, 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

NOTE 9 - LONG TERM DEBT

	December 31, 2000	December 31, 2001
AT U.S. OPERATING SUBSIDIARY:		
First Mortgage Bonds:		
Series U, Tranche B, due July 16, 2005	$ 341	$ 338
Series U, Tranche C, due July 16, 2006	341	338
Series R, 7.9% due January 15, 2007	43	32
Series 1977, 5.75% due February 1, 2007	23	21
Series 1993, 6.8% due June 1, 2013	44	44
Series 1995, 6.85% due December, 2012	19	19
Industrial Development Revenue Bonds:		
Pollution Control Project No 11, 7.125% due June 1, 2007	22	21
Pollution Control Project No 13, 7.250% due November 1, 2011	42	42
Exempt Facilities Project No 14 , 6.7% due November 1, 2012	5	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
Revolving Credit Facilities	152	181
AT MEXICAN OPERATING SUBSIDIARY (see also Note 19)		
Credit line agreement denominated in U.S. dollars, floating interest	415	364
Unsecured Structured Senior Export Certificates, 10.125%	157	80
Loan payable to Export-Import Bank of the U.S., LIBOR plus 0.30%	39	29
Loans payable to financial institutions	36	25
AT CANADIAN OPERATING SUBSIDIARY		
Senior Secured Credit Facilities(1):		
Tranche A, LIBOR plus 1.25%–4.05%	78	70
Tranche B, LIBOR plus 1.75%–4.55%	121	121
Tranche C, LIBOR plus 2.25%–5.05%	121	121
AT TRINIDAD OPERATING SUBSIDIARY		
Senior Secured Notes, 10.4%	107	107
Loans payable to International Finance Corporation, LIBOR plus 3.25%–3.38%	51	45
AT ISPAT EUROPE GROUP:		
Senior Secured Notes denominated in Euro, due Feb 1, 2011, 11.875%	–	119
Other	96	39
Total long-term debt	2,313	2,221
Less current portion of long-term debt	189	180
Total long-term debt	$ 2,124	$ 2,041

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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 instalments of $1 until maturity. A standby letter of credit in the amount of $160 is provided to the Pension Benefit Guaranty Corporation, which is arranged by Credit Suisse First Boston. The Lenders are committed to renewing the Letters of Credit annually for five years, as are 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 (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 7.8% for the year ended December 31, 2001 (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 (not as defined under SFAS 133) are fully and unconditionally guaranteed by Ispat International.

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 $1,700 at December 31, 2001.

The U.S. Operating Subsidiary must also maintain a minimum Consolidated EBITDA, as defined in the Credit Agreement. The U.S. Operating Subsidiary amended the Credit agreement, effective March 30, 2001, to eliminate the minimum Consolidated EBITDArequirement for 2001 and allow the U.S. Operating Subsidiary to include loans or capital contributions from Ispat International as EBITDA in determining compliance with the covenant in future periods. The amendment also provides for some additional restrictions over certain activities. Finally, Ispat International lent $110 to the U.S. Operating Subsidiary in terms of the amendment and this loan(s), as well as any additional loans from Ispat International cannot be repaid until the U.S. Operating Subsidiary's leverage falls to specified levels.

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. The average interest rates on these facilities range from 5.00% to 5.85% and $26 of the outstanding balance is repayable in January 2004 and $155 in November 2005.

CREDIT LINE AGREEMENT DENOMINATED IN U.S. DOLLARS, FLOATING INTEREST (see also Note 19)

Balance represents loans payable to Mexican banks under a credit line agreement denominated in U.S. dollars with annual floating interest rates ranging from 6.4% to 7.9% in 2000 (8.1% to 10.6% in 2000). The loans are repayable on maturity with maturities ranging from 2002 to 2009.

UNSECURED STRUCTURED SENIOR EXPORT CERTIFICATES, 10.125% (see also Note 19)

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 until May 2003.

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 & Poor's resulting in a triggering event under the agreement. As a result of the trigger event, the 1996 Certificates are required to be prepaid quarterly (together with interest thereon and a Certificate Make-Whole Premium) in an amount equal to the balance of funds remaining after application of the proceeds of the accounts receivable to the payment of scheduled principal and accrued interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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.

LOAN PAYABLE TO EXPORT-IMPORT BANK OF THE UNITED STATES (see also Note 19)

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 2.68% at December 31, 2001). 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 CREDIT FACILITIES

The Tranche A facility is bearing an interest at rates ranging from LIBOR plus 1.25% to LIBOR plus 4.05% depending on the achievement of certain financial ratios. For 2001 the effective average rate is 8.21% (2000 effective average rate was 8.37%). The facility will mature in July 2003 and is repayable in installments of $1 in March and June 2002, $3 in September 2002, $10 in December 2002, $20 in March 2003 and $35 in July 2003.

The Tranche B facility is bearing an interest at rates ranging from LIBOR plus 1.75% to LIBOR plus 4.55% depending on the achievement of certain financial ratios. For 2001 the effective average rate is 8.53% (2000 effective average rate was 7.72%). 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 5.05% depending on the achievement of certain financial ratios. For 2001 the effective average rate is 9.03% (1999 effective average rate was 8.22%). 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 Canadian Operating Subsidiary and a second ranking charge on accounts receivables and inventories. The Company has interest rate swap agreements for $312 (2000–$196) of the outstanding borrowings, which effectively fixed the interest base rate at rates ranging from 4.32% to 4.90% on the swapped portion. These interest rate swap agreements end at varying dates through July 2003.

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 $423 at December 31, 2001. 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 current ratio requirement for December 31, 2001, an amendment to the current ratio covenant for 2002 and a waiver of the late payment of principal due on December 15, 2001.

SENIOR SECURED NOTES DENOMINATED IN EURO, DUE FEB 1, 2011, 11.875%

Ispat Europe Group SA, a wholly owned subsidiary of the company has issued Senior Secured notes worth 150 million Euros. The Bonds issued on 1st February, 2001 will mature on 1st February, 2011. These Notes are secured by

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

mortgage over the Property plant and equipment of the German Subsidiaries and an indirect pledge on the shares of the French Operating Subsidiary. The interest rate is fixed at 11.875% per annum and payable semi-annually.

OTHER

Various loans with interest rates ranging from 0.5% to 7.5% for other loans.

Maturities of long-term debt, including long term payables to banks, at December 31, 2001 are as follows. This schedule is before the effect of debt restructuring of the Mexican Operating Subsidiary: (see also Note 19)

Years ending December 31,	
2002	$ 180
2003	188
2004	228
2005	680
2006	416
Subsequent years	529
Total	$ 2,221

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, 2001 (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, 2000 and 2001 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, 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:

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	December 31, 2000		December 31, 2001	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Instruments payable bearing interest at variable rates	$ 1,564	$ 1,469	$ 1,452	$ 1,206
Instruments payable bearing interest at fixed rates	749	664	769	593
Long-term debt, including current portion	$ 2,313	$ 2,133	$ 2,221	$ 1,799
Payable to banks	$ 202	$ 202	$ 159	$ 159

A portion of the floating rate debt used in connection with the financing of the acquisition of U.S. Operating Subsidiary 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:

	Foreign Currency Forward Contracts December 31,	
	2000	2001
Notional amount	77	42
Fair value	76	42
Carrying amount	76	42

The fair value information presented herein is based on information available to management at the dates presented.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

The U.S. Operating Subsidiary had $1,254 of long term debt (including debt due within one year) outstanding at December 31, 2001. Of this amount $856 is floating rate debt. The remaining $398 of fixed rate debt had a fair value of $247. Assuming a hypothetical 10% decrease in interest rates at December 31, 2001, the fair value of this fixed rate debt would be estimated to be $256. Fair market values are based upon market prices or current borrowing rates with similar rates and maturities.

The U.S. Operating Subsidiary utilizes derivative commodity instruments not for trading purposes but to hedge exposure to fluctuations in the costs of natural gas and certain nonferrous metal commodities. A hypothetical 10% decrease in commodity prices for open derivative commodity instruments as of December 31, 2001 would reduce pre-tax income by $2.

The Mexican Operating Subsidiary utilizes derivative commodity instruments not for trading purposes but to hedge exposure to fluctuations in the costs of natural gas. In February 2001, the Mexican Operating Subsidiary entered into a fixed price natural gas contract with Pemex at a price of U.S. $4 per mmbtu, excluding transportation charges, for a volume of 25350 Gcal per day. A hypothetical 10% fluctuation on the purchase price of natural gas will have an impact on pre-tax income of approximately $15. The fair value of such contracts as on December 31, 2001 was $209.

At the Canadian Operating Subsidiary, assuming an annual consumption of natural gas of Canadian dollar 33 at an exchange rate of 0.65 (Canadian dollar to U.S. dollar) would result in an annual consumption of $22. Therefore, a hypothetical 10% fluctuation in the purchase price of natural gas would have an impact on pre-tax income at Canadian Operating Subsidiary of approximately $2.

NOTE 11 - SHAREHOLDERS' EQUITY

In connection with the introduction of the Euro on January 1, 2002, the Company has converted the nominal value of its shares from Dutch Guilders into Euro. The articles of association have been amended on December 31, 2001 based on the resolution of the shareholders meeting held on December 21, 2001. By this conversion the total common stock par value of the company was increased by $3 which has been accounted for through Additional Paid in Capital in Equity.

After the conversion, the authorized common shares of the company consisted of 500,000,000 Class A shares, with a par value of 0.01 Euro per share, and 72,150,000 Class B shares, with a par value of 0.10 Euro per share. At December 31, 2001, 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.

At December 31, 2001 the Company had 5,092,787 of its own Class A shares which it purchased on the open market for a net consideration of $79 (368,000 purchased at consideration of $1 and 2,081,833 sold in 2001 for a consideration of $5 and 242,600 purchased in 2000 at a consideration for $1). These shares have been acquired for the purpose of the Company's employee stock option plan. See further discussion below.

During the year 2001, the Company sold 2,081,833 of its treasury stock shares to Ispat Inland Pension Fund for a total consideration of $5. The difference of $28 in the carrying value and the consideration value on this transfer has been accounted for through retained earnings in Equity.

During 2000, the Company awarded 24,540 common shares to a certain senior executive as bonus shares; such 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 cash dividend distribution from its subsidiaries, recognizes gains from

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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 subsidiaries of Ispat International had $273 in retained earnings which are free of restriction for the payment of dividend at December 31, 2001. Dividends are payable by Ispat International in either U.S. dollars or in Euros.

Ispat International received no cash dividends for the years 1999, 2000 and 2001, from its subsidiaries.

The Company recorded $3 in shareholders'equity as a gain recognition on the transfer of assets between parties under common control.

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 International 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 International 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	2001
Net Income - as reported	$ 85	$ 99	$ (312)
Net Income - pro forma	75	85	(314)
Basic and diluted earnings per common share - as reported	$ 0.71	$ 0.82	$ (2.58)
Basic and diluted earnings per common share - pro forma	0.62	0.71	(2.58)

The fair value of each option grant of Ispat International 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	2001
Dividend yield	0.86	3.85	10.49
Expected annualized volatility	63%	66%	63%
Discount rate - Bond equivalent yield	6.07%	5.27%	4.86%
Expected life in years	8	8	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

The status of the Ispat Plan with respect to the Company is summarized below at December 31, 2001:

	Number of Shares	
	2000	2001
Opening balance as of January 1	1,314,000	2,512,000
Granted during the year(1)	1,361,000	–
(Exercise Price of $11.94 in 1999 and $8.57 in 2000)		
Canceled or expired	163,000	310,000
Outstanding at December 31	2,512,000	2,202,000

1 Present value of exercise price $ 5.65

At December 31, 2001, the stock options are exercisable as follows:

Year	Options	Average Exercise Price
2001	968,000	10.66
2002	2,047,000	10.43
2003	2,202,000	10.09
2004	2,202,000	10.09

NOTE 12 - EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLANS

The Company's Operating Subsidiaries in the U.S., Canada, Trinidad, Germany and France 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.

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.

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 SUBSIDIARIES

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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.

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.

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	
	1999	2000	2001
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 25	$ 29	$ 31
Interest cost	143	159	163
Expected return on plan assets	(190)	(194)	(197)
Special termination benefits	–	–	8
Amortizations	(1)	7	8
	$ (23)	$ 1	$ 13

	Pension Benefits Canadian Operating Subsidiary		
	1999	2000	2001
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 5	$ 5	$ 5
Interest cost	16	16	17
Expected return on plan assets	(13)	(14)	(14)
Amortizations	1	1	1
Recognized actuarial gain	(1)	(1)	(1)
	$ 8	$ 7	$ 8

	Pension Benefits Trinidad Operating Subsidiary		
	1999	2000	2001
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 1	$ 2	$ 2
Interest cost	2	2	2
Expected return on plan assets	(4)	(5)	–
	$ (1)	$ (1)	$ 4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

	Pension Benefits German Operating Subsidiary		
	1999	2000	2001
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 1	$ –	$ –
Interest cost	1	1	1
	$ 2	$ 1	$ 1

	Pension Benefits French Operating Subsidiary	
	2000	2001
COMPONENTS OF NET PERIODIC BENEFIT COST:		
Service cost	$ 1	$ 1
Interest cost	1	1
	$ 2	$ 2

The following assumptions were used:

	1999	2000	2001
Discount rates for obligations	6.50%–8.00%	7.00%–8.00%	6.50%–7.50%
Assumed rates of compensation increases	4.00%–4.75%	4.00%	4.00%
Expected long-term rate of return on assets	7.75%–9.50%	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,	
	2000	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of the period	$ 27	$ 31
Service cost	2	2
Interest cost	2	2
Participants'contributions	1	1
Actuarial (gains) losses	–	(7)
Benefits (expenses) paid	(1)	(1)
Benefit obligation at end of the period	$ 31	$ 28

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

CHANGE IN FAIR VALUE OF PLAN ASSETS		
Fair value of plan assets at beginning of the period	$ 46	$ 49
Actual return on plan assets	2	4
Employers'contribution	1	1
Participants'contribution	1	1
Benefits (expenses) paid	(1)	(1)
Fair value of plan assets at end of the period	$ 49	$ 54
Funded status of the plans	18	26
Unrecognized net actuarial (loss) gains	(9)	(16)
Unrecognized transition asset	(3)	(3)
Unrecognized prior service cost	8	8
Prepaid pension at end of period	$ 14	$ 15

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

	U.S. Operating Subsidiary Year Ended December 31, (1)	
	2000	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of the period	$ 2,033	$ 2,094
Service cost	29	31
Interest cost	159	163
Plan amendment	–	8
Actuarial (gains) losses	44	108
Benefits(expenses) paid	(171)	(186)
Benefit obligation at end of the period	$ 2,094	$ 2,218
CHANGE IN FAIR VALUE OF PLAN ASSET		
Fair value of plan assets at beginning of the period	$ 2,098	$ 1,922
Actual return on plan assets	(36)	8
Employers'contribution	31	108
Benefits (expenses) paid	(171)	(186)
Fair value of plan assets at end of the period	$ 1,922	$ 1,852
Underfunded status of the plans	(172)	(366)
Unrecognized net actuarial (loss) gains	65	363
Unrecognized prior service cost	89	81
Accrued pension liability at end of period	$ (18)	$ 78
Additional minimum liability	(138)	(432)
Intangible asset	89	81
Accumulated other comprehensive income	49	351
Amount recognized on balance sheet	$ (18)	$ 78

1 The actuarial computation for the U.S. Operating Subsidiary was performed at November 30, 2001 while the actuarial computation for the other Operating Subsidiaries was performed at December 31, 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

	Canadian Operating Subsidiary Year Ended December 31, 2000	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of the period	$ 254	$ 255
Service cost	5	5
Interest cost	16	17
Participants' contributions	1	1
Amendments	–	2
Actuarial (gains) losses	(1)	12
Benefits (expenses) paid	(11)	(12)
Foreign currency exchange rate differences	(9)	(16)
Benefit obligation at end of the period	$ 255	$ 264
CHANGE IN FAIR VALUE OF PLAN ASSETS		
Fair value of plan assets at beginning of the period	193	199
Actual return on plan assets	12	5
Employers'contribution	11	10
Participants' contribution	1	1
Benefits (expenses) paid	(11)	(12)
Foreign currency exchange rate differences	(7)	(12)
Fair value of plan assets at end of the period	$ 199	$ 191
Underfunded status of the plans	(56)	(73)
Unrecognized net actuarial (loss) gains	10	35
Unrecognized prior service cost	15	11
Accrued pension liability at end of period	$ (31)	$ (27)
Additional minimum liability	(1)	–
Intangible asset	13	12
Accumulated other comprehensive income	(12)	(12)
Amount recognized on balance sheet	$ (31)	$ (27)

	German Operating Subsidiary Year Ended December 31, 2000	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of the period	$ 17	$ 17
Interest cost	1	1
Foreign currency exchange rate differences	(1)	1
Benefit obligation at end of the period	$ 17	$ 19
Underfunded status of the plans	(17)	(19)
Accrued pension liability at end of period	(17)	(19)
Amount recognized on balance sheet	$ (17)	$ (19)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

	French Operating Subsidiary Year Ended December 31, 2000	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of the period	$ 16	$ 17
Service cost	1	1
Interest cost	1	1
Actuarial (gains) losses	–	(5)
Foreign currency exchange rate differences	(1)	–
Benefit obligation at end of the period	$ 17	$ 14
Underfunded status of the plans	(17)	(14)
Accrued pension liability at end of period	(17)	(14)
Amount recognized on balance sheet	$ (17)	$ (14)

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 post-retirement plans relate to the U.S., Canadian 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 United Steel Workers of America. 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, 1999	2000	2001
Service cost	$ 11	$ 8	$ 8
Interest cost	59	56	60
Amortization	(14)	(28)	(20)
Special termination benefits	–	–	3
Recognized (Gain)	(3)	–	(3)
Net periodic benefit cost	$ 53	$ 36	$ 48

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

	Canadian Operating Subsidiary Period Ended December 31, 1999	2000	2001
Service cost	$ –	$ –	$ 1
Interest cost	1	1	1
Recognized (Gain)	1	–	–
Net periodic benefit cost	$ 2	$ 1	$ 2

	French Operating Subsidiary Period Ended December 31, 1999	2000	2001
Service cost	$ –	$ 1	$ 1
Interest cost	–	1	1
Net periodic benefit cost	$ –	$ 2	$ 2

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

	November 30, 1999	November 30, 2000	November 30, 2001
Discount rates for obligations	8.00%	8.00%	7.50%
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	95.00%	95.00%	95.00%
Medical participation rate—future retirees	80.00%	80.00%	80.00%

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

	U.S. Operating Subsidiary Year Ended December 31, 2000	2001
Benefit obligation at beginning of period	$ 710	$ 770
Service cost	8	8
Interest cost	56	60
Special termination benefits	–	3
Actuarial loss/(gain)	51	14
Benefits paid	(55)	(58)
Benefits obligation at end of period	$ 770	$ 797
Fair value of assets	–	–
Underfunded status of plan	(770)	(797)
Unrecognized net (gain)	(116)	(98)
Unrecognized prior service cost	(127)	(107)
Accrued post-retirement benefit obligation at end of period	$ (1,013)	$ (1,002)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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.

	Canadian Operating Subsidiary Year Ended December 31,	
	2000	2001
Benefit obligation at beginning of period	$ 12	$ 14
Service cost	–	1
Interest cost	1	1
Actuarial loss (gain)	2	1
Benefits paid	(1)	(1)
Foreign currency exchange rate changes	–	(1)
Benefits obligation at end of period	$ 14	$ 15
Fair value of assets	–	–
Underfunded status of plan	(14)	(15)
Unrecognized prior service cost	2	3
Accrued post-retirement benefit obligation at end of period	$ (12)	$ (12)

	French Operating Subsidiary Year Ended December 31,	
	2000	2001
Benefit obligation at beginning of period	$ 19	$ 19
Service cost	1	1
Interest cost	1	1
Benefits paid	(1)	(1)
Foreign currency exchange rate changes	(1)	(1)
Benefits obligation at end of period	$ 19	$ 19
Fair value of assets	–	–
Underfunded status of plan	(19)	(19)
Unrecognized prior service cost	–	–
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 $99 and the annual net periodic cost by $10. A 1% decrease would reduce the benefit obligation by $81 and the annual net periodic annual net cost by $7.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

NOTE 13 - INCOME TAX

The breakdown of the income tax expense/(benefit) is as follows:

	Year Ended December 31		
	1999	2000	2001
CURRENT:			
U.S.	$ 13	$ (12)	$ –
Mexico	–	26	–
Canada	2	2	1
Trinidad	1	1	1
Germany	1	3	3
France	–	(1)	1
Others	1	2	2
DEFERRED:			
U.S.	7	(11)	(75)
Mexico	18	14	(18)
Canada	9	3	(31)
Trinidad	(1)	(13)	11
Germany	(8)	9	(1)
Income tax expense	$ 43	$ 23	$ (106)

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		
	1999	2000	2001
TAX EXPENSES (BENEFIT) AT AGGREGATE STATUTORY RATES OF ALL JURISDICTIONS:			
U.S.	$ 19	$ (19)	$ (69)
Mexico	(5)	6	(93)
Canada	31	18	(12)
Germany	11	11	(12)
Trinidad	(6)	–	(19)
France	6	8	9
Others	(1)	1	–
	$ 55	$ 25	$ (196)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

		Year Ended December 31		
		1999	2000	2001
INCREASE (DECREASE) RESULTING FROM:				
Tax loss carryforwards	Germany	–	–	1
Tax loss carryforwards	Trinidad	(6)	–	18
Change in valuation allowance	France	(6)	(8)	(8)
Tax loss carryforwards	Mexico	–	–	15
Depletion	U.S.	4	(4)	(3)
Manufacturing tax credits	Canada	(5)	(3)	2
Large corporation tax and other taxes	Canada	1	1	1
Export allowances	Mexico	–	–	1
Benefit arising from interest in partnership	Canada	(17)	(17)	(21)
Depreciation	Germany	–	–	1
Valuation allowance	Trinidad	–	–	13
Inflationary effects	Mexico	17	27	35
Non deductible expenses	Mexico	–	5	6
Restructuring	Germany	–	–	12
Effects of foreign currency translation	Mexico	4	2	18
Miscellaneous accruals	U.S.	(3)	–	(3)
Others	Various	10	(5)	2
Income tax expense		$ 43	$ 23	$ (106)

DEFERRED INCOME TAX

Temporary differences and the resulting deferred tax assets and liabilities at December 31, 2000 and 2001 are summarized as follows:

		December 31,	
		2000	2001
CURRENT DEFERRED TAX ASSETS:			
Tax loss carryforwards	Ireland	$ 15	$ –
Restructuring	U.S.	–	19
Accrued vacation	U.S.	11	12
Allowance for doubtful accounts	France	1	1
Inventories	France	13	10
Property taxes	U.S.	1	2
Accrued lawsuit settlement	U.S.	6	1
Inventories	U.S.	4	3
Others	U.S.	6	1
Accrued expenses	Mexico	2	2
Others	France	2	2
Others	Germany	1	1
Total current deferred tax assets		$ 62	$ 54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

		Year Ended December 31, 2000	2001
NONCURRENT DEFERRED TAX ASSETS:			
Environmental accrual	France	4	3
Environmental accrual	Canada	1	1
Employee benefit costs	U.S.	385	397
Employee benefit costs	Canada	14	18
Employee benefit costs	France	15	13
Accrued restructuring costs	U.S.	20	41
Accrued restructuring costs	France	4	–
Accrued restructuring costs	Germany	–	10
Property, plant and equipment	Canada	26	27
Comprehensive income items	U.S.	18	132
Net operating losses and alternative minimum tax	U.S.	104	145
Net operating losses and alternative minimum tax	Canada	4	37
Net operating losses and alternative minimum tax	Trinidad	19	19
Net operating losses and alternative minimum tax	France	57	58
Net operating losses and alternative minimum tax	Germany	15	15
Net operating losses and alternative minimum tax	Mexico	15	2
Others	Germany	14	3
Others	Canada	4	5
Total noncurrent deferred tax asset		719	926
Total deferred tax assets		781	980
VALUATION ALLOWANCES			
Valuation allowance	Trinidad	(3)	(14)
Valuation allowance	France	(70)	(62)
Valuation allowance	Ireland	(15)	–
		(88)	(76)
Net deferred tax asset after valuation allowances		693	904
CURRENT DEFERRED TAX LIABILITIES:			
Inventories	Germany	(1)	(1)
Amortisation expense	U.S.	(2)	(3)
Deduction in purchase in lieu of cost of sales	Mexico	(48)	(25)
Total current deferred tax liabilities		(51)	(29)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

		Year Ended December 31, 2000	Year Ended December 31, 2001
NONCURRENT DEFERRED TAX LIABILITIES:			
Property, plant and equipment	Mexico	(113)	(119)
Property, plant and equipment	U.S.	(482)	(488)
Property, plant and equipment	France	(26)	(25)
Property, plant and equipment	Trinidad	(5)	(5)
Property, plant and equipment and others	Germany	(30)	(24)
Investment in joint ventures	U.S.	(46)	(51)
Debt issuance costs	Mexico	(3)	(2)
Imputed interest	Mexico	(3)	(2)
Employee benefit costs	Germany	(1)	–
Net operating losses and alternative minimum tax	Germany	–	(7)
Others	U.S.	–	(1)
Others	Canada	–	(4)
Others	Mexico	(5)	1
Total noncurrent deferred tax liabilities		(714)	(727)
Total deferred tax liabilities		(756)	(756)
		$ (72)	$ 148

As of December 31, 2001, the Company had a valuation allowance of $76 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 Trinidad as well as other temporary differences. In France and Trinidad 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, 2001 arises in France 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. Also a valuation allowance was set up in Trinidad due to the expected limited utilization of the net loss carry forward. Irish Ispat was not included in the consolidated balance sheet as of December 31, 2001.

As of December 31, 2001, 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, and 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, as of December 31, 2001. 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. As of December 31, 2001, the cumulative undistributed earnings of these subsidiaries were approximately $162. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

TAX LOSS CARRY FORWARD

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

United States	2018 to 2019
Mexico	2002 to 2010
Canada	2001
Germany	indefinite
Trinidad	indefinite
France	indefinite

NOTE 14 - OTHER OPERATING EXPENSE

Other operating expense includes costs incurred of $17 due to closure of the Company's Irish Operating subsidiary and $19 related to an arbitration settlement with respect to a scrap supply contract.

NOTE 15 - COMMITMENTS

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

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

Year ending	
2002	$ 18
2003	17
2004	16
2005	14
2006	6
Thereafter	47
Total minimum lease payments	$ 118

Rent expense amounted to $31, $35 and $29 for the years ended December 31, 1999, 2000 and 2001, 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 $1.6 billion.

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 $48 in 2001, $31 in 2000, $24 in 1999

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

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 two years, an additional $5 per year. Also, in September 2001, the Company made an additional contribution of $61 representing a prepayment of the entire 2002 obligation and a portion of the 2003 obligation. Accordingly, no further contribution under this agreement is required in 2002. 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 $3 and $88 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 steam. At December 31, 2001 and 2000, the estimated minimum tolling charges remaining over the life of this agreement were approximately $183 and $212 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 $3 at December 31, 2001, and $13 at December 31, 2000.

Under the new 10 5/8% Senior Structured Export Certificates (the "New SENs") of Imexsa Export Trust No. 96-1 (proposed to be issued in exchange for outstanding 10 1/8% Senior Structured Export Certificates of Imexsa Export Trust No. 96-1) (See Notes 9 and 19), the Company's Mexican Operating Subsidiary is committed to sell steel slabs to Mitsubishi Corporation and other customers with a Standard & Poor's Ratings Services and Moody's Investor Service, Inc. credit rating no lower than Mitsubishi during the term of the agreement, which expires in May 31, 2005, based on sufficient volumes of slabs to generate receivables in each quarter in an aggregate face amount equal to 2 times the scheduled quarterly debt service (principal and interest) of the New SENs. The selling price of steel slabs to Mitsubishi Corporation or other customer for any quarter is derived from a formula based on the market price.

In August 1999, the Company's Mexican subsidiary entered into a long term slab supply agreement commencing in January 2001, with a local customer APM S.A. de C.V., whereby the customer will purchase 75% of its total slab requirements at 99% of the weighted average FOB Stowed base price for Mexican subsidiary's customers plus the quality extras. In the year 2001, the Mexican Subsidiary shipped approximately 0.875 million tonnes under this contract.

On February 8, 2001, the Company's Mexican Subsidiary entered into a three year agreement for the period January 1, 2001 to December 31, 2003, with Pemex Gas y Petroquimica Basica to purchase 25,350 Gcal per day of natural gas at a fixed price of U.S.$4 per mmbtu excluding transportation charges.

Pursuant to its agreement with ISCOTT, the Company was required to offer new shares representing 40% of its Trinidad Operating Subsidiary's total issued share capital in a public offering to Trinidad and Tobago nationals and locally controlled 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 to resolve the requirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

The Company's Operating Subsidiary in Trinidad has an agreement with a third party to purchase between 2.5 and 4.5 million metric tons of direct reduction iron ore pellets annually, for ten years, on a take or pay basis. The parties have recently reached agreement in principle to replace the remainder of the contract with annually negotiated purchase agreements.

NOTE 16 - CONTINGENCIES

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

The U.S. Operating Subsidiary is involved in various environmental and other administrative or judicial actions initiated by governmental agencies. While it is not possible to predict the results of these matters, it does not expect environmental expenditures, excluding amounts that may be required in connection with the 1993 consent decree in the 1990 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, 2001 and 2000, the reserves for environmental liabilities totaled $27, $21 of which 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. On January 17, 2001, to fully resolve this matter, the Company agreed to a settlement of $15 which is half of the total settlement among the United States, the state of Louisiana, the relators, and the defendants. The settlement was approved by the U.S. District Court in Baton Rouge, Louisiana and paid by the U.S. Operating Subsidiary in January 2001.

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. On May 29, 2001, the U.S. Operating Subsidiary settled a number of disputes with Ryerson Tull, Inc. that had arisen under the May 27, 1998 Merger Agreement, as amended. The settled disputes included the U.S. Operating Subsidiary's claim against Ryerson Tull, Inc. for indemnification in connection with the resolution of the federal law suit and investigation, but excluded environmental claims, for which the U.S. Operating Subsidiary may make claims until July 2003. Pursuant to the May 29, 2001, settlement, Ryerson Tull paid $8 to the U.S. Operating Subsidiary and the parties released certain claims each had against the other.

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 (non capital) of $35 to $45 for the operation of air and water pollution control facilities to comply with current federal state and local laws and regulations. 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, the U.S. Operating Subsidiary does not expect environmental expenditures, excluding amounts that may be required in connection with the Consent Decree in the 1990 EPA Lawsuit, to materially affect the U.S. Operating Subsidiary's result of operation or financial position.

The U.S. Operating Subsidiary and an independent, unaffiliated producer of raw materials are parties to a long-term supply agreement under which the U.S. Operating Subsidiary was obligated to fund an escrow account to indemnify said producer of raw materials against a specific contingency. Contributions to the escrow were determined by the agreement and the funds were restricted from U.S. Operating Subsidiary's use while in the escrow. The U.S. Operating Subsidiary received full

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

recovery of $39, the escrowed amount, in April of 2001. No further contributions to the escrow are required at this time as the U.S. Operating Subsidiary believes the likelihood of the specific contingency occurring is remote.

The Company's Operating Subsidiary in Trinidad was 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 million plus interest. In May 2000, the company filed an action in the High Court of Trinidad and Tobago seeking to have the award set aside. On October 3, 2001 the Court dismissed the company's action . On December 28, 2001 the company agreed to settle the amounts due on the action. This amounted to $21 million of which $16 million was paid in cash and the balance to be paid in twelve quarterly installments starting March 31, 2002. The effects of this settlement have been provided for in the financial statements. No interest is to accrue on the remaining balance unless the remaining installments are not paid when due. A claim by a third party for alleged entitlement to the settlement monies is currently the subject of separate proceedings in Trinidad. These proceedings are not anticipated to impose any additional liability on the company.

On March 5, 2002, as a result of the recent investigation under U.S. law (“Section 201”), President of U.S. imposed trade remedies affecting imports into the United States of numerous steel products. These remedies included 30% tariff rate increases for hot-rolled sheet, cold-rolled sheet, coated sheet, and hot-rolled bar—with these rates declining to 24% in year two and 18% in year three. These four product lines represent the core of the U.S. Operating Subsidiary production and sales. The Section 201 remedy may increase U.S. prices for these products, and consequently benefit the U.S. Operating Subsidiary's financial position.

Several foreign supplying countries have given notice of their intention to challenge the President's action through the dispute resolution procedures of the World Trade Organization (“WTO”). In addition, several requests have been made for exclusions of products that are made by the U.S. Operating Subsidiary from the coverage of the Section 201 remedies. These initiatives could result in modifications of the Section 201 relief to the U.S. Operating Subsidiaries'detriment.

Imports from the Mexican Operating Subsidiary and the Canadian Operating Subsidiary were exempted from the Section 201 tariff rate increases pursuant to provisions of the North American Free Trade Agreement (“NAFTA”). Those exceptions should permit these companies to maintain historical access to U.S. markets during the three-year period of relief. The NAFTA exemption could be modified if it is determined that increased imports constitute a “surge” within the meaning of U.S. law. The effect on the European Operating Subsidiaries is expected to be modest given its historically low level of exports to the U.S.

The March 2002 Section 201 remedy does not cover steel wire rod, the product sold in the United States by the Trinidad Operating Subsidiary. However, in March 2000, as a result of an earlier Section 201 proceeding, the U.S. government imposed a tariff rate quota on imports of that product. Mexican and Canadian wire rod producers were exempted under NAFTA in that proceeding, and the U.S. President subsequently chose not to impose restrictions on Mexican and Canadian steel wire rod imports, despite the U.S. International Trade Commission's (“ITC”) finding of a NAFTA “surge” in Mexican and Canadian import levels. The Trinidad Operating Subsidiary received a 247,000 annual quota with a 5% duty above this level, which has restricted the Trinidad Operating Subsidiary's ability to sell steel wire rod to the U.S. market. The impact of the wire rod tariff rate quotas on the European Operating Subsidiaries has been negligible.

In 2001 and 2002, U.S. trade agencies also made affirmative determinations under U.S. antidumping (“AD”) and countervailing duty (“CVD”) laws for steel wire rod. The ultimate effect on Company is not yet clear, but the Trinidad Operating Subsidiary, the Canadian Operating Subsidiary, and the European Operating Subsidiaries companies have been required to post bonds on their exports to the U.S. In late 2001, the U.S. ITC also made positive injury determinations against 20 countries with regard to their cold-rolled sheet exports to the U.S. In early 2002, the U.S. Department of Commerce made affirmative preliminary determinations on three of the four CVD petitions and found that “critical circumstances” existed with regard to the cold-rolled sheet exports of six of the countries named in the AD and CVD petitions. In late April of 2002, the U.S. Department of Commerce issued preliminary anti-dumping duty margins against cold-rolled

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

imports from 20 countries. The duties, which are as high as 153%, will not impact any countries from which subsidiaries of the Company export cold-rolled steel.

In the aftermath of President of U.S.'s imposition of tariff rate increases under Section 201, the European Union announced on March 25, 2002 that it would impose additional duties ranging from 14 to 26% on 19 steel products imported above levels established in new quotas. The products covered include bars and coils produced by European Operating Subsidiaries and may therefore have a positive effect on the prices these companies obtain for their products in the European Union. The European Union has also announced its intention to retaliate against the recently imposed U.S. Section 201 remedies. The negative impact of these actions on non-European Company subsidiaries is expected to be negligible since their exports to Europe are modest.

On March 22, 2002, the Canadian government announced that it has initiated a safeguard investigation by asking its International Trade Tribunal ("ITT") to investigate whether increased imports of certain steel products are causing—or threatening to cause—injury to Canadian steel producers. The ITT will issue its findings on the injury question in 105 days. If it finds injury, it will have another 45 days to recommend appropriate remedies. At this time the potential impact of this action on the Canadian Operating Subsidiary and other Company subsidiaries is uncertain.

While several of the developments described above may be expected to benefit certain subsidiaries of the Company, there can be no assurance that potential benefits will ultimately accrue because of WTO challenges, exclusion requests, and various economic uncertainties.

The European Commission has raised claims of $51 for repayment 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 and the European Commission has initiated legal action to settle the matter. All such proceedings, including appeals before the European and German Courts, are currently pending. The Company cannot predict the final outcome of these proceedings.

In February 1999 the Company's Mexican holding company, Grupo Ispat International S.A. de C.V. ("Grupo"), filed a constitutional challenge to the 1999 Tax Reforms of the Mexican Tax Code's Consolidation Regime. The action alleged that the reforms violated the constitutional principles of tax proportionality and equity by limiting consolidation to only 60% of the controlling corporation's interest in its consolidated subsidiary, and that the reforms violated the legal principle of non-retroactivity. During 1999 the local district judge granted the company an exemption from applying the new consolidation rules in relation to making provisional tax payments, subject to the final judgement from the Supreme Court.

In August 2001 the Supreme Court of Mexico decided to partially grant the constitutional relief requested by Grupo, authorizing it to consolidate its fiscal results for a period not exceeding five fiscal years (1995-1999) in accordance with Article 57-Aof the Income Tax Law. With respect to the fiscal years after the five years, the Court ruled that it was inappropriate to grant the constitutional relief, and therefore Grupo, and or consolidated subsidiaries must pay taxes pursuant to the amendments published in 1999. As a result, Grupo and or consolidated subsidiaries must pay the difference between the provisional amount paid under the old rules and the provisional amount required under the new rules adjusted for actualization and penalties. The net amount payable according to the authorities is approximately $13. Negotiations are ongoing with the Mexican tax authorities concerning the final amount be paid and the date(s) on which such payment or instalments shall be made.

In September 2001 the General Customs Administration of Mexico notified Ispat Servicios Portuarios S.A. de C.V. ("ISP"), a subsidiary of the Company's Operating Subsidiary in Mexico, of initiation of a proceeding to cancel ISP's authorization to act as a bonded warehouse because of alleged failure of ISP to comply with certain obligations. As a result of the cancellation of ISP's authorization to act as a bonded warehouse, the General Bureau of Ports notified ISP of the initiation of cancellation of an agreement for partial assignment of rights that ISP had entered into with the Administration Portuaria Integral de Lazaro Cardenas S.A. de C.V. ("API") for use and benefit from the multiple-use terminal located in the Port of Lazaro Cardenas, Mexico. On April 15, 2002, the API initiated before the General Office of Ports (Direccion

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

General de Puertos) the process for the cancellation of the registration of the partial assignment of rights contract. To challenge said process ISP presented various allegations before the General Office of Ports, arguing that to date the matter is subject to litigation because API's petition is not supported.

Simultaneously with the judicial and administrative actions described above, ISP is negotiating both with API and with officials of the General Administration of Customs a proposed arrangement by which Grupo through a subsidiary other than ISP will operate the terminal. The Company cannot predict the outcome of this process. However, if the cancellation of the authorization to operate as a bonded warehouse is definitely ordered, the Company expects that ISP would have to vacate the multiple-use terminal. It is not possible to estimate the effect of this contingency.

NOTE 17—SEGMENT AND GEOGRAPHIC INFORMATION

Management considers the Company's steel operation to be a single business segment. As the Company has no operations in its home country of the Netherlands, all of its sales are considered to be foreign sales. Annual sales to any individual customer did not exceed 10% of total 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	Eliminations	Consolidated
YEAR ENDED DECEMBER 31, 1999									
Sales to unaffiliated customers	$ 2,544	$ 652	$ 591	$ 107	$ 284	$ 648	$ 72	$ –	$ 4,898
Transfers between geographic areas	8	41	–	94	2	71	3	(219)	–
Sales	2,552	693	591	201	286	719	75	(219)	4,898
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	$ 2,505	$ 813	$ 622	$ 123	$ 564	$ 635	$ 81	$ –	$ 5,343
Transfers between geographic areas	12	54	14	127	15	81	6	(309)	–
Sales	2,517	867	636	250	579	716	87	(309)	5,343
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
YEAR ENDED DECEMBER 31, 2001									
Sales to unaffiliated customers	$ 2,212	$ 534	$ 503	$ 103	$ 535	$ 582	$ 17	$ –	$ 4,486
Transfers between geographic areas	6	8	–	201	11	76	–	(302)	–
Sales	2,218	542	503	304	546	658	17	(302)	4,486
Operating income	(127)	(49)	21	(11)	15	31	(2)	(72)	(194)
Total assets at December 31, 2001	3,080	1,480	857	528	266	327	–	(1,225)	5,313
Depreciation	104	43	19	18	6	5	1	20	216
Capital expenditures	29	22	13	9	15	10	–	(1)	97

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

NOTE 18 - SECURITIZATION OF RECEIVABLES

Certain subsidiaries of the company have an agreement to sell interest in pools of the Company's trade receivables on a non-recourse basis, to independent Special Purpose Vehicle (SPV). Participation interests in new receivables may be sold, as collections reduce previously sold accounts. The proceeds from the sale of trade accounts receivables are included in the cash flows from operating activities in the Consolidated Statement of Cash Flows. The sale proceeds consist of an initial payment (up to a maximum of $213) and a deferred payment. The initial payment can go up to a maximum of 85% of recorded amounts for the receivables sold. The deferred proceeds outstanding amounted to $17 and $27 at December 31, 2000 and 2001 respectively. Gross receivables sold were $84, $82 and $137 at December 31, 1999, 2000 and 2001 respectively. The receivables are sold at a discount that is included in Selling, general and administrative expenses in the consolidated statements of income and amounted $1, $3 and $4 for 1999, 2000 and 2001 respectively.

NOTE 19 - SUBSEQUENT EVENTS

MEXICAN OPERATING SUBSIDIARY'S DEBT RESTRUCTURING OVERVIEW

UNSECURED STRUCTURED SENIOR EXPORT CERTIFICATES (“SEN”), 10.125%

In response to the reduction in sales volumes and prices and other negative developments facing the Company's Mexican Operating Subsidiary, Imexsa, in 2001, the Company has developed a plan to restructure the outstanding long-term indebtedness of Imexsa (the “Restructuring Plan”) in order to improve Imexsa's liquidity position. The principal elements of the Restructuring Plan consist of (i) an offer to exchange (the “Exchange Offer”) outstanding 10 1/8% Senior Export Certificates due 2003 (the “Senior Certificates”) issued by Imexsa Export Trust No. 96-1 for 10 5/8% Senior Export Certificates due 2005 to be issued by Imexsa Export Trust No. 96-1 (the “New Senior Certificates”); (ii) waivers and amendments by the lenders of Imexsa's outstanding bank debt of certain terms of their respective loan agreements; (iii) a new working capital facility; (iv) the sale of certain non-core assets of Imexsa; and (v) a working capital loan to be provided by Ispat International.

On May 31, 2002, Imexsa reached agreements in principle with each of its bank lenders and holders representing over 75% of the outstanding amount of the Senior Certificates on the final terms of the Restructuring Plan. Pending completion of the Restructuring Plan, these bank lenders and holders of the Senior Certificates also entered into waivers and forbearance agreements, certain of which will extend to June 14, 2002. The Company anticipates that its creditors will agree to extend such waivers and forbearance agreements as may be reasonably necessary in order to consummate the Exchange Offer and the Restructuring Plan.

Under the agreed upon terms, Imexsa's scheduled repayments in 2002 will be $58 as compared to $132. This reschedulement has not been reflected in the consolidated balance sheets.

Details of the Restructuring Plan are as follows:

Exchange Offer and Consent Solicitation - Imexsa is offering to exchange all outstanding Senior Certificates for New Senior Certificates. The terms of the New Senior Certificates will be substantially similar to the terms of the Senior Certificates except that, among other things, the New Senior Certificates will (i) have interest payable at 10 5/8% per annum; (ii) have a final maturity at May 2005; (iii) be guaranteed by certain subsidiaries of Imexsa; (iv) be secured, along with Imexsa's existing bank lenders, by certain assets of Imexsa (as discussed below) on pro rata basis; and (v) have the benefit of the Excess Cash Flow Sweep (as discussed below). Among other things, consummation of the Exchange Offer is subject to receipt by Imexsa of tenders representing at least 95% of the aggregate outstanding principal amount of the Senior Certificates.

Bank Amendments and Waivers - Imexsa's bank lenders have agreed in principle to defer principal payments on most of the outstanding bank debt for a period of three years. The bank lenders have also agreed in principle to waive certain financial covenants during this period, to the elimination of certain restrictions on the disposition of non-core assets and to allow Imexsa to enter into a new working capital facility. The existing bank lenders will have the benefit of the Excess Cash Flow Sweep (as discussed below) and will be secured, along with the New Senior Certificates, by certain assets of Imexsa (as discussed below) on a pro rata basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(MILLIONS OF U.S. DOLLARS EXCEPT SHARE AND PER SHARE DATA)

CONTINUED

Excess Cash Flow Sweep - The Restructuring Plan provides that Imexsa will, on a semi-annual basis, apply all of its excess cash flows (to be defined under the amended bank loan agreements and the documentation for the New Senior Certificates) to make an offer to purchase at par outstanding New Senior Certificates and retire debt owed to its existing bank lenders (the "Excess Cash Flow Sweep") in the proportion of 20% to the New Senior Certificates and 80% to Imexsa's existing bank debt.

Ranking and Collateral - The New Senior Certificates will be secured by receivables generated under a new Supply Agreement with Mitsubishi and those of certain other customers of Imexsa (the "Receivables"). In addition, Imexsa's existing bank lenders and the New Senior Certificates will be secured, on a pro rata basis, by (i) a first priority lien on all property, plant and equipment of the Imexsa; (ii) a pledge on the stock of Imexsa and its immediate parent; and (iii) a first priority lien on the inventory and receivable not otherwise pledged to secure the new working capital facility or the Receivables.

New Working Capital Facility - Imexsa will be entitled to draw up to $68 for its working capital needs, subject to the condition that amounts outstanding owed under the new working capital facility cannot exceed $35 unless authorized by Imexsa's other bank lenders. The new working capital facility will be secured by a first priority security interest in certain of Imexsa's receivables and inventory.

Shareholder Loan - Ispat International will, either directly or indirectly, make available to Imexsa a total of $20 for working capital purposes. The loan will be subordinated to other debt of Imexsa and secured by a second priority lien on certain inventory and receivables.

Sale of Non-Core Assets - Imexsa will sell certain non-core assets in 2002 in order to repay debt related to its shipping loans and will use any net cash proceeds for liquidity purposes.

CREDIT LINE AGREEMENT DENOMINATED IN U.S. DOLLARS, FLOATING INTEREST

These were also restructured as a result of restructuring of Unsecured Structured Senior Export Certificates as discussed above.

Certain loans payable to Mexican banks were rescheduled for principal repayments. Necessary waivers and amendments were also obtained.

Ranking and Collateral Security - Whereby these credit lines will be secured on a pro rata basis with the Mexican operating subsidiary's New SEN Lenders by a perfected (i) first priority lien on all property, plant and equipment of the Mexican operating subsidiary; (ii) pledge on the stock of Mexican operating subsidiary and its immediate parent; and (iii) first priority lien on the inventory and receivables not otherwise pledged to an existing lender of any outstanding working capital facility of the Mexican operating subsidiary.

Excess Cash Flow Sweep - Whereby if Mexican operating subsidiary has Excess Cash Flow as defined, for any Semi-annual period commencing December 31, 2002, 100% of such excess will be used by the company to repurchase New SENs and the bank lenders on the basis of 20% to the New SENs and 80% to the bank lenders at a price equal to 100% of the principal amount thereof.

LOAN PAYABLE TO EXPORT-IMPORT BANK OF THE U.S., LIBOR PLUS 0.30%

These were also restructured as a result of restructuring of Unsecured Structured Senior Export Certificates as discussed above.

Necessary waivers and amendments were also obtained.

Ranking and Collateral Security - Whereby these loans will be secured on a pro rata basis with the Mexican operating subsidiary's New SEN Lenders by a perfected (i) first priority lien on all property, plant and equipment of the Mexican operating subsidiary; (ii) pledge on the stock of Mexican operating subsidiary and its immediate parent; and (iii) first priority lien on the inventory and receivables not otherwise pledged to an existing lender of any outstanding working capital facility of the Mexican operating subsidiary.

Excess Cash Flow Sweep - Whereby if Mexican operating subsidiary has Excess Cash Flow as defined, for any Semi-annual period commencing December 31, 2002, 100% of such excess will be used by the company to repurchase New SENs and the bank lenders on the basis of 20% to the New SENs and 80% to the bank lenders at a price equal to 100% of the principal amount thereof.

SHAREHOLDER INFORMATION

PRINCIPAL OPERATING SUBSIDIARIES

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Fax 1 219 399 5544

Ispat Inland Long Products
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Fax: 52 753 5322 723

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Fax: 3 52 264 90 210

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 in 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, Wijnhaven 46, 3011 WS, Rotterdam, The Netherlands, or by contacting Kas-Associatie N.V., Spuistraal 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 the 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 2001 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-thinking statements.

ISPAT INTERNATIONAL N.V.

Member of The LNM Group

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