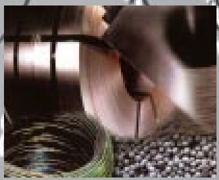
ISPAT INTERNATIONAL N.V.
Annual Report 1997



Value creators

The world's most global steel producer

Master of the integrated mini-mill process

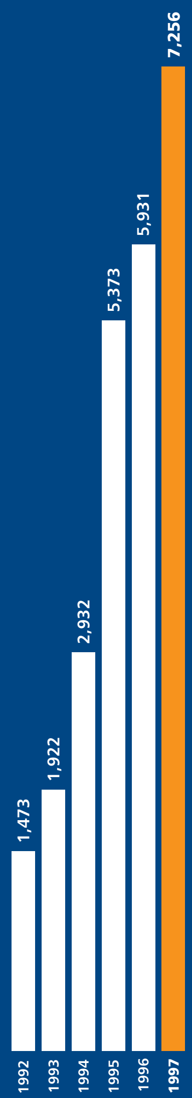
The world's fastest growing steel company

Ispat International N.V.

Member of The LNM Group

The world's fastest growing steel company

Value Creation *Our global state-of-the-art steelmaking operations, leadership in the integrated mini-mill process, broad product range and aggressive pursuit of unparalleled growth in the steel industry, all lead to the creation of shareholder value. With the binding letter agreement to acquire Inland Steel Company, our position only strengthens.*



Steel shipments
(In Tons 000's)

Contents

Shareholder information relating to the Dutch Annual Accounts.

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

Certain defined terms

The term "ton" as used in this Annual Report means a short ton and the term "tonne" used herein means a metric tonne. All references to iron ore pellets, Direct Reduced Iron ("DRI") and scrap are calculated using tonnes, and all references to steel products are calculated using tons.

The term "steel products" as used herein refers to semi-finished and finished steel products and excludes DRI.

The term EBITDA relates to operating income plus depreciation.

All reference to 'Imexsa' is to Ispat Mexicana, S.A. de C.V., all reference to 'CIL' is to Caribbean Ispat Limited, all reference to 'Ispat Sidbec' is to Ispat Sidbec Inc. and all reference to 'Ispat Germany' is collectively to Ispat Hamburger Stahlwerke GmbH 'IHSW', Ispat Stahlwerk Ruhrort GmbH and Ispat Walzdraht Hochfeld GmbH, 'ISRG/IWHG'.

Principal operating subsidiaries and other offices.

Ispat International Limited
7th Floor, Berkeley Square House, Berkeley Square,
London W1X 5PN.

Ispat Mexicana, S.A. de C.V.
Fco. J. Mújica No. 1-B, Apartado Postal No. 19-A,
C.P. 60950, Lázaro Cárdenas, Michoacan, México.

Caribbean Ispat Limited
Mediterranean Drive, Point Lisas, Couva,
Republic of Trinidad and Tobago, West Indies.

Ispat Sidbec Inc.
300 Rue Léo-Pariseau, C.P. 2000, succ. Place-du-Parc,
Montréal (Québec) H2W 2S7, Canada.

Ispat Hamburger Stahlwerke GmbH
Dradenaustraße 33, D-21129 Hamburg, Germany.

Ispat Stahlwerk Ruhrort GmbH
Vohwinkelstr 107, D-47137 Duisburg, Germany.

Ispat Walzdraht Hochfeld GmbH
Wörthstraße 125, D-47053 Duisburg, Germany.

Irish Ispat Limited
Haulbowline, Cobh, County Cork, Ireland.

Ispat America Inc.
Nations Bank, Corporate Center, 100 North Tryon Street,
Suite 2401, Charlotte NC 28202, U.S.A.

Ispat Shipping Limited
Berkeley Square House, Berkeley Square,
London W1X 5PN.

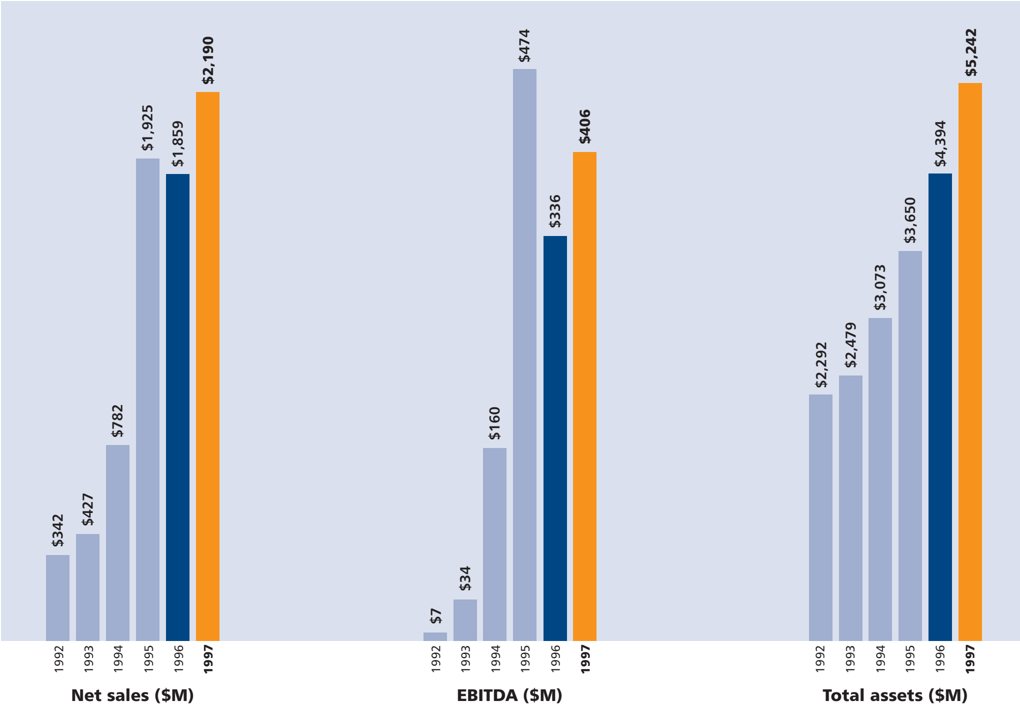
Rotterdam Building, Aert van Nesstraat 45, 3012 CA, Rotterdam, The Netherlands.
Tel: +(31) 10 404 6738. Fax: +(31) 10 404 8004. E-mail: mail@ispat.co.uk
Company Registration No. 275428.

Company Highlights

year ended 31 December 1997

Quarter on Quarter Growth in 1997

In US$ Millions	Q1 1997	Q2 1997	Q3 1997	Q4 1997
Net sales	473	513	533	671
Gross profit	87	114	121	161
EBITDA	74	94	104	134
EBITDA margin	15.6%	18.3%	19.5%	20.0%



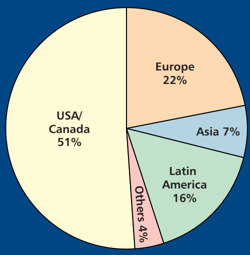
Company Overview

- Six state-of-the-art, low cost steelmaking operations in Mexico, Trinidad, Canada, Germany and Ireland make Ispat International the world's only truly global steel company.
- Ispat International is the fastest growing steel company in the world.
- Global leadership in the integrated mini-mill process makes Ispat International one of the lowest cost producers of high quality steel products in the world.
- Ispat International combines a balanced flat and long product portfolio with world leadership in the production of high quality slabs and wire rods.
- Our steel production has grown approximately 25 fold, between 1989 and 1997, as annual sales increased to $2.2 billion and steel shipments reached 7.2 million tons.

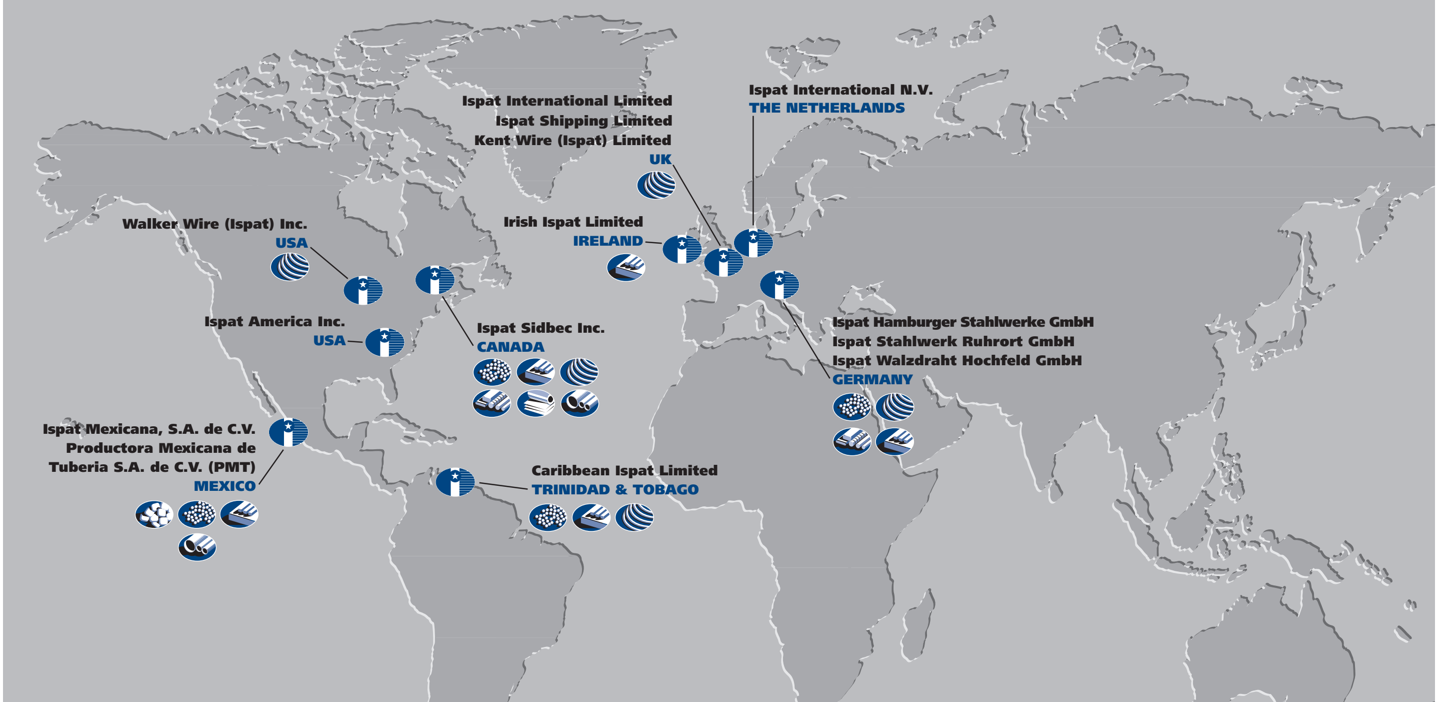
Company Overview

Broad geographic diversification Ispat International is the world's only truly global steel company. Since 1989, it has acquired six steelmaking facilities in five countries around the globe. In 1997, we shipped approximately 7.2 million tons of finished steel, of which over 50% was exported to more than 60 countries world-wide.

Global Presence



1997 Sales: $2.2 Billion



Iron ore

DRI direct reduced iron or sponge iron.

Semi-finished products including sections, slabs and billets.

Wire rod and wire products for various applications including cold heading, welding, chain, ropes, springs and fencing, in bright, annealed and galvanized finishes.

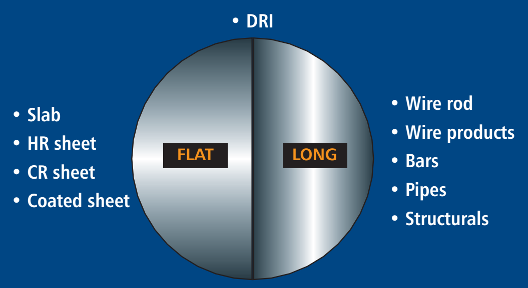
Bar products including forgings, cold-finished bars and suspension systems.

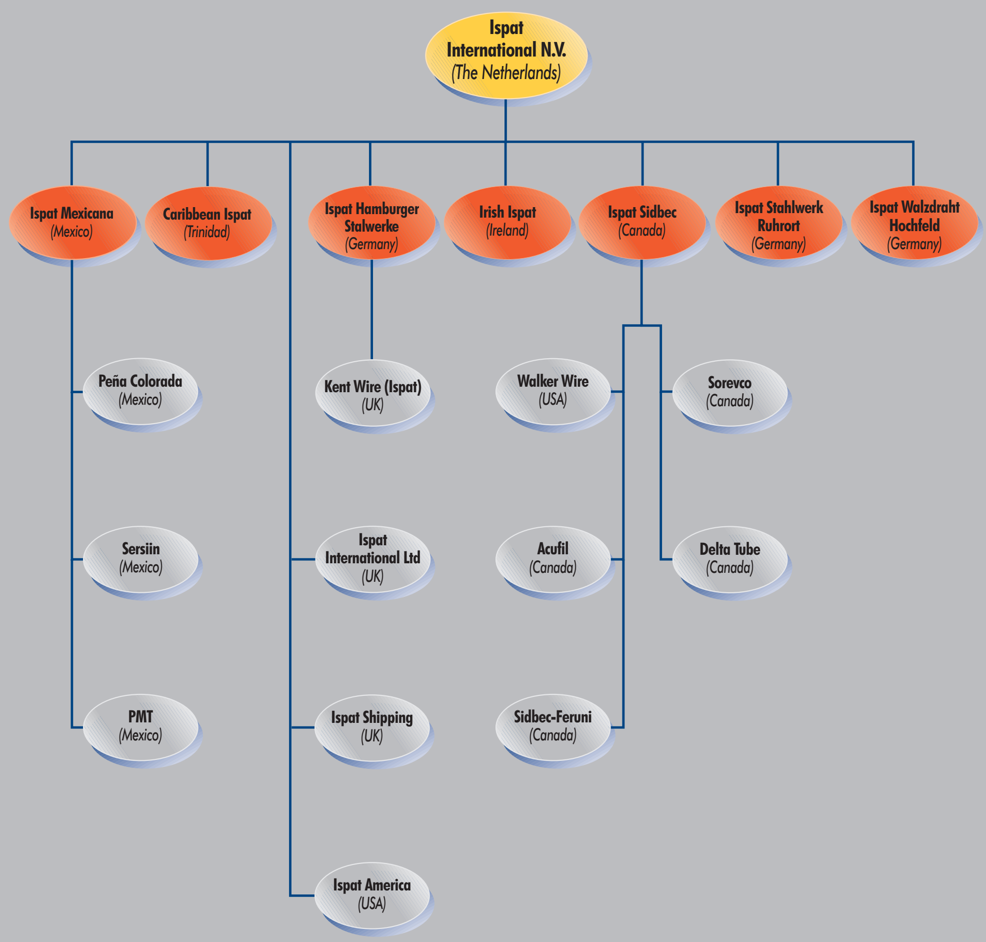
Flat rolled products including hot-rolled, cold-rolled and galvanized sheet, tin plate, blackplate; finished and semifinished galvalume products.

Pipe including galvanized and black pipe for plumbing and fencing, structural pipe and high-wall strength submerged arc-welded line pipe for oil and gas.

1989 **Caribbean Ispat Limited** is formed to lease the Iron & Steel Company of Trinidad & Tobago. **1992** Sibalsa, Mexico's third largest steel producer, is acquired and renamed **Ispat Mexicana.** Subsequent operating improvements achieve a dramatic turnaround, making **Ispat Mexicana** one of the world's lowest cost slab producers. **1994** Sidbec-Dosco, Canada's fourth largest steel producer is acquired and renamed **Ispat Sidbec Inc.** • The assets of **Caribbean Ispat,** now the largest non-oil industrial complex in the Caribbean, are acquired. **1995** Hamburger Stahlwerke, Germany's fourth largest wire rod producer, is acquired. • **Ispat International Limited** and **Ispat Shipping Limited** are formed in the UK to provide techno-commercial services to the Company. **Ispat International** buys four dry cargo panamex vessels and a fifth one in 1997. • **Ispat Mexicana** and **Caribbean Ispat** begin a $600 million capital expenditure program to enhance their competitive position and increase production capabilities. **1996** **Irish Steel,** the country's only steel producer is acquired. **1997** **Ispat International N.V.** completes a $776 million Initial Public Offering, the largest in the world steel industry (excluding privatizations) and lists on the New York and Amsterdam Stock Exchanges on August 7. **Ispat International** receives $432 million and the controlling shareholder receives $344 million. • Thyssen Long Product Division, now **Ispat Stahlwerk Ruhrort,** and **Ispat Walzdraht Hochfeld** with an annual

Broad product diversification Ispat International is the undisputed world leader in DRI production and produces a balanced product portfolio of quality flat and long steel products for meeting multiple demands for products from customers around the world. Thus our exposure to specific product segments or markets is significantly reduced.





steelmaking capacity of 1.7 million tonnes per annum, are acquired from Thyssen AG. This positions **Ispat International** at the top end of the quality pyramid in Europe and makes it one of the world's largest producer of wire rods. **Ispat Stahlwerk Ruhrort** announces installation of a new 1.3 million ton per annum billet caster. **Ispat Stahlwerk Ruhrort** announces further investment program to modernize billet rolling mill. • **Caribbean Ispat** completes the 1 million ton upgrade of its steel meltshop ahead of schedule. • **Ispat Mexicana** successfully completes its $300 million Phase-I expansion as production upgrade to increase slab capacity to 3.3 million tons is achieved. **Ispat Mexicana** also commissions a new 3.5 million tonnes pelletizer plant and completes construction of a new 1.2 million tonnes per annum DRI Midrex Megamod™ (installed within 23 months), thereby achieving self-sufficiency in metallic inputs for steelmaking. **1998** **Ispat Mexicana** announces its $175 million Phase-II expansion plan to increase self-sufficiency in pellet and DRI capacity and raise production capacity of slabs to 4.4 million tons. • **Ispat International** announces record fourth quarter results with an EBITDA of $134 million, compared to previous quarters (Q1: $74 million, Q2: $94 million, Q3: $104 million). • In March 1998, **Ispat International** announces the signing of a binding letter agreement to buy Inland Steel Company, from Inland Steel Industries in the US for $1.43 billion.

This is Ispat International's first Annual Report following our Initial Public Offering in August last year. Overall, 1997 was a very successful year of all round growth, during which we have significantly strengthened the fundamentals of the Company.

The proposed acquisition of Inland Steel Company is a very exciting development that strengthens our platform for growth well into the 21st century.

Since the year end, on March 16, 1998, we have signed a binding letter agreement to acquire Inland Steel Company in the US for a total consideration of $1.43 billion. The transaction is subject to a definitive agreement, antitrust clearance and other closing conditions, and is expected to be completed in the third quarter of 1998. We see this transaction as a significant step forward in the globalization of the steel industry. The proposed acquisition of Inland Steel Company is a very exciting development that strengthens our platform for growth well into the 21st century.

Inland Steel's facilities and expertise are among the best in the world and present significant opportunities and benefits for both companies. They will enable us to fulfil our objective of establishing a firm foothold in the US, the world's most demanding steel market, and will expand our production of high value-added, finished flat steel products. I firmly believe that our global reach and expertise will enable Inland Steel to expand its markets and compete successfully in a global environment. We intend to invest in Inland Steel's assets and people, to optimize the production capacities of existing facilities, rationalize cost structures and create an entrepreneurial environment that will make Inland Steel the most profitable US steel producer.

Inland Steel Company shipped 5.3 million tons of high quality flat rolled and long products in 1997 and had total revenues of $2.48 billion and an EBITDA of $276 million. In addition to blast furnaces and basic oxygen furnaces with a total ironmaking capacity of 5.3 million tonnes per annum, Inland has electric arc furnaces producing special bar quality. It also has a 50% interest in I/N Kote and a 60% interest in I/N Tek, two of the most modern and efficient cold rolling and coating mills in the world.

Increase in Sales and Cash Flow

Ispat International recorded very strong quarter on quarter growth in 1997. The Company's steel shipments during the year increased by 22% to 7.2 million tons and sales during the year increased by 18% to $2.2 billion. EBITDA increased by 21% to $406 million, while adjusted net income[1] improved by 16% to $186 million or $1.59 per share.

Ispat International's steel shipments in 1997 increased by 22% to 7.2 million tons.

All Round Growth

During the year, Ispat International has continued to pursue further internal growth aggressively. The majority of subsidaries have achieved improved results. At Ispat Mexicana, shipments increased by 23% and EBITDA

1 Excluding amortization of negative goodwill, net gain (loss) from foreign exchange and monetary position and deferred assets written off.

SUMMARY SUBSIDIARY FINANCIALS

	Mexico		Trinidad		Canada		Germany		Total*	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
Shipments (In Tons 000's)	2,536	**3,121**	707	**790**	1,505	**1,592**	997	**1,410**	5,931	**7,256**
(In $ Millions)										
Net Sales	722	**817**	209	**253**	590	**618**	317	**436**	1,859	**2,190**
EBITDA	177	**209**	36	**52**	95	**112**	9	**41**	336	**406**
EBITDA Margin	24%	**25%**	17%	**21%**	16%	**18%**	3%	**9%**	18.1%	**18.5%**

* Includes Irish Ispat Limited

by 18%. At Caribbean Ispat, shipments were up by 12% and EBITDA by 44%. Ispat Sidbec's shipments were 6% higher and EBITDA rose by 18%. Ispat Germany[2] reported a 41% increase in shipments and a 356% rise in EBITDA. During the year we also received favourable rulings in the trade cases against Caribbean Ispat, Ispat Sidbec and Ispat Hamburger Stahlwerke.

Acquisitions in 1997

On October 1, 1997, Ispat International acquired Thyssen's Long Product Division in Germany, comprising Ispat Stahlwerk Ruhrort and Ispat Walzdraht Hochfeld which manufacture 1.7 million tons of wire rods, billets and blooms for very high quality market segments. This acquisition has significantly expanded our customer base and improved our product mix of higher value-added grades. It offers an exciting opportunity to enhance Ispat Germany's production of high quality grades of wire rods, through the integration of Ispat Hamburger Stahlwerke's capabilities and expertise. We have also reached an agreement with the Workers Council in Duisburg to reduce the total number of employees at Ispat Ruhrort by 28% by the end of June 1999 and at Ispat Walzdraht Hochfeld by 10% by the year 2000.

> On October 1, 1997, Ispat International acquired Thyssen's Long Product Division in Germany, comprising Ispat Stahlwerk Ruhrort and Ispat Walzdraht Hochfeld which manufacture 1.7 million tons of wire rods, billets and blooms for very high quality market segments.

Capital Expenditure

1997 saw the completion of capital investment projects, on-time, under budget and which are now operating above design capacities. The Company invested a total of $357 million on these projects, which included a portion of the $600 million expansion program begun in 1995 at Ispat Mexicana and Caribbean Ispat.

> 1997 saw the completion of capital investment projects, on-time, under budget and which are now operating above design capacities.

In the third quarter of 1997, Ispat Mexicana successfully completed its $300 million capital expenditure program to achieve further backward integration and self-sufficiency in metallic inputs for steelmaking, through the installation of new pelletizer and DRI facilities. Also completed were meltshop upgrades at both Ispat Mexicana and Caribbean Ispat. The completion of these projects in 1997 were reflected in our record fourth quarter performance, and we have already begun to see further benefits in the first quarter of 1998. The new 1.4 million metric tonnes per year DRI Midrex plant at Caribbean Ispat in Trinidad is expected to come on-stream in the fourth quarter of 1998, bringing the above mentioned $600 million expansion program to completion.

In February 1998, Ispat Mexicana embarked upon a $175 million Phase-II expansion plan to increase annual DRI and steel production capacities by a further 33%. This will create assets that would normally cost in excess of $400 million on a greenfield project basis. A new $40 million program at Ispat Stahlwerk Ruhrort in Germany to install a new billet caster and to modernize the plant's old billet rolling mill, will also be completed in 1998.

Continuous Improvement Through "KIP"

Our Knowledge-Integration-Program or "KIP" is a means of ensuring that each subsidiary benefits fully from the knowledge and expertise acquired by the

2 Ispat Germany comprises Ispat Hamburger Stahlwerke, Ispat Stahlwerk Ruhrort and Ispat Walzdraht Hochfeld.

rest of the businesses within the Company. In this way we achieve the best operating practices in all disciplines. This has led to lower consumption costs and improved processes and systems, assuring our customers higher standards of repeatable quality. Our employee productivity per ton is among the highest in the world, an achievement of which we are very proud. I believe that significant KIP opportunities will arise from the acquisition of Inland Steel Company for improving our competitive advantages.

> Our employee productivity per ton is among the highest in the world, an achievement of which we are very proud.

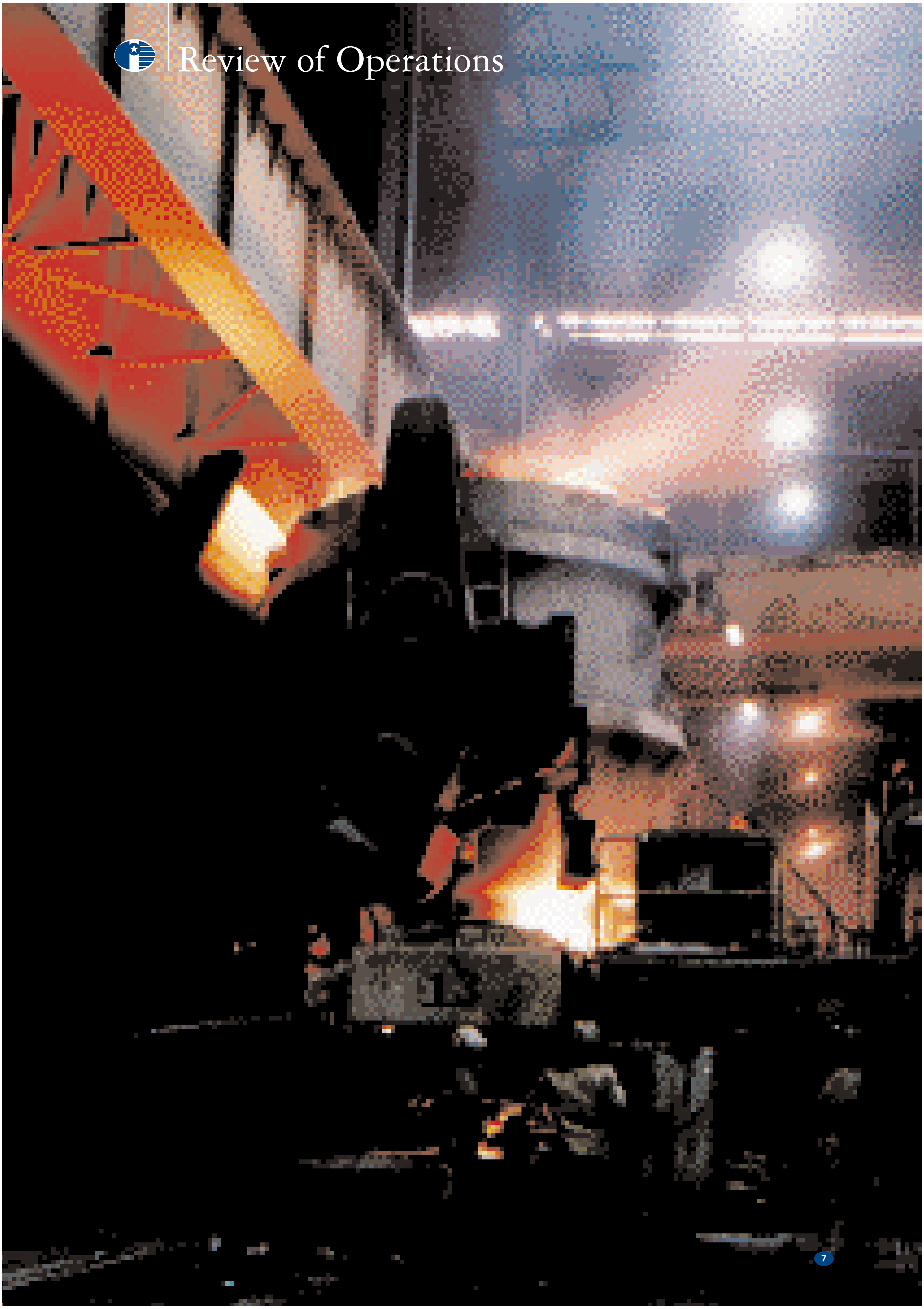
Global Management Philosophy

Ispat International's entrepreneurial culture is embraced by over 7,000 highly skilled employees in seven countries, each dedicated to increasing customer and shareholder value. Our global management team has created the only truly global steel producer of low cost, high quality products. With 6 steel facilities in 5 countries, each having access to port facilities that reduce cost of shipments, we have the flexibility to redirect sales to alternative, more profitable regions as market positions change. With our acquisition of Inland Steel, we will be the only steel company to have operations in all three NAFTA countries. This diversity will further reduce our business risk arising from economic, political and market influences around the world.

My vision is to make Ispat International the most successful and profitable steel company in the world. With our dynamic and global management philosophy, we are better positioned than ever to achieve this. I would like to thank you for your continued interest in and support of Ispat International, the world's fastest growing steel company.

Lakshmi N. Mittal
Chairman & CEO

Review of Operations



Acquisitions

We believe Ispat International is the most active acquirer of steel companies in the world. Since 1989, the Company's growth in shipments and sales has been achieved through a combination of acquisition and internal growth. This has made Ispat International the fastest growing steel company in the world. We believe that structural changes in the steel industry, rapid knowledge and technology transfer, changing buying patterns and growth in global financial markets is driving globalization in the steel industry. Consolidation is already advanced in parts of Latin America, Europe and Africa and we expect to see the process accelerate in the US.

On October 1, 1997, we acquired the Long Product Division of Thyssen Stahl AG in Duisburg, an important steel making site in Germany, for a total enterprise value of $68 million. The facilities, comprising Ispat Walzdraht Hochfeld and Ispat Stahlwerk Ruhrort sell 1.7 million tons of high quality wire rods, continuously cast blooms and rolled billets for demanding market segments, primarily in Europe. With Ispat Hamburger Stahlwerke, this acquisition has positioned Ispat International, among the world's largest producers of high quality wire rods and one of the largest and highest quality producers in the long products sector in Europe.

On March 16, 1998, Ispat International signed a binding letter agreement to buy Inland Steel Company, the sixth largest steel producer in the US, for a total transaction value of $1.43 billion. The acquisition is expected to be completed in the third quarter of 1998, and will rank Ispat International as one of the top ten steel producers in the world. In fact, had the acquisition occurred at the beginning of 1997, the combined shipments of Inland Steel and Ispat International, totaling 12.5 million tons, would have ranked the Company as the seventh largest steel company in the world[1].

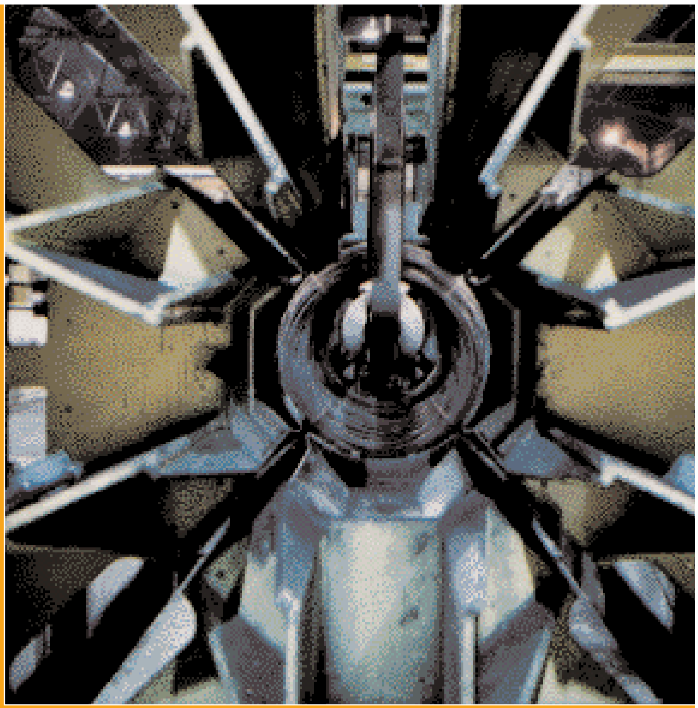
The total transaction value of $1.43 billion includes $650 million in cash for equity, $238 million of preferred stock of Inland Steel Company, $231 million of inter-company debt owed by Inland Steel Company to Inland Steel Industries, assumption of $308 of debt owing to third parties by Inland Steel Company and other obligations of the company.

Ispat International is commited to developing its production of high value-added products, and the acquisition of Thyssen's Long Product Division has greatly strengthened our position in the high value-added blooms, billets and wire rods segments. The acquisition of Inland Steel Company will clearly expand our presence in the production of high value-added, finished flat steel products, which will have additional long-term benefits for our Company.

1 Source: Estimate based on "Top Steelmakers of 1997" Metal Bulletin, 12 March 1998.

Opposite page: Ispat Walzdraht Hochfeld.
The acquisition of Ispat Walzdraht Hochfeld in Duisburg together with Ispat Hamburger Stahlwerke in Hamburg make Ispat International Europe's leading manufacturer of high quality wire rods.

Products manufactured range from the high end of the quality spectrum such as spring steels, cold heading and various high carbon grades, especially high density tire cord rods to other grades, such as free cutting steels and leaded steels.



Right: Ispat Walzdraht Hochfeld.
Wire rods being rolled into bundles in a compacting machine.

Below: Ispat Stahlwerk Ruhrort, which extends over 164 hectares, produces billets and blooms from hot metal supplied by Thyssen Krupp Stahl as part of a long term contract with the company.

Capital Expenditure

Ispat International's consistent growth is fueled, not only by acquisitions but by strong internal growth, aided by high return oriented capital expenditure programs. Historically, our capital investment has resulted in significant capacity expansion, cost reduction and improvement in productivity.

Completed capital expenditure

1997 saw the completion of various projects totaling $357 million.

The first phase of Ispat Mexicana's $300 million expansion program primarily focused on backward integration and was completed in 1997, for a total cost of $275 million. It followed earlier efforts to remove bottlenecks and improve operating practices at the plant, which have successfully raised steel production from below 25% of nameplate capacity prior to acquisition, to above rated capacity.

Under this program, Ispat Mexicana commissioned a 3.5 million tonnes per year pelletizer plant for supplying high quality feedstock for DRI production, which was incomplete at the time it was acquired in 1992. In the third quarter of 1997, Ispat Mexicana successfully commissioned its new 1.2 million tonnes per year DRI Midrex Megamod™ Plant, the largest of its kind in the world. The DRI module was commissioned in under 23 months, ahead of schedule, creating a world record in the commissioning of DRI Midrex plants. Also completed was the production upgrade at the plant's meltshop and the installation of a material handling system approximately 4 miles long for transportation of raw materials and finished products. The new pelletizer plant and DRI plant have made Ispat Mexicana 100% self-sufficient in metallic charge-mix for up to 3.3 million tons per year of slab production. Both pelletizer and DRI plants are running above 100% of rated capacities.

At Caribbean Ispat, we have upgraded our existing facilities to increase production of billets and wire rods, and further reduced our production costs. This program also included measures to raise environmental controls to World Bank standards which were substantially completed in 1997.

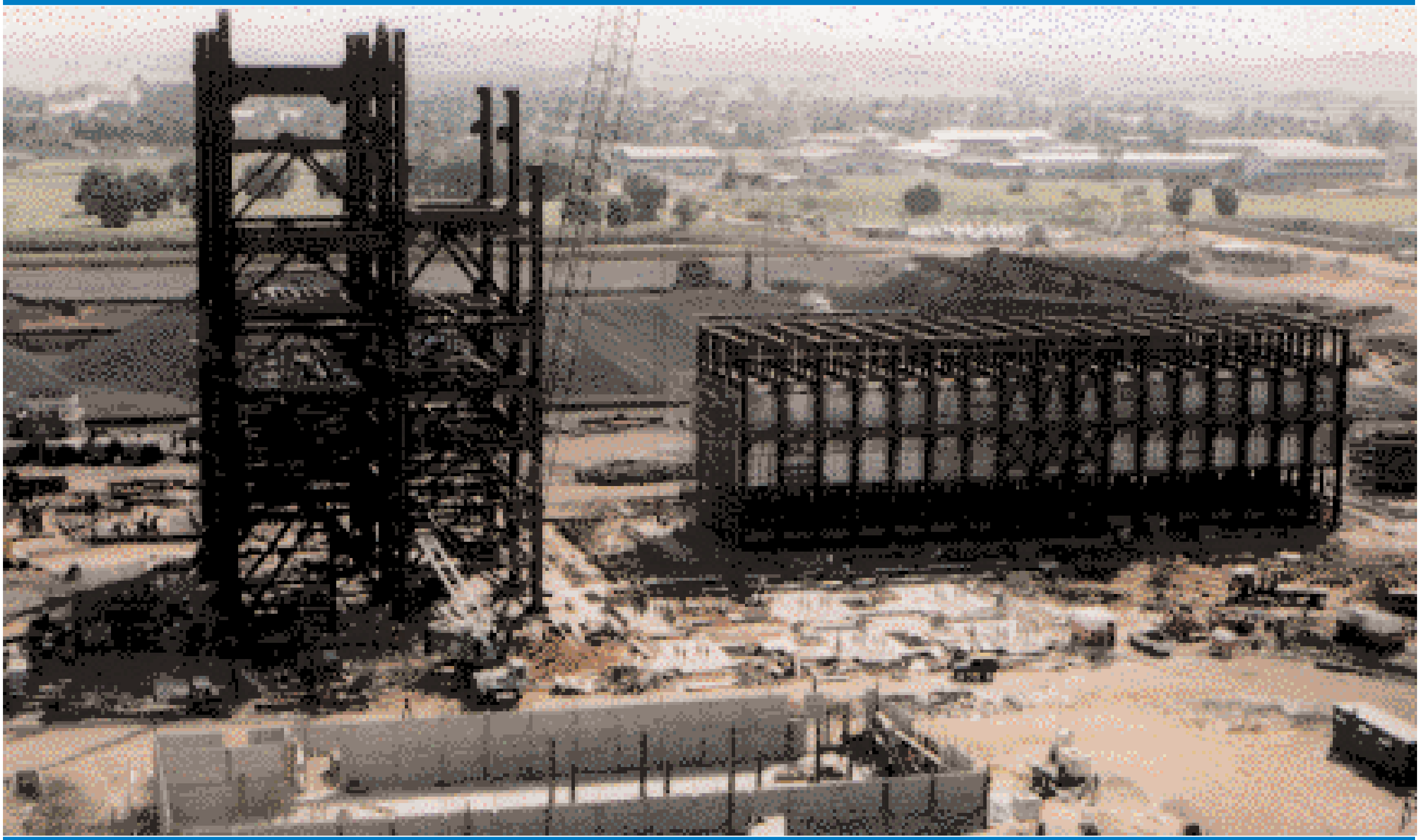
COMPLETED CAPITAL EXPENDITURE

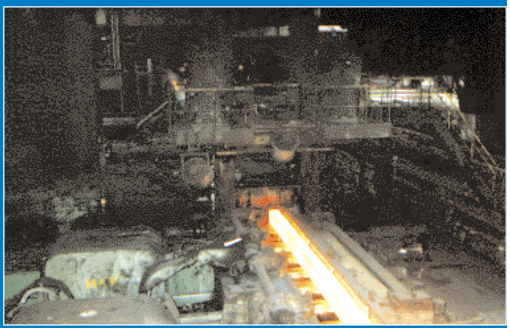
Project	Date Completed	Capex in US$ Million	New Capacity
Ispat Mexicana Phase-I			
Completion of Pelletizer Plant	1Q/1997	95	3.5 million tonnes
New DRI Midrex Plant	3Q/1997	130	1.2 million tonnes
Melt Shop and Caster Upgrade	4Q/1997	50	3.3 million tons of slabs
Caribbean Ispat			
Melt Shop, Caster and Rolling Mill Upgrade	2Q/1997	82	1 million tons
Total		**357**	

Our pursuit of external growth goes hand in glove with internal expansion.

Above: Ispat Mexicana's completed DRI Midrex Megamod™. With the commissioning of a 1.2 million tonne DRI plant, Ispat Mexicana has for the first time achieved 100% self-sufficiency in metallic charge-mix for up to 3.3 million tons of slabs. Features of the new DRI plant include an elevated reduction furnace with a diameter of 6.65 meters and state-of-the-art control and automation systems. Among its many innovative design features is the world's largest set of rotary-lobe gas compressors for this application.

Above and left: Ispat Mexicana's new 3.5 million pelletizer plant was incomplete when Ispat International acquired the company. The Phase-I capital expenditure program also included new infrastructure for transportation of raw materials and finished products at Ispat Mexicana, between the port and the plant's facilities.





Top and left: Construction of the world's largest DRI Midrex Plant at Caribbean Ispat in Trinidad is scheduled for commissioning in the fourth quarter of 1998.

Center: Ispat Mexicana's transportation system is being upgraded to meet the increased material handling requirements of its Phase-II expansion program.

Right: To enhance Ispat Stahlwerk Ruhrort's technologically sophisticated steelmaking facilities and to improve efficiency, the company is modernizing the billet rolling mill and will begin to cast a large volume of semis directly in a new 1.3 million tonnes per annum billet caster.

On-going Capital Expenditure

Ispat International is currently implementing several other high return-oriented capital expenditure programs. At Caribbean Ispat Limited, the Company is constructing a 1.4 million tonnes per year DRI Midrex Megamod™ plant, the largest module of its kind in the world, due to be commissioned in the fourth quarter of 1998. The increased DRI production will be used both for internal consumption and for sale to the rapidly growing merchant market for scrap substitute.

Within weeks of acquiring Thyssen's Long Product Division in 1997, the company initiated a program of cost reduction through re-engineering and rationalization of the business. This included securing lower metallic costs, improving operating efficiencies and reducing the workforce. The company also implemented a $40 million capital investment program to install a 1.3 million tons per annum six-strand continuous billet caster for an estimated cost of $20 million and to modernize the plant's old billet rolling mill, also at an estimated cost of $20 million.

The new billet caster, which is now expected to be on-stream in the second quarter of 1998, will reduce ISRG's cost of production by reducing both quantity of billets purchased and the company's own manufacturing costs, while maintaining the quality of billets produced. The modernization of the billet rolling mill program is expected to be completed in the fourth quarter of 1998. It will also result in billets of a higher surface quality following improvements to the finishing process, and will achieve further operational efficiencies, including rationalization of the workforce. While some benefits of the new billet caster and the modernization program will be seen in 1998, the Company does not expect to see the full benefits of the projects until 1999.

Ispat Mexicana has already begun the implementation of its $175 million Phase-II expansion program, which is expected to be completed by the end of 1999. The program is designed to increase Ispat Mexicana's captive supply of pellets from 5 million tonnes to 5.6 million tonnes, increase annual production of DRI from 3.6 million tonnes to 4.6 million tonnes, increase annual production of steel from 3.3 million to 4.4 million tons and improve infrastructure and port facilities in line with the expected increase in slab output. Ispat Mexicana will achieve the 1 million tonnes increase in DRI production by modifying its Midrex and HYL(III) plants which are currently operating at 120% of nameplate capacity.

Ispat International is also evaluating the feasibility of additional internal growth opportunities. As the full benefits of Ispat International's completed and current capital expenditure programs are realized, the Company's cash flow will improve still further, and enable us to continue to implement new programs at existing and new operations, as they are acquired. The management believes that even with the implementation of current investment plans, the natural infrastructure and basic manufacturing facilities at all subsidiaries offer a number of opportunities, for greater utilization leading to profitable growth in the years ahead.

ON-GOING CAPITAL EXPENDITURE

Project	Estimated Completion Date	Capex in US$ Million	New Capacity
Ispat Mexicana			
Phase-II expansion of:	4Q/1999	175	
Pelletizer Plant			5.6 million tonnes
DRI Midrex and HYL(III) Plants			4.6 million tonnes
Steel Meltshop and Continuous Caster Upgrade			4.4 million tons
Caribbean Ispat			
New DRI Midrex Plant	4Q/1998	225	1.4 million tonnes
Ispat Germany (Ruhrort)			
New Continuous Billet Caster	2Q/1998	40	1.3 million tons
Rolling Mill Upgrade	4Q/1998		
Total		**440**	

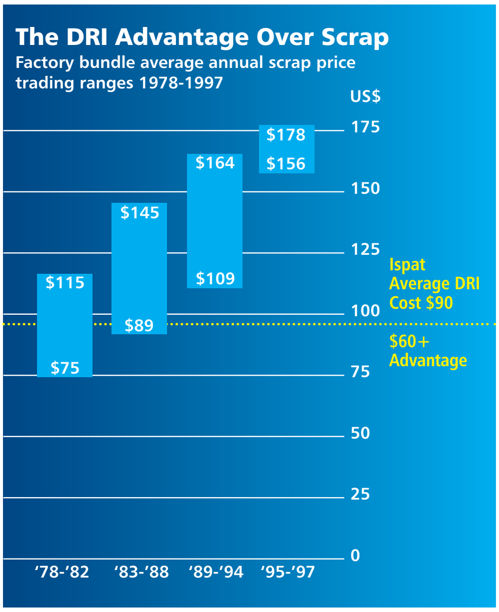
The Integrated Mini-Mill Advantage

Ispat International is the world's largest producer of steel using the integrated mini-mill process. We have leap-frogged the rest of the mini-mill industry, by integrating backward into DRI based production for steelmaking, which allows us to produce low cost, high quality steel. The significant use of DRI as a primary metallic input, combined with secondary metallurgical capabilities, enable us to produce high quality steel for technologically sophisticated applications in the automobile and appliance industries. Ispat International is the largest producer and consumer of DRI in the world, having produced 5.8 million tonnes of DRI in 1997.

DRI provides the same ultra-clean metallic feedstock for the mini-mills' electric arc furnaces as the blast furnace, but at a lower cost, and does not have scrap's inherent price volatility and quality issues. Ispat International's average cash cost of producing DRI in 1997 was $90 per tonne, compared to the average heavy melting scrap #1 ("HMS #1") composite index price of $134 per tonne *(Source: American Metal Market)*. A more comparable low-residual grade scrap, such as #1 factory bundle scrap, commonly sells at $15 to $30 per tonne premium to HMS #1. Ispat International's high production levels have been achieved through increased utilization rates at our DRI facilities.

Some of the Company's integrated mini-mills have additional strategic advantages, such as access to captive iron ore reserves and pelletizing facilities to produce iron ore pellets, the primary feedstock for production of DRI. Most of our operating subsidiaries are strategically located with access to on-site deep-water port facilities, allowing for timely and cost-efficient imports of raw materials and shipments of finished products.

As we grow through internal expansion and acquisitions, our strategy is to continue to realize the benefits of backward integration, while maintaining our leadership position in DRI. We believe that our use of the integrated mini-mill process, modern steelmaking facilities, access to low-cost raw materials and operating efficiencies, help us to enhance our position as one of the lowest cost steel producers in the world. With the completion of our capital expenditure programs, we will be increasing our DRI production capacity by 2.5 million tonnes in 1999. This will enhance our position as the world's largest DRI producer.



Source: Purchasing Magazine, 1997.

Ispat International's integrated mini-mills combine the best of both integrated mills and traditional mini-mills. Using internally produced DRI as the metallic input and EAFs for steel production, Ispat International's integrated mini-mills retain the quality advantages of the integrated mills and the cost advantages of the EAF process.

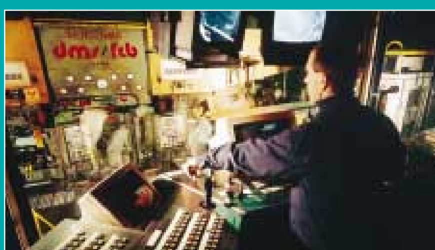

Port


Pelletizer plant


DRI plant


Electric arc furnace – continuous casting

A key aspect of Ispat International's global management philosophy is to integrate knowledge leading to continuous improvement throughout the Company.



Continuous Improvement

At the core of our management philosophy is the basic belief that sharing of knowledge is key to building our competitive position and maximizing performance – especially in a global market place. At Ispat International, we achieve this through a company-wide Knowledge-Integration-Program or "KIP". This is a technology, quality and cost improvement program designed to allow each subsidiary to benefit from the best operating and management practices implemented at other subsidiaries. The best practices in the Company are then benchmarked with the best practices in the world.

This universal pooling of resources helps to create a global management philosophy and a highly entrepreneurial culture among our global team of steelmakers, technical and plant maintenance experts, quality controllers and commercial managers. The company has always had a decentralized management structure based on awarding responsibility and accountability to local management at each subsidiary. Through the sharing of accumulated knowledge, we are also able to acquire companies that best meet our criteria for shareholder value creation.

Cost reduction and improving the Company's product mix of high value added products is a continuous process. Our global teams work together to identify new areas for operating improvements and the implementation of best management practices, with the aim of reducing our low cost base even further, and raising the standard of repeatable quality for our customers. Our team of operational and procurement experts work closely with suppliers to ensure that we install the best technology at our plants. We believe our KIP has already provided significant benefits, including reduced procurement costs of raw materials, spare parts and freight, as well as increased productivity through the transfer of technological know-how across subsidiaries.

Summary Financial Information

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.

	1993	1994	1995	1996	1997
		Years Ended December 31, (in Millions of Dollars, except per share data)			
Statement of Income Data					
Amounts in accordance with IAS					
Net sales	$427	$782	$1,925	$1,859	**$2,190**
Cost of sales (exclusive of depreciation)	346	580	1,379	1,458	**1,707**
Gross profit (before deducting depreciation)	81	202	546	401	**483**
Gross margin	19.0%	25.8%	28.4%	21.6%	**22.1%**
Depreciation	38	56	110	116	**152**
Selling, general and administrative expenses	47	42	72	65	**76**
Deferred assets written off	-	-	-	-	**20**
Operating income (loss)	(4)	104	364	220	**235**
Operating margin	-0.9%	13.3%	18.9%	11.8%	**10.7%**
Other income (expense) – net	(22)	7	(2)	8	4
Financing costs:					
Net interest expenses	(33)	(35)	(75)	(48)	**(62)**
Net gain (loss) from foreign exchange and monetary position	21	(167)	(89)	102	**59**
Amortization of negative goodwill	352	368	409	415	**64**
Income before taxes	314	277	607	697	**300**
Net income	314	275	620	677	**289**
Earnings per Common Share	2.83	2.48	5.59	6.10	**2.46**
Amounts in accordance with US GAAP					
Operating income			$337	$268	**$337**
Depreciation			46	49	**55**
Net income			83	234	**236**
Basic and diluted earnings per Common Share			0.75	2.11	**2.02**

	1993	1994	1995	1996	1997
		December 31, (in Millions of Dollars, except per share data)			
Balance Sheet Data					
Amounts in accordance with IAS					
Cash and cash equivalent	$167	$55	$70	$310	**$790**
Property, plant and equipment	1,836	2,290	2,557	3,068	**3,199**
Total assets	2,479	3,073	3,650	4,394	**5,242**
Notes payable to bank and current portion of long-term debt	332	325	383	368	**431**
Subordinated Note payable to Controlling Shareholder	256	256	236	142	**0**
Long term debt	248	524	716	967	**1,104**
Negative goodwill	1,063	910	530	173	**134**
Shareholders' equity	442	743	1,310	2,334	**2,970**
Amounts in accordance with US GAAP					
Total assets				$1,955	**$2,882**
Long term debt				878	**1,104**
Shareholders' equity				59	**662**
Other Data:					
EBITDA (IAS)			$474	$336	**$406**
EBITDA (US GAAP)			383	317	**392**
Total production of DRI (thousand of tonnes)	2,077	3,042	4,557	5,030	**5,765**
Total production of liquid steel (thousand of tons)	2,057	3,209	5,800	6,404	**7,775**
Total shipments of steel products (thousand of tons)	1,922	2,932	5,373	5,931	**7,256**

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the years ended December 31, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

Overview

Ispat International was incorporated on May 27, 1997 under the laws of The Netherlands as part of the Reorganization. Ispat International is a holding company with no business operations of its own. Its only material assets are its 100% indirect equity interests in the following Operating Subsidiaries: (i) Ispat Mexicana (Imexsa), Mexico; (ii) Caribbean Ispat Limited (CIL), Trinidad; (iii) Ispat Sidbec, Canada; (iv) Ispat Germany, comprising Ispat Hamburger Stahlwerke (IHSW) and Ispat Stahlwerk Ruhrort/Ispat Walzdraht Hochfeld (ISRG/IWHG), Germany; and (v) Irish Ispat, Ireland.

Discussed below are specific factors that contributed to the improvement in the Company's operating and financial performance during the 1996-1997 period:

Shipment Increases, Cost Reductions and Productivity Improvements. The Company has increased production and shipments and reduced cash cost of steel production at its operating facilities through de-bottlenecking measures, process improvements and improved operating and management practices, all of which have been supported by focused capital expenditures.

The table below provides the 1997 summary statistics comparing steel shipments, cash cost of steel production and tons shipped per employee for each Operating Subsidiary prior to acquisition by the Company to 1997 (excluding Irish Ispat, which was acquired on May 30, 1996 and ISRG/IWHG, which were acquired on October 1, 1997). Data for the year prior to acquisition has been derived by the Company from information furnished by the seller of each acquired operation and reflects the full financial year prior to acquisition. The Company believes that such data has been prepared on a basis consistent with the data for 1997. However, because the Company has not independently verified such information, there can be no assurance that such information has been prepared on a consistent basis.

Raw Material Sourcing. The Company's favourable cost position is due, in part, to its use of internally produced DRI as a primary raw material (other than at ISRG/IWHG and Irish Ispat) in the liquid steel-making process rather than scrap (which is the raw material used by most mini-mills). During 1997, the Company's average cash cost of production of DRI, which accounted for approximately 75% of the Company's metallic inputs in 1997, was approximately $90 per tonne, compared to the average HMS#1 composite index price of $134 per tonne in 1997. HMS#1 is the most commonly quoted North American grade of scrap and contains some non-ferrous elements which makes its quality inferior to DRI. A more comparable low-residual scrap, such as #1 factory bundle, commonly sells at a $15 to $30 per tonne premium to HMS#1. The Company's production of low-cost DRI has been dependent, in part, upon Imexsa's access to low-cost supplies of iron ore pellets to meet a significant portion of its production requirements.

Technological Improvements. The Company has implemented several technological improvements at its DRI and melt shop facilities. The improvements have resulted in increased DRI production and concomitant utilisation of a greater proportion of DRI in its EAF steel melting operations. The use of a higher percentage of DRI allows the Company to produce higher quality liquid steel due to fewer impurities in DRI as compared to scrap, thus allowing production of higher value-added products.

Income Taxes. The Company has benefited significantly from certain company-specific tax attributes and favourable governmental tax policies.

Year Ended December 31, 1997 Compared to Year ended December, 1996

Net Sales: Net sales increased over the year by 18% to $2.19 billion from $1.86 billion in 1996, mainly due to increased volumes across all the Operating Subsidiaries, increased average selling prices and the addition of the Thyssen Long Product Division in Germany in October 1997.

At Imexsa, net sales increased by 13% to $817 from $722 in 1996, primarily due to increased volume of

Operating Subsidiary	Year Acquired	Steel Shipments[1] (In Tons 000's) Year Prior to Acquisition[2]	Steel Shipments[1] 1997	Cash Cost of Steel Production Year Prior to Acquisition ($ per Ton)	Cash Cost of Steel Production 1997 ($ per Ton)	Tons Shipped per Employee[1] Year Prior to Acquisition	Tons Shipped per Employee[1] 1997
Imexsa	1992	528	**3,066**	$253	**$167**	418	**2,214**
CIL[2]	1989	395	**790**	233	**190**	400	**899**
Ispat Sidbec	1994	1,294	**1,592**	317	**301**	560	**891**
IHSW	1995	936	**975**	280	**249**	1,248	**1,505**

1 Includes shipments of semi-finished and finished products (other than by joint ventures) and excludes shipments of DRI.

2 From 1989 until 1994, CIL leased the plant assets of ISCOTT (as defined herein). In December 1994, CIL exercised its option to purchase such facilities from ISCOTT. Year prior to acquisition refers to 1988 for CIL.

slab shipments and higher realized average selling prices for slabs, offset in part by the impact of restating prior year amounts in constant currency as of December 31, 1997. At CIL, net sales increased by 21% to $253 from $209 in 1996 primarily due to increased volumes and higher realized average selling prices for all products. At Ispat Sidbec, net sales increased by 5% to $618 from $590 in 1996 primarily due to increased volumes, offset in part due to lower shipment of DRI. At Ispat Germany net sales increased by 37% to $436 from $317 in 1996 due to inclusion of net sales of the Thyssen Long Product Division, which was acquired effective October 1, 1997.

Gross Profit: Gross profit increased over the year by 20% to $483 from $401 in 1996. As a percentage of net sales, gross profit increased to 22.1% from 21.6% primarily due to improved cost structure, higher realized average selling price and inclusion of Thyssen Long Product Division.

At Imexsa, gross profit increased by 21% to $234 from $194 in 1996. As a percentage of net sales, gross profit increased to 28.7% from 26.8%, primarily due to increased selling prices, offset in part by an increase in the cash cost of production resulting from higher energy prices. At CIL, gross profit increased by 35% to $70 from $51 in 1996. As a percentage of net sales, gross profit increased to 27.6% from 24.6%, primarily due to increased selling prices and reduction in the cash cost of production, a reflection of the production upgrade. At Ispat Sidbec, gross profit increased by 15% to $127 from $110 in 1996. As a percentage of net sales, gross profit increased to 20.5% from 18.6%, primarily due to increased selling prices. At Ispat Germany, gross profit increased by 197% to $57 from $19 in 1996, primarily due to the inclusion of the results of the Thyssen Long Products Division, which was acquired effective October 1, 1997. As a percentage of net sales, gross profit increased to 13.1% from 6.0%, primarily due to a reduction in the cash cost of production in Dollar terms as a result of the weakening of the Deutsche Mark against the Dollar and improved production efficiencies.

Operating income: Operating income increased over the year by 7% to $235 from $220 in 1996. As a percentage of net sales, operating income decreased to 10.7% from 11.8% primarily due to a one time non-cash charge of deferred assets written off at Imexsa. This non-cash charge was recorded as a result of Imexsa's transfer of all its employees to a wholly owned service company, which the Company expects will significantly reduce future liabilities in respect of the 10% statutory profit sharing. Imexsa had created deferred profit sharing assets in earlier years due to certain temporary timing differences which will no longer be recovered and fully written off. Excluding the impact of this one time non-cash charge, adjusted operating income increased by approximately 15% to $254 from $220.

At Imexsa, adjusted operating income (excluding the impact of the one time non-cash charge) increased by 20% to $158 from $132. As a percentage of net sales, adjusted operating income increased to 19.3% from 18.3%. The impact of higher gross margin was offset in part by an increase in selling, general and administrative (SG&A) expenses. At CIL, operating income increased by 31% to $31 from $24 in 1996. As a percentage of net sales, operating income increased to 12.4% from 11.4%, primarily due to higher gross margin, offset in part by increased depreciation resulting from the revaluation of fixed assets at year end 1996 and an increase in SG&A expenses. At Ispat Sidbec, operating income decreased by 7% to $48 from $51 in 1996. As a percentage of net sales, operating income decreased to 7.7% from 8.7%, primarily due to increased depreciation resulting from the revaluation of fixed assets at year end 1996. At Ispat Germany, operating income increased to $27 from an operating loss of $1 in 1996, primarily due to higher gross margin at IHSW and the inclusion of the results of the Thyssen Long Product Division. As a percentage of net sales, operating income increased to 6.3%.

Financing Cost: Net interest expense increased by 29%. Interest expense increased by 25% primarily due to higher levels of debts outstanding. Interest income increased by 19% primarily resulting from the net proceeds from the initial public offering in August 1997.

The Company's net gain from foreign exchange and monetary position decreased by 42% to $59 from $102 in 1996 resulting primarily from Mexican inflation and the Peso exchange rate fluctuations. In 1997, the rate of Mexican inflation was 16% as compared to 28% in 1996 and the rate of Peso depreciation was 2.5% as compared to 1.7% in 1996.

Amortization of Negative Goodwill: Historically, the Company has made acquisitions of under-performing steel assets at prices below their book values, which have resulted in the recording of negative goodwill. Such negative goodwill is being amortized to income using the straight-line method over periods ranging from two to five years in accordance with IAS. The balance of negative goodwill at December 31, 1997 was $134, the majority of which will be amortized in 1998 and 1999. Amortization of negative goodwill decreased by 85% to $64 from $415 in 1996.

Net Income: Net income decreased by 57% as a result of the foregoing factors. However, adjusted net income, (excluding impact from non-cash items, such as, amortization of negative goodwill, net gain (loss) from foreign exchange and monetary position and deferred assets written off) increased by 16% to $186 from $160 in 1996, mainly due to increased volumes.

Index to Consolidated Financial Statements

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ISPAT INTERNATIONAL N.V.

We have audited the accompanying consolidated balance sheets of Ispat International N.V. and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997, all expressed in millions of US dollars. These consolidated financial statements, which have been prepared on the basis of international accounting standards, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Sutherwise Limited (the holding company of Sidbec-Dosco (Ispat) Inc. and Irish Ispat Limited prior to the formation of Ispat International N.V. and the reorganization of the Company on July 11, 1997 discussed in Note 1) as of December 31, 1996 and for each of the two years in the period ended December 31, 1996, the consolidated financial statements of Ispat Sidbec, Inc. (formerly Sidbec-Dosco (Ispat), Inc.) as of December 31, 1997 and for the year ended December 31, 1997, the consolidated financial statements of Irish Ispat Limited as of December 31, 1997 and for the year ended December 31, 1997, the consolidated financial statements of the Ispat Hamburg Group of Companies as of December 31, 1996 and 1997 and for each of the three years in the period ended December 31, 1997, and the financial statements of Caribbean Ispat Limited as of December 31, 1996 and 1997 and for each of the three years in the period ended December 31, 1997 (each of which consists of consolidated subsidiaries of the Company), which financial statements reflect total assets constituting 39% and 32%, respectively, of consolidated total assets as of December 31, 1996 and 1997, and total net sales constituting 60%, 63% and 57%, respectively, of consolidated total net sales for the years ended December 31, 1995, 1996 and 1997. 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. 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 provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ispat International N.V. and subsidiaries as of December 31, 1996 and 1997, and the results of their operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997, in conformity with international accounting standards.

International accounting standards vary in certain respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of net income for the years ended December 31, 1995, as restated, 1996, as restated and 1997 and the determination of shareholders' equity at December 31, 1996, as restated and 1997 to the extent summarized in Note 18.

Deloitte & Touche
Registeraccountants

Rotterdam, The Netherlands
March 31, 1998

Consolidated Balance Sheets

(Millions of US Dollars, except share and per share data)

	December 31, 1996	1997
Assets		
Current Assets:		
Cash and cash equivalents	$ 310	**$ 790**
Trade accounts receivable, net of allowance for doubtful accounts of $5 and $7 at December 31, 1996 and 1997	310	**415**
Inventories	410	**548**
Prepaid expenses and other	67	**62**
Total current assets	1,097	**1,815**
Property, Plant and Equipment-net	3,068	**3,199**
Investment in Affiliates	190	**196**
Other Assets	39	**32**
Total	$4,394	**$5,242**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable to banks	$ 345	**$ 344**
Current portion of long-term debt	23	**87**
Trade accounts payable	244	**285**
Accrued expenses and other liabilities	67	**192**
9% subordinated note payable to the controlling shareholder	142	**-**
Total current liabilities	821	**908**
Long-Term Debt	967	**1,104**
Retirement Benefit and Labor Obligations	55	**83**
Other Long-Term Obligations	44	**43**
Total liabilities	1,887	**2,138**
Negative Goodwill (net of accumulated amortization of $1,860 and $1,925 at December 31, 1996 and 1997)	173	**134**
Commitments and Contingencies (Notes 15 and 16)		
Shareholders' Equity		
Common shares:		
Class A Shares, NLG 0.01 par value per share, 500,000,000 shares authorized, 54,850,000 shares issued and outstanding	-	**-**
Class B Shares, NLG 0.10 par value per share, 72,150,000 shares authorized, 72,150,000 shares issued and outstanding	4	**4**
Additional Paid-in Capital	190	**558**
Revaluation Surplus	383	**355**
Retained Earnings	1,827	**2,144**
Cumulative Translation Adjustment	(70)	**(91)**
Total shareholders' equity	2,334	**2,970**
Total	$4,394	**$5,242**

See notes to consolidated financial statements.

Consolidated Statements of Income

(Millions of US Dollars, except share and per share data)

	Year Ended December 31, 1995	1996	1997
Net sales	$1,925	$1,859	**$2,190**
Costs and expenses:			
Cost of sales (exclusive of depreciation shown separately below)	1,379	1,458	**1,707**
Depreciation	110	116	**152**
Selling, general and administrative	72	65	**76**
Deferred asset write-off	-	-	**20**
	1,561	1,639	**1,955**
Operating income	364	220	**235**
Other income (expense)-net	(2)	8	**4**
Financing costs:			
Net interest expense	(75)	(48)	**(62)**
Net gain (loss) from foreign exchange and monetary position	(89)	102	**59**
	(164)	54	**(3)**
Amortization of negative goodwill	409	415	**64**
Income before taxes	607	697	**300**
Income tax expense (benefit):			
Current	5	1	**8**
Deferred	(18)	19	**3**
	(13)	20	**11**
Net income	$ 620	$ 677	**$ 289**
Earnings per common share	$ 5.59	$ 6.10	**$ 2.46**
Weighted average common shares outstanding (in Millions)	111	111	**117**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Millions of US Dollars and millions of shares)

	Common Shares Shares	Common Shares Amount	Additional Paid-in Capital	Revaluation Surplus	Retained Earnings	Cumulative Translation Adjustment	Shareholders' Equity
Balance at December 31, 1994	111	$ 4	$ 109	$ -	$ 640	$ (12)	$ 741
Capital contribution		-	82	-	-	-	82
Capital distribution		-	-	-	(95)	-	(95)
Net income		-	-	-	620	-	620
Translation adjustment		-	-	-	-	(38)	(38)
Balance at December 31, 1995	111	4	191	-	1,165	(50)	1,310
Capital distribution		-	(1)	-	(15)	-	(16)
Revaluation of property, plant and equipment		-	-	383	-	-	383
Net income		-	-	-	677	-	677
Translation adjustment		-	-	-	-	(20)	(20)
Balance at December 31, 1996	111	4	190	383	1,827	(70)	2,334
Capital contribution	16	-	400	-	-	-	400
Common shares acquired on the open market (note 11)	(1)	-	(32)	-	-	-	(32)
Net income		-	-	-	289	-	289
Amortization of revaluation surplus		-	-	(28)	28	-	-
Translation adjustment		-	-	-	-	(21)	(21)
Balance at December 31, 1997	**126**	**$ 4**	**$ 558**	**$ 355**	**$ 2,144**	**$ (91)**	**$ 2,970**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Millions of US Dollars)

	Year Ended December 31, 1995	1996	1997
Operating activities:			
Net income	$ 620	$ 677	**$ 289**
Adjustments required to reconcile net income to net cash provided by operations:			
Depreciation	110	116	**152**
Amortization of negative goodwill	(409)	(415)	**(64)**
Deferred asset write-off	-	-	**20**
Net foreign exchange losses	239	24	**18**
Gain on net monetary position	(150)	(126)	**(77)**
Gain on sale of property, plant and equipment	-	(11)	**-**
Deferred income tax	(18)	19	**3**
Changes in operating assets and liabilities, net of effects from purchases of subsidiaries:			
Trade accounts receivable	(72)	14	**(82)**
Inventories	(85)	(36)	**(81)**
Prepaid expenses and other	(69)	(32)	**31**
Trade accounts payable	53	(12)	**48**
Accrued expenses and other liabilities	(10)	(59)	**2**
Net cash provided by operating activities	209	159	**259**
Financing activities:			
Proceeds from notes payable to banks	482	499	**625**
Proceeds from long-term debt	191	433	**267**
Proceeds from long-term debt to affiliated companies	-	-	**19**
Payments of notes payable to banks	(431)	(413)	**(578)**
Payments of long-term debt payable to unrelated parties	(154)	(96)	**(12)**
Payments of long-term debt payable to affiliated companies and the controlling shareholder	-	(61)	**(15)**
Payment of subordinated note payable to the controlling shareholder	(20)	(105)	**(142)**
Purchase of treasury stock	-	-	**(32)**
Issue of share capital (net)	-	-	**400**
Capital contribution	32	-	**-**
Capital distribution	(45)	(16)	**-**
Net cash provided by financing activities	55	241	**532**
Investing activities:			
Purchases of property, plant and equipment	(248)	(291)	**(285)**
Proceeds from sale of property, plant and equipment	-	143	**-**
Investment in affiliates	-	-	**2**
Acquisition of net assets of subsidiaries, net of cash acquired	(3)	13	**(3)**
Other	(4)	-	**-**
Net cash used in investing activities	(255)	(135)	**(286)**
Effect of exchange rate changes on cash	24	3	**(35)**
Effect of monetary loss on cash	(13)	(28)	**10**
Net increase (decrease) in cash and cash equivalents	20	240	**480**
Cash and cash equivalents:			
At the beginning of the year	50	70	**310**
At the end of the year	$ 70	$ 310	**$ 790**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows continued

(Millions of US Dollars)

Supplemental disclosures of cash flow information:

	Year Ended December 31, 1995	1996	1997
Cash paid during the year for:			
Interest	$ 86	$ 89	**$ 114**
Income taxes	10	1	**2**

Supplemental schedule of non-cash investing and financing activities:

The Company acquired the capital stock of several companies as disclosed in Note 3. In conjunction with the acquisitions, liabilities assumed were as follows:

	Year Ended December 31, 1995	1996	1997
Fair value of assets acquired	$ 168	$ 135	**$ 257**
Cash paid for the capital stock	(6)	-	**(17)**
Negative goodwill	(25)	(58)	**(29)**
Liabilities assumed	$ 137	$ 77	**$ 211**

At December 31, 1996, the carrying value of property, plant and equipment was increased by revaluations of $383 based on reports provided by independent professionally qualified appraisers. The corresponding credit related to the revaluations was recorded directly to shareholders' equity.

In 1995, the Company recorded capital distributions aggregating $95, of which $45 was paid in cash and $50 was evidenced by a subordinated note payable subsequently paid in 1996 (see Note 7).

During 1995, loans from the controlling shareholder in the amounts of $50, were contributed to the capital of the Company.

During 1995 and 1997, the Company incurred $80 and $17, respectively of long-term debt payable to affiliated companies in connection with the acquisition of equipment.

On October 1, 1997, the Company acquired the assets of the Long Products Division of Thyssen Stahl AG, a steel manufacturer, for a purchase price of $17 in cash, of which $3 has been paid as of December 31, 1997.

See notes to consolidated financial statements.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business – Ispat International N.V. ("Ispat International") together with its subsidiaries (the "Company") is a manufacturer of semi-finished and finished steel products. The Company owns and operates steel companies in Mexico, Trinidad and Tobago ("Trinidad"), Canada, Germany, and Ireland, most of which were purchased in government privatization programs in such countries. 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 only material assets are interests in the capital shares of the Operating Subsidiaries. Prior to the formation of Ispat International, the Operating Subsidiaries were under common control by a sole shareholder (see Notes 7 and 11).

Basis of presentation – The consolidated financial statements, which include the accounts of Ispat International and all of its majority-owned subsidiaries, have been prepared in accordance with International Accounting Standards ("IAS") as established by the International Accounting Standards Committee. All material intercompany balances and transactions have been eliminated.

The records of each of the below 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 IAS, using the US dollar as the reporting currency.

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

Company	Date Acquired	Location
Caribbean Ispat Limited	(1)	Trinidad
Ispat Mexicana, S.A. de C.V.	(2)	Mexico
Ispat Sidbec Inc. (formerly Sidbec Dosco (Ispat) Inc.)	August 17, 1994	Canada
Ispat Hamburger Stahlwerk GmbH	January 1, 1995	Germany
Irish Ispat Limited	May 30, 1996	Ireland
Ispat Stahlwerk Ruhrort GmbH and Ispat Walzdraht Hochfeld GmbH	October 1, 1997	Germany

(1) Formed in late 1988 to undertake an operating lease of the steel manufacturing facilities comprising the Iron and Steel Company of Trinidad and Tobago. In December 1994, under provisions of the related lease agreement, Caribbean Ispat Limited exercised an option to acquire the facilities.

(2) Formed in January 1992 to purchase certain steelmaking assets as part of the privatization of the Mexican steel industry.

The ownership structure of the Operating Subsidiaries prior to the reorganization is summarized as follows:

- Caribbean Ispat Limited was a wholly owned subsidiary of Seolak Investments Limited, a holding company wholly owned by the controlling shareholder.
- Ispat Sidbec Inc., its wholly owned subsidiaries and Irish Ispat Limited were indirectly wholly owned subsidiaries of Sutherwise Limited, a holding company wholly owned by Ispat Mexicana, S.A. de C.V.
- Ispat Hamburger Stahlwerke GmbH and several small related companies were indirectly wholly owned subsidiaries of Yahuma N.V. (collectively, the "Ispat Hamburg Group of Companies"), a holding company wholly owned by Ispat Mexicana, S.A. de C.V.
- Ispat Mexicana, S.A. de C.V. was a 90% owned subsidiary of Grupo Ispat International, a company wholly owned by the controlling shareholder. Ispat Mexicana, S.A. de C.V. maintains ownership of several small subsidiaries. The remaining 10% of Ispat Mexicana, S.A. de C.V. was owned indirectly by the controlling shareholder through Caribbean Ispat Limited and P.T. Ispat Indo, a company controlled by the controlling shareholder that was not part of the reorganization. As part of the reorganization, P.T. Ispat Indo's ownership interest in Ispat Mexicana, S.A. de C.V. was transferred to Ispat International.

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION continued

Restatement and translation of the financial statements of operations in Mexico – Effective January 1, 1996, the Company determined that the Mexican economy should be classified as a hyperinflationary economy. As a result, for all dates and periods presented, the financial statements of the Company's operations in Mexico have been restated in accordance with International Accounting Standard No. 29, *Financial Reporting in Hyperinflationary Economies,* as amended, based on the historical cost/constant currency approach. The restatement procedures are summarized as follows:

- Monetary items in the balance sheet are not restated as they are by definition expressed in Mexican pesos of purchasing power as of the most recent balance sheet date.
- All other assets and liabilities are non-monetary and are restated by applying factors derived from the National Consumer Price Index ("NCPI"), published by *Banco de Mexico,* from the date of acquisition to the most recent balance sheet date.
- Items in the statement of income are restated by applying the change in the NCPI from the dates when items of income and expense were initially recorded through the balance sheet date.
- In periods of inflation, the holding of an excess of monetary assets over monetary liabilities loses purchasing power and an excess of monetary liabilities over monetary assets gains purchasing power. This gain or loss on the net monetary position is included in net income and is classified in the income statement as a component of financing costs.
- Information with respect to earlier periods is also presented in terms of the Mexican peso at the most recent balance sheet date.

The NCPI in Mexico were 156.9, 200.4 and 232.8 for the years ended December 31, 1995, 1996 and 1997 respectively.

The financial statements which result from this restatement are translated into the reporting currency using the exchange rate at the most recent balance sheet date. Differences arising from the effects of hyperinflationary accounting on beginning equity for each period are classified in shareholders' equity as cumulative translation adjustment.

Translation of financial statements of operations in non-hyperinflationary economies – As the Company has no operations in its home country of The Netherlands, all of its operations are considered foreign operations. The amounts in the financial statements of these companies, all of which are classified as foreign entities, are translated into the reporting currency in accordance with International Accounting Standard No. 21, *The Effects of Changes in Foreign Exchange Rates,* as amended. Translation procedures are as follows: assets and liabilities, both monetary and non-monetary, are translated at the closing rate as of each balance sheet date, and income and expense items are translated at weighted average exchange rates in the year such transactions are recorded.

Differences resulting from the translation of such foreign Operating Subsidiary financial statements are classified in shareholders' equity as cumulative translation adjustment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates – The preparation of financial statements in conformity with IAS 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 these estimates.

Cash equivalents – Cash equivalents consist of highly liquid investments with original maturities of three months or less and are carried at cost which approximates market value.

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") methods. Costs include the purchase costs of raw materials and conversion costs such as direct labor and an allocation of fixed and variable production overhead.

Property, plant and equipment – Property, plant and equipment of businesses acquired is recorded at the time of acquisition based on reports provided by independent professionally qualified appraisers at market value for land and depreciated replacement cost for other components. All other additions to property, plant and equipment are initially recorded at cost. Subsequently, property, plant and equipment is carried at revalued amounts, representing market value for land and depreciated replacement cost for other components, at the date of revaluation. Revaluations are undertaken periodically and are based on reports provided by independent professionally qualified appraisers. Any increase in carrying amount arising from revaluation is credited directly to shareholders' equity and is classified as revaluation surplus. Any decrease in carrying amount arising from revaluation would be recognized as an expense. Accumulated depreciation relating to the asset at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Gains or losses on retirement or disposal of revalued items are determined as the difference between net disposal proceeds and carrying amount, and any related revaluation surplus is transferred directly to retained earnings. Depreciation of carrying value is computed on the straight-line basis over the useful lives of the related assets, generally 10 to 40 years for buildings and 3 to 25 years for machinery and equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

Investment in affiliates – Investment in affiliates (voting rights between 20% and 50%) is stated at cost plus equity in undistributed earnings. Consolidated net income includes the Company's equity in the current net income (loss) of such companies.

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

- The Canadian Operating Subsidiary of the Company 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 based on actuarial computations. Benefits for the contributory plans are generally calculated based on the number of years of service, and the maximum average eligible earnings of each employee during any period of five consecutive years

- The Canadian Operating Subsidiary provides post-retirement medical benefits and life insurance for certain groups of retired employees. The Company is accruing the cost of these benefits for current and future retirees using the projected unit credit actuarial method.

- The Mexican Operating Subsidiary is obligated to provide seniority premiums, which consist of a one-time payment of 12 days wages for each year worked, on the basis of the latest salary. Maximum salary is limited to double the legal minimum wage.
- The German Operating Subsidiaries maintain unfunded defined benefit pension plans for certain groups of employees, the benefits of which are based on such employees' length of service and average compensation for the last two to three years of service.
- The 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.

Negative goodwill – The excess of the fair value of net assets of businesses acquired at the time of acquisition over the purchase price paid is presented between liabilities and shareholders' equity in the consolidated financial statements and is being amortized to income using the straight line method over periods ranging from two to five years.

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

Financing costs – Financing costs include interest, amortization of discounts or premiums on borrowings, amortization of costs incurred in connection with the arrangement of borrowings, gains or losses on net monetary position and currency exchange differences arising from foreign currency transactions. The interest expense and foreign exchange loss components of financing costs are capitalized related to financings specifically obtained for the construction and installation of property, plant and equipment. 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, also taking into consideration foreign exchange losses where appropriate.

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

Environmental costs – Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost 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. 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 law or government regulations, rapidly changing technology and the outcome of any potential related litigation. Based on the information currently available, the Company has no reason to believe that the level of expenditures for potential remedial action necessary at its sites will have a material adverse effect on its financial position.

Taxes on income – The provision (benefit) for income taxes includes income taxes currently payable and those deferred using the partial liability method. Under this method, the provision for income taxes may exclude the tax effects of certain timing differences when there is reasonable evidence that these timing differences will not reverse for a considerable period of time and when there is no indication that, after this period, these timing differences are likely to reverse. The tax effect of timing differences that result in deferred tax assets is recognized only where there is a reasonable expectation of realization in future years. The future benefits of tax loss carryforwards are recognized to the extent that there is assurance beyond any reasonable doubt that future taxable income will be sufficient to allow the benefit of the loss to be realized.

The Company does not record deferred taxes for the revaluation of property, plant and equipment in excess of historical cost, nor on the undistributed earnings of foreign subsidiaries where the Company has designated such earnings to be permanently invested.

In October 1996, the International Accounting Standards Committee issued IAS 12 (Revised), *Income Taxes.* IAS 12 (Revised) is effective for periods beginning on or after January 1, 1998 and will require the recognition and measurement of deferred tax liabilities and deferred tax assets for the taxes payable or recoverable in future periods as a result of transactions and other events recognized in an enterprise's financial statements or tax return in the current period (see Note 13).

Derivative financial instruments – Derivative financial instruments are utilized by the Company to reduce foreign exchange risk. 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.

Derivative financial instruments utilized by the Company include foreign currency forward contracts and *coberturas,* which are contractual obligations for a counterparty to pay a variable exchange rate on a fixed notional amount at a future date in exchange for a fixed exchange rate payment. The Company utilizes forward contracts to hedge receivables, payables, and other known transactional exposures denominated in a currency other than the relevant Operating Subsidiary's currency. The Company also hedges anticipated exposures in certain circumstances where there is substantial assurance that anticipated exposures will materialize. The Company does not enter into foreign currency hedging contracts related to its investment in the Operating Subsidiaries. The Company's Mexican Operating Subsidiary enters into *coberturas* to minimize its exposure to foreign exchange rate movements, primarily in connection with peso denominated cash and cash equivalents.

Gains and losses related to qualifying hedges of foreign currency firm commitments or anticipated transactions are recognized in income when the hedged transaction occurs. *Coberturas* are marked-to-market on a current basis through income.

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

In February 1997, the International Accounting Standards Committee issued IAS 33, *Earnings Per Share,* which is effective for periods beginning on or after January 1, 1998. The computation of earnings per share presented in these statements is the same as for basic earnings per share under IAS 33.

Consolidated statements of cash flows – These statements have been prepared in accordance with International Accounting Standard No. 7, *Cash Flow Statements,* as amended.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

3. ACQUISITIONS

Effective January 1, 1995, the Company acquired 100% of the shares of Hamburger Stahlwerke GmbH ("HSW"), a steel manufacturer, from the City of Hamburg, Germany for a purchase price of $6 in cash. Concurrent with the purchase of the shares, the Company agreed to acquire a loan payable from HSW to a bank with a face value of $99 for $39, which was paid in cash during 1996. In connection with the acquisition, the Company recorded negative goodwill in the amount of $25.

On May 30, 1996, the Company acquired 100% of the shares of Irish Steel Limited, a steel manufacturer, from The Minister for Finance of Ireland for a purchase price of one Irish pound. In connection with the acquisition, the Company assumed notes payable to banks and long-term debt aggregating $51 and recorded negative goodwill in the amount of $58.

On October 1, 1997, the Company acquired the assets of the Long Products Division of Thyssen Stahl AG, a steel manufacturer, for a purchase price of $17, payable over a period of 6 year, in cash. In connection with the acquisition, the Company assumed debt owed to the seller of $68 and recorded negative goodwill in the amount of $29.

The above acquisitions were accounted for using the purchase method of accounting. The Company's consolidated statements of income include the results of operations of the acquired businesses since their respective acquisition dates.

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

4. INVENTORIES

	December 31, 1996	December 31, 1997
Finished products	$ 89	**$ 129**
Production in process	95	**147**
Raw materials	154	**187**
Manufacturing supplies, spare parts and other	72	**85**
	$ 410	**$ 548**

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

5. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings and improvements	Machinery and equipment	Construction in process	Total
Balance at December 31, 1995:					
Gross value	$ 58	$ 429	$ 1,896	$ 420	$ 2,803
Accumulated depreciation	-	(41)	(206)	-	(247)
Net carrying value	58	388	1,690	420	2,556
1996 Changes:					
Additions and transfers	-	135	143	13	291
Subsidiaries acquired	1	10	79	9	99
Disposals – gross value	-	-	-	(131)	(131)
Revaluations – gross value	-	14	216	-	230
Revaluations – accumulated depreciation	-	11	142	-	153
Depreciation	-	(14)	(102)	-	(116)
Other, primarily currency translation adjustment and monetary revaluation – gross value	-	(1)	(14)	-	(15)
Other, primarily currency translation adjustment and monetary revaluation – accumulated depreciation	-	1	-	-	1
Net change	1	156	464	(109)	512
Balance at December 31, 1996:					
Gross value	59	587	2,320	311	3,277
Accumulated depreciation	-	(43)	(166)	-	(209)
Net carrying value	59	544	2,154	311	3,068
1997 Changes:					
Additions and transfers	-	78	362	(130)	310
Subsidiary acquired	9	14	20	-	43
Depreciation	-	(19)	(133)	-	(152)
Other, primarily currency translation adjustment and monetary revaluation – gross value	-	(6)	(73)	(1)	(80)
Other, primarily currency translation adjustment and monetary revaluation – accumulated depreciation	-	2	8	-	10
Net change	9	69	184	(131)	131
Balance at December 31, 1997:					
Gross value	**68**	**673**	**2,629**	**180**	**3,550**
Accumulated depreciation	**-**	**(60)**	**(291)**	**-**	**(351)**
Net carrying value	**$ 68**	**$ 613**	**$2,338**	**$ 180**	**$3,199**

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

6. INVESTMENT IN AFFILIATES

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

Investee	Operating activity	Ownership percentage	Type of ownership	Investment Balance 1996	1997
Located in Mexico:					
Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. ("Peña Colorada")	Mining and pelletizing plant	50%	Common stock	$ 123	**$ 128**
Servicios Siderúrgicos Integrados, S.A. de C.V. ("Sersiin")	Purchase and sale of lime	50%	Common stock	54	**52**
Located in Canada:					
Sorevco joint venture	Galvanizing plant	50%	Limited partnership	5	**8**
Delta Tube joint venture	Tolling facility	40%	Limited partnership	2	**2**
Other	-	-	-	6	**6**
				$ 190	**$ 196**

Summary information of the Company's investments accounted for using the equity method is not material and, accordingly, is not disclosed.

7. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties in the normal course of operations were as follows:

	Year Ended December 31, 1995	1996	1997
Transactions:			
Purchases of raw material – Peña Colorada	$39	$31	**$32**
Purchases of raw material – Sersiin	12	15	**15**
Product sales – Sorevco joint venture	33	29	**25**
Product sales – other	61	16	**-**

As part of the reorganization of entities under common control described in Notes 1 and 11, the Company's controlling shareholder transferred his interest in the Trinidad Operating Subsidiary to Ispat International for a subordinated note in the amount of $256. The note was redeemed by $20, $105 (restated in accordance with International Accounting Standard No. 29, originally $94) and $142 in 1995, 1996 and 1997, respectively.

Each of Ispat Karmet and P.T. Ispat Indo, indirect wholly owned subsidiaries of the controlling shareholder, has entered into a management services agreement with the Company pursuant to which Ispat Karmet and P.T. Ispat Indo pay a periodic fee to the Company as compensation for management services rendered to such affiliate of the Company. Such management fees are calculated on the basis of an hourly rate for time spent by officers of the Company on matters relating to such affiliate. The fees received by the Company for rendering such services are included in the Company's other income.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

8. NOTES PAYABLE TO BANKS

The Company has line of credit arrangements with various banks with an aggregate borrowing capacity of approximately $773, of which $223 is committed. Borrowings under the lines are primarily denominated in US dollars, except for borrowings of $4 and $0 at December 31, 1996 and 1997, respectively, under a DM100 million revolving credit facility and $13 and $22 at December 31, 1996 and 1997, respectively, under a 134 million Canadian dollar facility. The credit facilities provide for borrowings at various interest rates and support letters of credit in addition to providing borrowings to fund local working capital requirements at the Operating Subsidiaries' locations. Weighted average interest rates on the lines ranged from 7.09% to 9.11% in 1996 and 6.23% to 12.54% in 1997.

Certain of the credit facilities contain restrictive covenants that (i) require the Company's subsidiaries to comply with certain financial maintenance tests including the ratio of current assets to current liabilities and the ratio of total liabilities to total capital, (ii) require the maintenance of specified levels of net worth, (iii) prohibit subsidiaries from entering agreements that restrict their ability to pay dividends and (iv) limit the payment of dividends (see Note 9). Certain of the lines of credit are collateralized by current assets and property, plant and equipment with a net carrying value of $196 at December 31, 1997.

9. LONG-TERM DEBT

	December 31, 1996	1997
Unsecured Structured Senior Export Certificates due 2003 (the "1996 Certificates") denominated in US dollars with interest payable quarterly at $10^{1}/_{8}$%. Principal amount of the senior certificates will be payable in quarterly installments commencing on August 31, 1998. The amount of such principal repayment is calculated pursuant to a level debt service schedule. The 1996 Certificates will be 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.	$340	**$300**
Unsecured Senior Notes due March 2001 (the "Senior Notes") denominated in US dollars with interest payable semi-annually at 10 3/8% per annum. The notes are not redeemable prior to March 15, 1999, after which the notes are redeemable at the option of the Company.	188	**175**
Loans payable to a Mexican bank under a credit line agreement denominated in US dollars with annual floating interest rates ranging from 7.0% to 7.8% in 1997. The loans are due in semi-annual installments and with maturities ranging from 1998 to 2000.	113	**190**
Purchase price payable to Thyssen Stahl AG maturing in 2003 denominated in Deutsche Mark with interest payable at the discount rate of the Deutsche Bundesbank plus 2.5% (5.0% at December 31, 1997).	-	**73**
Loan payable to a financial institution guaranteed by the Export-Import Bank of the United States ("Exim Bank") denominated in US dollars. The loan accrues interest at annual floating rates of LIBOR plus 0.30% (6.3% at December 31, 1997), payable semi-annually. Principal is payable in semi-annual installments beginning on April 15, 1998 maturing in 2003.	45	**67**
Loans payable to financial institutions and affiliated companies denominated in US dollars to finance the purchase of equipment secured by the related assets with a net book value of $99 and $61 at December 31, 1996 and 1997 respectively. Principal and interest are due in monthly installments with maturities ranging from 1998 to 2005.	69	**41**
10.4% Senior Notes Payable denominated in US dollars ranking pari passu with other present and future indebtedness of the Canadian Operating Subsidiary. The notes mature in April 2003 with principal and interest repayable in annual installments beginning in April 1999.	50	**50**

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

9. LONG-TERM DEBT continued

	December 31, 1996	1997
10.4% Senior Secured Notes denominated in US dollars to finance the construction of a new DRI plant. The notes mature in November 2008 with principal and interest repayable in semi-annual instalments beginning in November 2002	-	**107**
Loans denominated in US dollars from the International Finance Corporation. The loans are collateralized by property, plant and equipment with a net book value of $514 at December 31, 1997. Principal and interest are due in semi-annual installments beginning December of 1998 with interest accruing at LIBOR plus 3.4%, maturing in 2004 through 2006. The controlling shareholder has guaranteed the loan.	66	**66**
Other	119	**122**
Total long-term debt	990	**1,191**
Less current portion of long-term debt	23	**87**
Total long-term debt	$967	**$1,104**

In June 1997, pursuant to consent solicitations made by the Company, holders of the Senior Notes and the 1996 Certificates consented to waivers and amendments to the respective underlying agreements which permit certain transactions constituting the reorganization described in Notes 1 and 11. In connection with obtaining such consents, the Company executed agreements, dated June 25, 1997, under which the Company's obligations under the Senior Notes and in connection with the 1996 Certificates are guaranteed by Ispat International N.V. The Company also obtained the consent of the Exim Bank and the lender under the loan guaranteed by the Exim Bank to the consummation of the transaction constituting the reorganization.

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

Certain long-term debt and other agreements of the Company and its subsidiaries provide for various covenants that restrict the ability of certain of the Company's subsidiaries to pay dividends, make certain restricted payments, incur additional indebtedness, make certain investments, create liens, guarantee indebtedness, sell or acquire assets, enter into mergers or consolidations and form subsidiaries, as well as require compliance with certain other financial maintenance tests. These financial maintenance tests include certain financial ratios and minimum levels of net worth. Under the most restrictive covenants affecting capital distributions and the ability of the subsidiaries to loan or advance funds to the shareholders, substantially all of the Company's net assets were restricted at December 31, 1997 (see Note 11).

Maturities of long-term debt are as follows:

Years Ending December 31,	
1999	$ 254
2000	200
2001	275
2002	121
Subsequent years	254
Total	$ 1,104

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

10. FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

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

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

	December 31, 1996		**December 31, 1997**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Instruments payable to unrelated parties bearing interest at variable rates	$ 340	$ 340	**$ 448**	**$ 448**
Instruments payable to unrelated parties bearing interest at fixed rates	650	664	**743**	**783**
Long-term debt, including current portion	$ 990	$1,004	**$1,191**	**$1,231**
Notes payable to banks	$ 345	$ 345	**$ 344**	**$ 344**

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

	December 31, 1996		**December 31, 1997**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Forward exchange contracts – contract amounts of $75 and $63 at December 31, 1996 and 1997, respectively	$ -	$ 4	**$ -**	**$ 1**
Coberturas – notional amount of $96 and $ nil at December 31, 1996 and 1997 respectively	6	6	**-**	**-**

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

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

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

The counterparties to forward exchange contracts and *coberturas* 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.

11. SHAREHOLDERS' EQUITY

In July 1997, the then sole shareholder who became the "controlling shareholder" after the Global Offering, completed a reorganization of Ispat International's capital structure in connection with a then proposed public offering. After the reorganization Ispat International N.V., a Netherlands public limited liability company, through various subsidiaries owns the principal Operating Subsidiaries set forth in Note 1. Prior to the reorganization, the controlling shareholder owned, directly or indirectly, the same interest in these companies through other entities. The consolidated financial statements of the Company for each of the periods presented have been restated to reflect the new capital structure.

Effective July 11, 1997, the authorized common shares of the Company consisted of 500,000,000 Class A Shares, with a par value of 0.01 Dutch guilders per share, and 72,150,000 Class B Shares, with a par value of 0.10 Dutch guilders per share.

Effective July 11, 1997, 38,850,000 Class A Shares and 72,150,000 Class B Shares were issued and outstanding.

Effective August 6, 1997, 16,000,000 Class A Shares were issued in a Global Offering. The net proceeds to the Company from the Global Offering are $400, after deducting underwriting discounts and commissions and other expenses of the Global offering (including Dutch capital duty of 1%).

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.

During the year the Company purchased 1,458,960 of its own shares on the opened market for a total consideration of $32. These shares have been acquired since the Company intends to adopt an employee stock option plan. It is presently anticipated that such options will have an exercise price per share equal to the fair market value of a Class A share on the date of grant, will vest over three years and will have a term of five years.

All calculations to determine the amounts available for dividends are based on the Ispat International's Netherlands statutory accounts which is, as a holding company, different from its consolidated accounts. As a result of the reorganization, the statutory accounts of Ispat International include a revaluation surplus which represents non-distributable retained earnings. Accordingly, Ispat International can only pay dividends or distributions to the extent it receives dividends from its subsidiaries, recognizes gain from the sale of its assets or records share premium from the issuance of new common shares.

12. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

The Company's Operating Subsidiaries in Canada, Germany, and Trinidad provide defined benefit pension plans to their employees. Additionally, the Company's subsidiaries in Mexico provide seniority premium benefits, which are mandated by Mexican law, to employees upon dismissal after 15 years of service or to the employee's beneficiary upon death. Net periodic pension cost related to all of the above plans was $7, $6, and $10 for the years ended December 31, 1995, 1996 and 1997, respectively. The related long-term accrued liability of $51 and $58 as of December 31, 1996 and 1997, respectively, is classified in the consolidated balance sheets in retirement benefits and labor obligations. With the exception of the Company's Canadian Operating Subsidiary, other disclosures on an aggregate basis related to defined benefit plans including components of periodic pension cost, funded status of the plans and assumptions are not material and consequently are not presented herein. Disclosures pertaining to the Canadian Operating Subsidiary's defined benefit plans are as follows:

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

12. EMPLOYEE BENEFIT PLANS continued

Components of net periodic pension cost (Canadian Operating Subsidiary)

	Year Ended December 31,		
	1995	1996	**1997**
Service cost	$ 3	$ 3	**$ 4**
Interest cost	15	15	**18**
Return on assets	(11)	(12)	**(14)**
Net amortization	-	-	**-**
Net periodic pension cost	$ 7	$ 6	**$ 8**

Funded status of plans (Canadian Operating Subsidiary)

	December 31,	
	1996	**1997**
Actuarial present value of benefit obligations:		
Vested benefits	$195	**$194**
Non-vested benefits	-	**-**
Accumulated benefit obligation	$195	**$194**
Plan assets at fair value	$175	**$159**
Projected benefit obligation	(204)	**(202)**
Projected benefit obligation in excess of plan assets	(29)	**(43)**
Unrecognized net loss (gain)	(2)	**10**
Unrecognized net transition assets	(3)	**-**
Accrued pension liability	$ (34)	**$ (33)**

Assumption (Canadian Operating Subsidiary)

	Year Ended December 31,		
	1995	1996	**1997**
Discount rates for obligations	9.00%	9.00%	**7.75%**
Assumed rates of compensation increases	4.75%	4.75%	**4.75%**
Expected long-term rate of return on assets	8.25%	8.25%	**7.75%**

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

Post-Retirement Benefits

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

Profit Sharing Plans

The Company's Mexican subsidiaries are required by law to pay to their employees 10% of annual profits as defined in the Mexican labor law. Such profits, in general, are determined based on taxable income adjusted for certain inflationary effects and other items. Employee profit sharing expense (benefit) was approximately $(16), $(4) and $20 for each of the years ended December 31, 1995, 1996 and 1997, respectively, and is classified in various components of operating expenses. In 1997 the Company's Mexican Subsidiary formed a wholy owned subsidiary into which all of the employees have been transferred. The deferred asset created in previous years was no longer required and consequently has been written off in 1997.

The Company's Canadian Operating Subsidiary maintains profit sharing plans for its employees. The amounts payable to employees are based on defined percentages of annual net income of the Canadian Operating Subsidiary, excluding the Operating Subsidiary's affiliated companies, determined under generally accepted accounting principles in Canada. The related profit sharing expense was $7, $6 and $5 for the years ended December 31, 1995, 1996 and 1997, respectively.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

13. INCOME TAX

The provision for income tax is as follows:

	Year Ended December 31, 1995	1996	1997
Current:			
Mexico	$ -	$ -	**$ 3**
Canada	1	1	**1**
Germany	3	(1)	**1**
Trinidad	1	1	**1**
Netherlands	-	-	**2**
Deferred:			
Mexico	(18)	19	**-**
Germany	-	-	**3**
Income tax expense (benefit)	$ (13)	$ 20	**$ 11**

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

		Year Ended December 31, 1995	1996	1997
Taxes at aggregate statutory rates of all jurisdictions:				
	Mexico	$ 151	$ 194	**$ 52**
	Canada	38	37	**32**
	Germany	12	3	**5**
	Trinidad	10	8	**10**
	Netherlands	-	-	**2**
	Ireland	-	-	**(1)**
		$ 211	$ 242	**$ 100**
Increase (decrease) resulting from:				
Tax loss carryforwards	Mexico	(4)	(1)	**(9)**
Tax loss carryforwards	Canada	(27)	(25)	**(29)**
Tax loss carryforwards	Germany	(2)	(2)	**(5)**
Tax loss carryforwards	Ireland	-	-	**(1)**
Manufacturing tax credits	Canada	(6)	(5)	**(7)**
Manufacturing tax credits	Ireland	-	-	**(3)**
Export allowances	Trinidad	(7)	(3)	**(8)**
		$ 165	$ 206	**$ 38**

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

13. INCOME TAX continued

		Year Ended December 31, 1995	1996	1997
Differences between tax and financial accounting for:				
Financing costs	Mexico	60	40	**24**
Depreciation	Mexico	(32)	(23)	**(26)**
Depreciation	Canada	19	20	**25**
Depreciation	Trinidad	(4)	(4)	**-**
Depreciation	Ireland	-	-	**(1)**
Amortization of negative goodwill	Mexico	(120)	(120)	**(2)**
Amortization of negative goodwill	Canada	(17)	(19)	**(16)**
Amortization of negative goodwill	Germany	(6)	(6)	**1**
Amortization of negative goodwill	Ireland	-	-	**4**
Inflationary effects	Mexico	(55)	(44)	**(18)**
Inventories	Mexico	(13)	(17)	**(29)**
Inventories	Germany	-	-	**2**
Inventories	Ireland	-	-	**2**
Reserves	Canada	(7)	(7)	**(4)**
Other	Mexico	(5)	(10)	**11**
Other	Canada	1	-	**-**
Other	Germany	(1)	4	**1**
Other	Trinidad	2	-	**(1)**
Income tax expense (benefit)		$ (13)	$ 20	**$ 11**

At December 31, 1995, deferred tax assets amounted to $16 related to the sale of property and equipment.

The Mexican subsidiaries began filing a consolidated tax return beginning January 1, 1995. Tax losses generated prior to that date may be utilized only to the extent the subsidiary generating such losses has taxable income in the future.

At December 31, 1997, the Company had tax loss carryforwards that may be used to offset future taxable income, as follows:

	Amount	Years of Expiration
Mexico – separate tax years	$ 148	2001-2007
Mexico – consolidated tax years	9	2005-2007
Canada – federal	132	2001
Canada – provincial	99	2001
Germany	62	None
Ireland	162	None

Under the provisions of IAS 12 (Revised), net deferred tax liabilities would have been $515 and $714 at December 31, 1996 and 1997, and deferred income tax expense would have been $102 and $131 for the year ended December 31, 1996 and 1997.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

14. FINANCING COSTS

Financing costs consists of the following:

	Year Ended December 31, 1995	1996	1997
Interest expense	$ (87)	$ (82)	**$(102)**
Interest income	12	34	**40**
Net interest expense	(75)	(48)	**(62)**
Net foreign exchange loss	(239)	(24)	**(18)**
Gain on net monetary position	150	126	**77**
Net gain (loss) from foreign exchange and monetary position	(89)	102	**59**
Total	$ (164)	$ 54	**$ (3)**

Financing costs of $6, $0 and $14 were capitalized to construction in process during 1995, 1996 and 1997, respectively.

15. COMMITMENTS

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

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

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

Year Ending	Amount
1998	$ 2
1999	2
2000	2
2001	2
2002	2
Thereafter	18
Total minimum lease payments	$ 28

The Company, in connection with the acquisition of the Irish Operating Subsidiary, agreed with the Irish government to commit the Operating Subsidiary to invest a minimum of $28 in capital expenditures by May 30, 2002 in the Irish plant. At December 31, 1997, the Company has invested $7 under this commitment. The Company also agreed with the Irish government and is bound under decisions from the Commission of the European Communities to commit the Operating Subsidiary to follow certain restrictions, including limits in investments to increase its capacity of production, limits in the mix and level of production, limits in sales within the European Community and minimum levels of permanent employees. Such restrictions will expire no later than May 30, 2001.

15. COMMITMENTS continued

The Company, in connection with the acquisition of the German Operating Subsidiary, agreed with the City of Hamburg to commit the Operating Subsidiary to invest a minimum of $50 to secure the Operating Subsidiary's ongoing operations and to maintain a specific level of manpower. As of December 31, 1997, the Operating Subsidiary has invested approximately $31 under these commitments. In the event the Company fails to invest the aggregate of $50 by December 31, 1999, it will be obligated to pay interest to a German bank pursuant to contracts related to the acquisition of loans from the bank in connection with acquisition of the German Operating Subsidiary. Such interest would be payable at an annual rate of 4% over FIBOR on a semi-annual basis on the unexpended amount of the commitment commencing January 1, 2000 until paid.

The Company, in connection with the acquisition of the CIL Operating Subsidiary, agreed in pursuant to an agreement with ISCOTT, to offer new CIL's shares representing 40% of CIL's total share capital in a public offering to Trinidad and Tobago nationals and locally controlled Trinidad corporations by June 30, 1998. The Agreement also provides that such offering must be made at a fair price and on such other terms to be negotiated, and in default of agreement, by the Trinidad and Tobago Stock Exchange.

The Company's Operating Subsidiary in Trinidad has established commitments to construct a new direct reduced iron plant and to upgrade production facilities. At December 31, 1997 contracts awarded by the Operating Subsidiary relating to these projects amounted to approximately $154.

The Company's Operating Subsidiary in Duisburg has established commitments relating to approved capital expenditure of Ispat Duisburg Group of Companies amounting to $17.

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

16. CONTINGENCIES

a. In the ordinary course of its business, the Company is party to various legal actions. The Company is not involved in any litigation or arbitration proceedings for which the Company believes it is not adequately insured or indemnified or which, if determined adversely, would have a material adverse effect on the Company or its financial position, results of operations or cash flows, and insofar as the Company is aware, no such proceedings are threatened.

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

c. In 1997, British Steel plc instituted proceedings before the Court of First Instance in Luxembourg challenging the approval by the European Commission of aid of approximately $52 to Irish Steel immediately prior to its acquisition by the Company. Irish Ispat filed a motion to intervene in the proceeding, which may last several years. However, the Company believes that these proceedings, if adversely decided, would not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

d. Antidumping and countervailing duty investigations of steel wire rod imported to the United States ("US") by Canada, Germany and Trinidad, were initiated by the US Commerce Department ("DOC") and the US International Trade Commission ("ITC") in response to petitions filed by US producers of steel wire rod on February 26, 1997.

In late 1997, the ITC ruled that subsidized imports of wire rod from the Company have not injured, nor are threatening to injure, the US wire rod industry. The petitioners initiated an appeal of the ITC's negative injury determination on the countervailing duty case.

On March 9, 1998 the ITC ruled that dumped imports by Canada, Germany and Trinidad were not causing or threatening to cause material injury to the US Steel Wire Rod Industry.

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17. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

	Mexico	Trinidad	US & Canada	Ireland & Germany	Adjustments and eliminations	Consolidated
YEAR ENDED DECEMBER 31, 1995						
Sales to unaffiliated customers	$ 827	$ 165	$ 565	$ 368	$ -	$ 1,925
Transfers between geographic areas	-	71	-	-	(71)	-
Net sales	827	236	565	368	(71)	1,925
Operating income	233	39	66	18	8	364
Total assets at December 31, 1995	2,845	231	638	213	(277)	3,650
Depreciation	37	12	50	11	-	110
Capital expenditures	231	13	43	41	-	328
YEAR ENDED DECEMBER 31, 1996						
Sales to unaffiliated customers	$ 744	$ 166	$ 579	$ 370	$ -	$ 1,859
Transfers between geographic areas	-	43	11	-	(54)	-
Net sales	744	209	590	370	(54)	1,859
Operating income	139	23	51	-	7	220
Total assets at December 31, 1996	3,129	550	725	352	(362)	4,394
Depreciation	45	13	44	14	-	116
Capital expenditures	194	58	18	21	-	291
YEAR ENDED DECEMBER 31, 1997						
Sales to unaffiliated customers	**$ 838**	**$ 206**	**$ 618**	**$ 528**	**-**	**$ 2,190**
Transfers between geographic areas	**13**	**53**	**3**	**2**	**(71)**	**-**
Net sales	**851**	**259**	**621**	**530**	**(71)**	**2,190**
Operating income	**137**	**31**	**48**	**19**	**-**	**235**
Total assets at December 31, 1997	**3,361**	**690**	**657**	**617**	**(83)**	**5,242**
Depreciation	**51**	**20**	**64**	**17**	**-**	**152**
Capital expenditures	**154**	**110**	**27**	**16**	**3**	**310**

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

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

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

17. SEGMENT AND GEOGRAPHIC INFORMATION continued

	Location of Where Sales Were Made						
	US & Canada	Europe	Asia	Latin America	Other	Domestic	Total
1995:							
Mexico	$ 408	$ 103	$145	$ -	$ -	$ 171	$ 827
Trinidad	73	12	5	27	28	20	165
Canada	124	2	-	-	-	439	565
Germany	7	183	38	-	-	140	368
Consolidated	$ 612	$ 300	$188	$ 27	$ 28	$ 770	$1,925
1996:							
Mexico	$ 433	$ 22	$ 103	$ -	$ -	$ 186	$ 744
Trinidad	65	3	4	47	25	22	166
Canada	93	4	-	-	-	482	579
Ireland	-	45	3	-	-	4	52
Germany	5	118	26	1	-	168	318
Consolidated	$ 596	$ 192	$136	$ 48	$ 25	$ 862	$1,859
1997:							
Mexico	$ 424	$ 21	$109	$ -	$ 42	$ 242	$ 838
Trinidad	68	3	-	80	30	25	206
Canada	132	1	-	-	-	485	618
Ireland	-	78	3	1	-	11	93
Germany	15	157	46	1	-	216	435
Consolidated	$ 639	$ 260	$ 158	$ 82	$ 72	$ 979	$2,190

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Company's consolidated financial statements are prepared in accordance with IAS, which varies in certain respects from accounting principles generally accepted in the United States ("US GAAP").

As a result of the incorrect elimination of the full effects of inflation relating to the Company's Mexican operations for purposes of the reconciliation to US GAAP , net income for 1996 ($ 336) and 1995 ($ 189) and shareholder's equity as of December 31, 1996 ($ 328) and 1995 ($ 65) under US GAAP have been restated.

The principal differences between IAS and US GAAP and their effects on net income and shareholder's equity are presented below with an explanation of the adjustments:

	Year Ended December 31,		
	1995 "as restated"	1996 "as restated"	**1997**
Reconciliation of net income			
Net income reported under IAS	$ 620	$ 677	**$ 289**
US GAAP adjustments for:			
Negative goodwill (b)	(350)	(355)	**2**
Inflation accounting (Mexican subsidiaries) (h)	(137)	(144)	**(61)**
Capitalization of financing costs (c)	(23)	-	**-**
Depreciation (a)	-	-	**29**
Gain on sale of property, plant and equipment (d)	-	64	**-**
Rationalization costs and other provisions (e)	(13)	(7)	**(6)**
Deferred employees' profit sharing (f)	(3)	17	**(12)**
Deferred income tax (g)	(11)	(18)	**(5)**
Net income under US GAAP	$ 83	$ 234	**$ 236**
Basic and diluted earnings per common share under US GAAP in US Dollars	$ 0.75	$ 2.11	**$ 2.02**

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES continued

	December 31, 1996 "as restated"	December 31, 1997
Reconciliation of shareholder's equity		
Shareholder's equity reported under IAS	$2,334	**$2,970**
US GAAP adjustments for:		
Revaluation surplus (a)	(383)	**(355)**
Negative goodwill (b)	(1,637)	**(1,641)**
Gain on sale of property, plant and equipment (d)	64	**64**
Translation adjustment (Mexican subsidiaries) (h)	112	**12**
Inflation accounting (Mexican subsidiaries) (h)	(327)	**(332)**
Capitalization of financing costs (c)	(30)	**(30)**
Rationalization costs and other provisions (e)	(27)	**-**
Deferred employees' profit sharing (f)	12	**-**
Deferred income tax (g)	(59)	**(26)**
Shareholder's equity under US GAAP	$ 59	**$ 662**

A summary of changes in shareholder's equity giving effect to the US GAAP adjustments described above is as follows:

	Shareholder's Equity (Deficiency in Assets) "as restated"
Balance at January 1, 1996	$ (133)
Capital distribution	(16)
Net income	234
Translation adjustment	(26)
Balance at December 31, 1996	$ 59
Balance at January 1, 1997	$ 59
Capital contribution	400
Treasury stock	(32)
Net income	236
Translation adjustment	(1)
Balance at December 31, 1997	**$ 662**

a. Revaluation surplus and depreciation of revaluation surplus

Under IAS, revaluations of property, plant and equipment to fair values may be undertaken periodically. As reflected in Note 5, the Company revalued certain property, plant and equipment as of December 31, 1996. US GAAP does not provide for the carrying values of long-lived assets to be increased for fair values. Accordingly, for US GAAP such revaluation surplus has been reversed, and related depreciation has been adjusted.

b. Negative goodwill

Negative goodwill is recognized under an allowed alternative of IAS and is amortized by the straight-line method over periods ranging from two to five years.

For purposes of US GAAP, amounts amortized to income as negative goodwill have been reversed and are being amortized over the average estimated remaining lives of the acquired noncurrent assets. Additionally, under US GAAP the amount reflected in the consolidated balance sheet as negative goodwill, adjusted for accumulated amortization, would be shown as a reduction of property, plant and equipment.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES continued

c. Capitalization of financing costs

Financing costs are subject to capitalization under IAS, including foreign exchange gains and losses arising from foreign currency borrowings.

For US GAAP purposes, foreign exchange gains and losses are not capitalizable. Consequently, for US GAAP reconciliation purposes, foreign exchange gains and losses capitalized as part of financing costs have been reversed and treated as income or expense as appropriate, and the related effects of depreciation on the amounts capitalized have not been reversed as the related assets have not been placed in service.

d. Gain on sale of assets

During 1996, the Company's Mexican Operating Subsidiary sold certain property, plant and equipment which had been originally purchased in 1992. For IAS purposes, a portion of the negative goodwill originally recorded in purchase accounting was related to the assets sold in 1996, however, such negative goodwill had been fully amortized into income by the date of the sale. The resulting gain on sale for purposes of US GAAP recognized in 1996 is therefore equivalent to the aggregate negative goodwill amortized into income ratably on an annual basis between 1992 and 1996. Consequently, there is no difference between shareholder's equity on a US GAAP basis compared to IAS as of December 31, 1996 related to the sale.

e. Rationalization costs and other provisions

For purposes of IAS, the Company has recorded various provisions which for US GAAP purposes may not be recorded until incurred or must be recorded at a specific time, which differs from the time such provisions were recorded in accordance with IAS. The most significant of these differences relates to provisions for rationalization costs recorded by the Canadian Operating Subsidiary in 1994 in connection with purchase accounting for the acquisition of the Canadian Operating Subsidiary. Under US GAAP, a liability for non-contractual involuntary employee termination benefits is not incurred until the terms of the termination are communicated to the affected individual employees. Under IAS, the liability is recorded when the Company makes the termination decision, which was in 1994 at the date of acquisition. Under US GAAP, the liability is recorded when employees are notified of the termination which occurred in 1995. The 1995 earnings under US GAAP have therefore been decreased by $14. Other provisions resulting in differences between IAS and US GAAP affecting 1996 net income and shareholder's equity aggregated $9.

f. Deferred employees' profit sharing

For purposes of US GAAP, the Company calculates a deferred employees' profit sharing liability based on temporary differences between the financial reporting basis and employees' profit sharing basis of assets and liabilities for all of the Company's Mexican subsidiaries which have employees.

Temporary differences and the resulting deferred assets and liabilities at December 31, 1996 and 1997 related to deferred employees' profit sharing for the Company's Mexican Operating Subsidiary are as follows:

	December 31, 1996	1997
Current assets (liabilities):		
Inventories	$ (14)	-
Unrealized foreign exchange losses	23	-
Total current assets	9	-
Noncurrent assets (liabilities):		
Property, plant and equipment	5	
Investment in associated companies	13	-
Total noncurrent assets (liabilities)	18	-
Net deferred employees' profit sharing assets/liability	$ 27	-

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES continued

g. Deferred income tax

Under IAS, the Company provides deferred taxes using the partial liability method, whereas for US GAAP the Company applies Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. Under SFAS No. 109, 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 carryforwards. Deferred tax assets are reduced by any tax benefits that are not expected to be realized.

Temporary differences and the resulting deferred tax assets and liabilities at December 31, 1996 and 1997 are summarized as follows:

		December 31, 1996 "as restated"	December 31, 1997
Current deferred tax liabilities:			
Inventories	Mexico	$ (44)	**$ (67)**
Accrued rental income	Mexico	(3)	**-**
Total current deferred tax liabilities		(47)	**(67)**
Current deferred tax assets:			
Exchange fluctuation coverage receivable (coberturas)	Mexico	4	**-**
Tax loss carryforwards	Canada	23	**22**
Total current deferred tax assets		27	**22**
Net current deferred tax asset (liability)		(20)	**(45)**
Noncurrent deferred tax liabilities:			
Property, plant and equipment	Mexico	(65)	**(85)**
Property, plant and equipment	Germany	(2)	**(2)**
Property, plant and equipment	Trinidad	(2)	**(2)**
Debt issuance costs	Mexico	(4)	**(5)**
Total noncurrent deferred tax liabilities		$ (73)	**$ (94)**
Noncurrent deferred tax assets:			
Tax loss carryforwards	Mexico	$ 65	**$ 67**
Tax loss carryforwards	Canada	48	**16**
Tax loss carryforwards	Germany	42	**62**
Tax loss carryforwards	Ireland	18	**1**
Environmental accrual	Canada	2	**2**
Employee benefit costs	Canada	12	**11**
Employee benefit costs	Germany	2	**1**
Accrued restructuring costs	Canada	7	**2**
Reserves	Canada	4	**-**
Property, plant and equipment	Canada	-	**11**
Investment in affiliates	Mexico	40	**15**
Other	Canada	1	**2**
Other	Germany	2	**-**
Total noncurrent deferred tax assets		243	**190**
Net noncurrent deferred tax asset (liability)		170	**96**
Net deferred tax asset (liability) before valuation allowances		150	**51**
Valuation allowance	Mexico	(107)	**(14)**
Valuation allowance	Canada	-	**-**
Valuation allowance	Germany	(42)	**(63)**
Valuation allowance	Ireland	(18)	**(1)**
Net deferred tax asset (liability)		$ (17)	**$ (27)**

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES continued

h. Restatement and translation of Mexican subsidiaries' financial statements

The Company prepares its financial statements in accordance with IAS. The Company treats the Mexican economy as hyperinflationary effective January 1, 1996. Consequently the financial statements of the Mexican subsidiaries are first restated for all dates and periods presented in accordance with International Accounting Standards No. 29, *Financial Reporting in Hyperinflationary Economies,* as amended, based on the historical cost/constant currency approach. This approach incorporates the effects of inflation in Mexico as described in Note 1. The Company's policy and procedures under IAS for restating and translating the financial statements of its Mexican subsidiaries for IAS differs from the US GAAP requirements of SFAS No. 52, *Foreign Currency Translation.* Under US GAAP, the Mexican economy is not considered to be hyperinflationary until January 1, 1997. Thereafter the Mexican economy, under US GAAP, is considered as a hyperinflationary economy. Accordingly, for purposes of US GAAP, the effects of restating the financial statements of the Company's Mexican subsidiaries pursuant to International Accounting Standard No. 29 have been reversed. The Company has determined the functional currency for US GAAP purposes to be the Mexican peso, and the financial statements are translated into the reporting currency in accordance with SFAS No. 52 using weighted average exchange rates for the applicable year for income and expense items and the exchange rate in effect at the respective balance sheet date for assets and liabilities.

i. Earnings per common share in accordance with International and US GAAP

The Company presents earnings per share information in its IAS financial statements using the weighted average number of shares outstanding as required by IAS 33. Since Ispat has a simple capital structure there is no difference between the method used to calculate earnings per common share for IAS or US GAAP purposes.

SFAS No. 128, *Earnings per Share,* was issued by the US Financial Accounting Standards Board in February 1997 and will be effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier application is not permitted. SFAS No. 128 simplifies the standards for computing earnings per share previously found in Accounting Principles Board Opinion No. 15, *Earnings per Share,* and makes them comparable to international earnings per share standards. The provisions in SFAS No. 128 are substantially the same as those in IAS 33.

For the years ended December 31, 1995, 1996 and 1997 (Millions of US Dollars, unless otherwise indicated)

18. DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES continued

j. Supplemental US GAAP balance sheet information

The Company's consolidated balance sheets at December 31, 1996 "as restated" and 1997 on a US GAAP basis, giving effect to the principal differences between IAS and US GAAP, are presented below:

	December 31, 1996 "as restated"	December 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 279	**$ 790**
Trade accounts receivable	294	**415**
Deferred tax asset	96	**22**
Inventories	389	**536**
Prepaid expenses and other	63	**65**
Total current assets	1,121	**1,828**
Property, Plant and Equipment-net	760	**942**
Investment in Affiliates	27	**36**
Deferred Tax Asset	-	**45**
Other Assets	47	**31**
Total	$ 1,955	**$ 2,882**
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Notes payable to banks and current portion of long-term debt	$ 338	**$ 431**
Trade accounts payable, accrued expenses and other liabilities	325	**477**
9% subordinated note due 2004 payable to shareholder	142	**-**
Deferred tax liability	-	**2**
Total current liabilities	805	**910**
Long-Term Debt	878	**1,104**
Deferred tax liability	113	**92**
Other Long-Term Obligations	100	**114**
Total liabilities	1,896	**2,220**
SHAREHOLDER'S EQUITY:		
Common shares:		
Class A Shares	-	**-**
Class B Shares	4	**4**
Additional Paid-in Capital	190	**558**
Retained Earnings (Deficit)	(201)	**35**
Cumulative Translation Adjustment	66	**65**
Total shareholder's equity	59	**662**
Total	$1,955	**$2,882**

19. SUBSEQUENT EVENTS

On March 16, 1998, the Company and Inland Steel Industries, Inc. signed a binding letter agreement whereby the Company will acquire Inland Steel Company, a wholly owned steel manufacturing subsidiary of Inland Steel Industries, for a total of approximately $1.43 billion. The agreement has been approved by the Board of Directors of both companies. The transaction is subject to a definitive agreement, antitrust clearance, other closing conditions, and the need to give the United Steelworkers of America the opportunity to make an offer to purchase the Inland Steel Company.

As part of the $1.43 billion transaction, the Company will: i) pay $650 million in cash for the common stock of Inland Steel Company; ii) pay $238.2 million for the preferred stock of Inland Steel Company held by Inland Steel Industries; iii) repay the inter-company debt of Inland Steel Company owned to Inland Steel Industries, which at December 31, 1997, was $230.7 million, and iv) assume debt owed to third parties of approximately $307.9 million.

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