Ispat International N.V.

Annual Report 1998

The world's
most global
steel producer

GLOBALIZATION
IS DRIVING GROWTH

ISPAT INTERNATIONAL N.V. is the WORLD'S MOST GLOBAL STEEL PRODUCER, with major steelmaking operations in the US, Mexico, Canada, Trinidad, Germany and Ireland.

The Company is also one of the LARGEST and LOWEST COST producers of QUALITY STEELS in the world.

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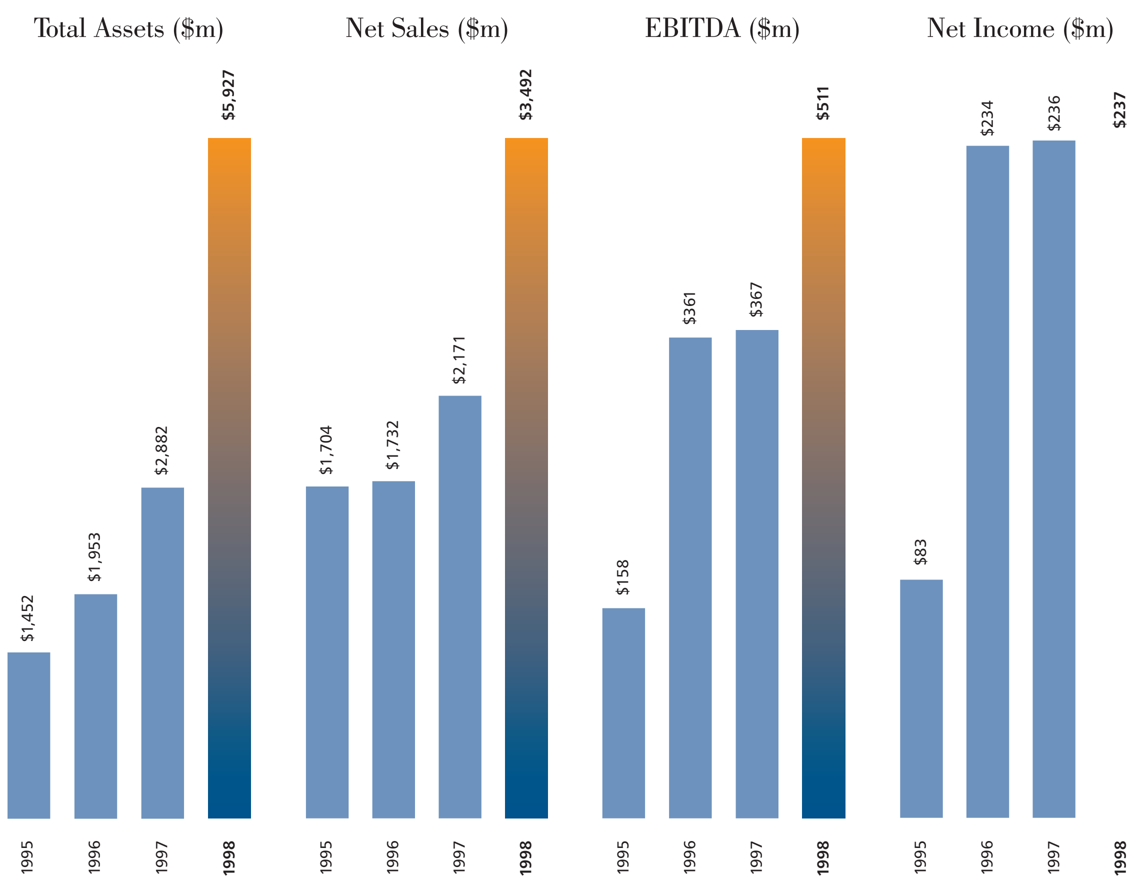
Company Overview

- Ispat International N.V. is the world's fastest growing steel company, with 10.8 million tons of steel shipments to over 55 countries in 1998, as compared to shipments of 1.5 million tons in 1992.
- The Company has grown to become the world's 8th[1] largest steel producer, and is a member of The LNM Group, the world's 4th[1] largest steel producer.
- Ispat International is the world's largest producer of steel using the integrated mini-mill process. It has seven state-of-the-art steel plants, access to high quality, low cost raw materials and on-site, deep water port facilities. We also have an operating philosophy that embraces both integrated mini-mill and blast furnace processes for steelmaking.
- Our balanced flat and long product portfolios include high quality cold rolled, electrogalvanized and coated steels, slabs, special bar quality and wire rods.
- Ispat International N.V.'s shares are quoted on the New York and Amsterdam Stock Exchanges.



1. *Ranking based on "Top Steelmakers of 1998", Metal Bulletin, March 11 1999.*

Letter to Shareholders

1998 has been both a unique and challenging year as global steel prices were adversely affected by the economic downturn experienced in different parts of the world. It was also unfortunate for all shareholders that our successful initial public offering in 1997 was followed by this cyclical downturn, more severe than any previous cycle. Nevertheless, I believe that we have responded quickly to this crisis as we have reduced costs across the Company and have achieved significant progress at Ispat Inland, which has strengthened our business fundamentals.

Satisfactory Performance in a Challenging Market Environment

Our 1998 financial results were satisfactory, given the generally difficult market conditions. We reported a consolidated net income of $237 million or $1.93 a share, compared to $236 million or $2.02 a share in 1997. We have also demonstrated continuous internal growth in our operations in 1998. Excluding the results of Ispat Inland, Ispat International's consolidated shipments for 1998 increased by 16% to 8.4 million tons, net sales increased by 11% to $2.4 billion and EBITDA increased by 11% to $407 million.

Including the results of Ispat Inland since July 1998, the Company's shipments, net sales and EBITDA increased by 49%, 61% and 39% over 1997, translating into total shipments of 10.8 million tons, net sales of $3.5 billion and EBITDA of $511 million.

In spite of the extremely competitive business environment, 1998 was a year in which Ispat International endeavored to deliver value to its customers and shareholders. We were successful in mitigating the impact of the low price environment on our bottom line by aggressively reducing our cost of production. At Ispat Mexicana and at Ispat Sidbec, cost reductions achieved in 1998 over 1997 totaled $75 million and $20 million respectively.

As at December 31st, 1998 Ispat International's consolidated cash, cash equivalents and short-term liquid investments totaled $525 million. We also had lines of credit and bank credit arrangements for working capital totaling $1.3 billion, against which $0.7 billion was utilized as at December 31, 1998.

We have reported both 1998 and historical comparative results in US GAAP for the first time. We see this as an important step in enabling you to evaluate and build a better understanding of our Company.

Solid progress at Ispat Inland

Ispat International completed its purchase of Inland Steel Company, the sixth largest steel producer in the US, on July 17th, 1998 for $1.4 billion. Shortly after this, the international markets were severely hit by the Asian and Russian financial crises and the ensuing level of unfairly traded steel imports into the US began to rise rapidly. Many believed that this acquisition was a miscalculated formula in Ispat International's strategy for growth. But by the end of 1998, Ispat Inland Inc., as it was renamed, had achieved significant progress, and had contributed a solid second-half performance to the Company's 1998 results.

Our strategy has been to transfer our low cost philosophy and our integrated mini-mill culture to Ispat Inland, which has among the highest quality integrated steelmaking facilities in the world.

Since the acquisition we have concentrated on maximizing synergy, improving operating efficiencies and reducing costs at Ispat Inland. Consequently, from the pre-acquisition operating profit level of $22 per ton in the first half of 1998, Ispat Inland recorded continuous growth in operating profit to $33 per ton in the third quarter and $37 per ton in the fourth quarter of 1998. Ispat Inland's total reduction in operating cost in the five and a half months since acquisition was $114 million on an annualized basis. In 1999, we will continue to accelerate our cost reduction and operational excellence programs at Ispat Inland.

Capital Investments

Ispat International made capital expenditures of $359 million in 1998. During this period, we enhanced Ispat Mexicana's slab manufacturing capacity to 3.8 million tons by making modifications to the electric arc furnaces of the plant. Ispat Mexicana will utilize this additional capacity during 1999 to ramp up its production of slabs. At Caribbean Ispat construction of the new DRI Midrex Megamod™ continued, and is expected to start production during the third quarter of 1999. The other capital expenditure projects in 1998 included the modernization of the billet rolling mill, the completion of the new six-strand billet caster at Ispat Stahlwerk Ruhrort in Germany, and cleaning lines at the cold rolling mill at Ispat Sidbec in Canada. We expect to realize the benefits of these investments in 1999.

During 1998, our performance benefited from the earlier completion of several capital investment projects, which focused on achieving capacity expansion, cost reduction and productivity improvements. Caribbean Ispat benefited from the DRI, meltshop and rolling mill upgrade. Ispat Mexicana benefited from a captive supply of iron ore pellets from its new 3.5 million tonne pelletizer plant, and increased DRI production from its new 1.2 million tonne DRI Midrex Megamod™ plant. Steel slab production at Ispat Mexicana increased by 0.3 million tons to 3.3 million tons in 1998.

Our 1999 capital expenditure is estimated to be approximately $180 million. We have not planned any major investment for the year and the total capital expenditure is primarily limited to maintenance projects. Included in these 1999 plans are the completion of the DRI Midrex plant at Caribbean Ispat, the continuous caster conversion to straight mold at Ispat Inland and the modification of the slab caster at Ispat Sidbec.

Exclusivity Agreement to Acquire Unimétal and Related Subsidiaries

On March 2nd, 1999, Ispat International signed a Memorandum of Understanding with Usinor covering exclusivity in respect of the contemplated acquisition of Unimétal, Tréfileurope and SMR (Société Métallurgique de Revigny) and their related subsidiaries. Together, these companies had total revenues of approximately FFr4.4 billion ($735 million or €675 million) in 1998, generated from shipments of 1.5 million tons of long products.

This acquisition would give us further opportunities for consolidating our long products business, and for achieving market leadership in the high-quality wire rods segment in Europe. We intend to close this transaction by mid-1999, subject to the completion of final due diligence and certain other regulatory approvals, and we expect the acquisition to be accretive in the first full year of operation.

Management

Several key appointments were announced during the year. Dr. Johannes Sittard was named President and Chief Operating Officer of Ispat International N.V. Following the acquisition of Ispat Inland, we announced the appointment of Robert J. Darnall as President and Chief Executive Officer of Ispat North America Inc., the new center for co-ordinating Ispat International's North American operations including Ispat Inland, Ispat Mexicana, Ispat Sidbec and Caribbean Ispat.

Letter to Shareholders

Continued

Suresh Kumar Dutta was promoted to Managing Director of Caribbean Ispat, succeeding Ram S. Misra who became Vice-Chairman. Dr. Herbert Spreckelmeyer was appointed Managing Director of our Duisburg operations in Germany, comprising Ispat Stahlwerk Ruhrort GmbH and Ispat Walzdraht Hochfeld GmbH.

Continuous Improvement

We are committed as part of our long term corporate strategy to achieving market leadership through innovation and expertise in technical, quality and cost performance on a continuous improvement basis. Our advanced R&D facilities at Ispat Inland have among the best resources and expertise in the world steel industry, needed for continuous product development initiatives and for strengthening our partnerships with our customers. Our strong operating and management team is committed to the common goal for continuous improvement.

Outlook

We expect the demand for our products to remain relatively stable in 1999. In order to maximise our internal growth, we will continue to enhance our low cost position and our operating efficiencies, as well as improve our working capital ratios. We expect to realize additional cost savings in the areas of raw materials management, volume increases, rationalization of manpower and improved operating and maintenance practices through our Company-wide Knowledge Integration Program.

The underlying performance of Ispat International in 1998 demonstrates that the organization possesses a number of vital strengths that have enabled us to deliver superior performance compared to our competitors. We have clearly demonstrated that we


July 17, 1998. Top right: Robert J. Darnall, Dale Wiersbe and Dr. Johannes Sittard. Top left and bottom: Robert J. Darnall and Lakshmi N. Mittal.

can react dynamically to changing market conditions, and obtain growth in shipments in an intensely competitive global environment.

With the successful integration of Ispat Inland, we have once more demonstrated our track record for improving the performance of acquired businesses in a record time frame. Our contemplated acquisition of Unimétal and its related subsidiaries is in line with our strategy of growth through participating in the global consolidation process, and through maximising our synergies and strengths on a Company-wide basis to increase shareholder value.

We have continued to enjoy good relationships with our steelworkers' unions. Our biggest asset is our people, who have worked hard throughout the year to make Ispat International a more successful company. I wish to thank all our employees for their hard efforts and dedication to the Company. I know we will all continue to strive towards making Ispat International the most successful steel producer in the world.

Lakshmi N. Mittal
Chairman & CEO

Business Review

GROWTH THROUGH CONTINUOUS IMPROVEMENT

Business Review

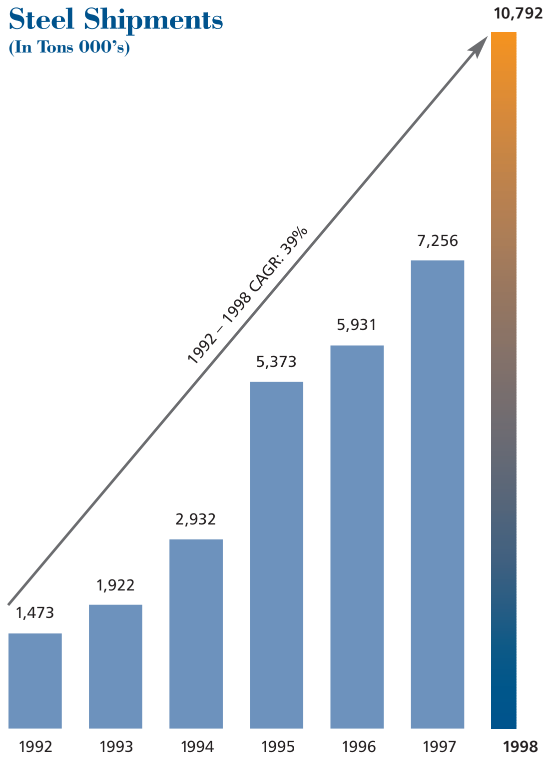
Internal Growth

Ispat International's position as the world's fastest growing steel manufacturer has been achieved by a combined strategy of organic growth and the acquisition of steelmaking facilities whose performance can be significantly improved. The Company has a proven record in turning around under-performing steelmaking assets in different countries, using our own resources and expertise, assisted by the Company's proven Knowledge Integration Program. This strategy is shaped by a determination to expand Ispat International's ability to operate globally and cost-effectively, and to provide customers in key markets with a comprehensive range of high quality steel supply solutions.

Over the years, as we have acquired new steelmaking facilities, we have developed a balanced flat and long product portfolio for meeting multiple demands from customers around the world. We have demonstrated continuous internal growth by raising operating efficiencies, reducing cost and benefiting from new investment in capacity.

The Company has achieved significant growth in shipments of steel products from 1.5 million tons in 1992 to 10.8 million tons in 1998, making us the fastest growing steel producer in the world.

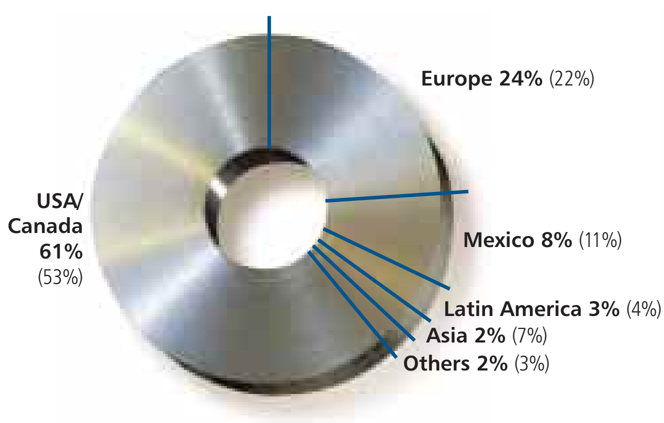
Steel Shipments
(In Tons 000's)



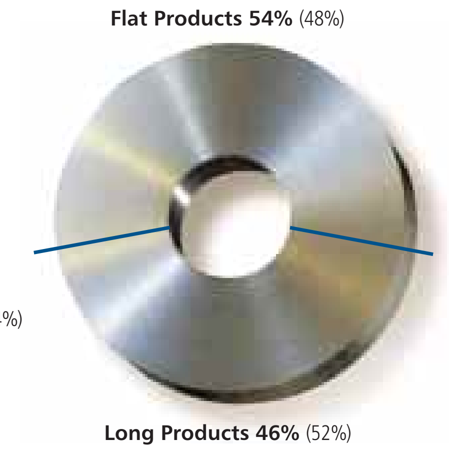
Ispat International has achieved a CAGR of 39% over 1992 to 1998.

Excluding the results of Ispat Inland, acquired in July 1998, consolidated shipments for 1998 increased by 16% to 8.4 million tons, net sales increased by 11% to $2.4 billion and EBITDA increased by 11% to $407 million.

Sales by Geographic Region



Sales by Product



1998: $3.5 billion (1997: $2.2 billion)

Flat products include slab, cold rolled, electrogalvanized and coated steels and other flat products. Long products include bars, billets, blooms structural steels, wire rods and wire products and pipe.

Our STRATEGY is to transfer our LOW COST PHILOSOPHY and our INTEGRATED MINI-MILL CULTURE to Ispat Inland, which has among the highest quality INTEGRATED STEELMAKING FACILITIES in the world.

Business Review

Continued

Ispat Germany's new billet caster was commissioned in May 1998.

Integrated Mini-Mill Philosophy Ispat International employs a variety of steelmaking processes. We are the largest producer of steel using the integrated mini-mill process, employing the Direct Reduced Iron-Electric Arc Furnace-Continuous Cast Process of steelmaking.

Our capacity for producing steel using internally-produced DRI, of which we are the world's largest producer and consumer, enhances our low cost structure while reducing our dependence on externally sourced raw materials.

Ispat Inland's integrated facilities are among the best in the world, and give us the capability to produce the highest quality carbon steel products via the blast furnace-basic oxygen furnace processes.

All our operations have an exceptionally high degree of control over the supply chain, both upstream and downstream. For example, Ispat Inland owns Minorca Mines and has joint venture interests in the Empire Mines in the US. Ispat Mexicana has joint-venture interests in Péna Colorada mines and pelletizing facilities, and commissioned its own pelletizer plant in 1997.

In 1998, we were also able to take advantage of significantly reduced high quality scrap prices, owing to our operational flexibility that permits the adjustment of DRI-scrap ratios at our operations in Canada and Germany, while still benefiting from our low cost DRI advantage in Mexico and Trinidad.

Low Cost Philosophy Ispat International's low cost philosophy at its existing steelmaking operations plays a very important role, particularly as the steel industry experiences shorter cycles. In this regard, we are proceeding from a sound base, as we enhance our position as one of the world's lowest cost steel producers.

As the Company grows further, we generate new opportunities to identify and exploit commercial synergies between operations, such as the supply of metallics for steelmaking and steel for downstream production. As a global steel producer with 1998 steel shipments totaling 10.8 million tons and 1999 shipments estimated to grow significantly to over 14 million tons, we also enjoy significant financial benefit from economies of scale in production and global purchasing synergies.

We also derive benefit from our expertise and insight into the complex market of freight forwarding. Our in-house team of shipping experts manages the entire Company's freight requirements, which in 1998 totaled 17 million tonnes of raw materials and finished goods. The Company also owns a fleet of five modern Panamex vessels and three US-flag Lakers.

Our philosophy of managing our company with independent profit centres, together with our lean organizational structure, has enabled us to create an entrepreneurial culture, readily responsive to the evolving requirements of customers anywhere in the world. We are dedicated to managing our steelmaking assets effectively. Indeed, this is essential if we are to strengthen our reputation as the world's leading global steel manufacturer.

Continued Capital Investment Many of our operations are former state-owned facilities with excellent infrastructure, which benefit from being situated in a low cost environment. Consequently, we are able to implement capacity enhancements at such facilities for relatively low levels of investment.

In 1998, Ispat International invested a total of $359 million in capital expenditure programs. During 1998, our operations also took advantage of several capital investment projects completed in 1997, aimed at increasing production and operating efficiency.

Caribbean Ispat benefited from the DRI plant, melt shop and rolling mill capacity enhancements. Ispat Mexicana exploited the benefits of a captive supply of iron ore pellets from its new 3.5 million tonne pelletizer plant. Ispat Mexicana also ramped up its DRI production to over 3.5 million tonne and increased its slab capacity to 3.8 million tons as a result of modifications made to the plant's electric arc furnaces. This additional capacity will be utilized during 1999 to increase Ispat Mexicana's production and shipment of slabs.

The Company owns a fleet of five modern Panamex vessels and three US-flag Lakers.

Other capital expenditure projects implemented in 1998 included the installation of cleaning lines at Ispat Sidbec's cold rolling mill, the modernization of the billet rolling mill and the installation of the new billet caster at Ispat Stahlwerk Ruhrort. The benefits of these projects are expected to be realized in 1999.

External Growth

With the growing pace of consolidation in the steel industry, coupled with the more competitive environment, we have placed greater emphasis on selecting the right acquisition targets. We have increased our internal hurdle rates and tightened our benchmarks for evaluating external opportunities

Integrated mini-mill facilities at Ispat Mexicana. Ispat Mexicana increased its slab manufacturing capacity to 3.8 million tons in 1998.

Business Review
Continued

for growth. It is important that any acquisition target has significant potential for the achieving operating and marketing synergies and improvements in technology and management practices.

The 1998 acquisition of Inland Steel gave us a substantial presence in the US, the world's most demanding steel market. It has already helped us to expand the production of high value-added finished flat steel products. Ispat Inland's integration with the rest of the Company will also help, in time, to expand its own markets and compete successfully in a global environment.

Unimétal, Tréfileurope and SMR

On March 2nd, 1999, Ispat International signed a Memorandum of Understanding covering exclusivity with Usinor, to acquire Unimétal, Tréfileurope and SMR, and their related subsidiaries. The transaction is intended to close by mid-1999, subject to the completion by Ispat International of final due diligence and certain other regulatory approvals.

The contemplated acquisition of these companies would increase Ispat International's long products business in Europe to over 4 million tons.

Ispat International is one of the world's leading producers of high quality wire rods.

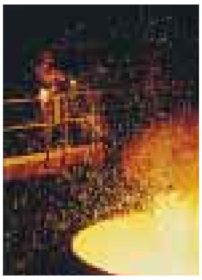
Together, Unimétal, Tréfileurope and SMR's operations in France, Luxembourg, Belgium and Italy manufacture and supply world-wide approximately 1.5 million tons of blooms, billets, bright bar, bar in coil, wire rods and wire products for the high quality long product market. The total revenues of Unimétal, Tréfileurope and SMR was approximately FFr4.4 billion ($735 million or €675 million) in 1998.

I/N Tek is a 60-40 joint venture between Ispat Inland and Nippon Steel Corporation of Japan that operates the world's most advanced cold-rolling line for flat-rolled steel. I/N Kote is a 50-50 Ispat Inland-Nippon Steel joint venture that operates electro-galvanizing and hot-dip galvanizing lines. Both are in New Carlisle, Indiana, about 60 miles from Ispat Inland's main location at Indiana Harbor.

ISPAT INLAND INC.

MAXIMIZING ASSET VALUE

Ispat Inland Inc.



Acquisition of Ispat Inland

The purchase of Ispat Inland in the US on July 17th, 1998, for US$1.4 billion – one of the largest company takeovers in the global steel industry last year, has significantly improved our broad geographic spread and product mix. This was a major step for Ispat International, because it also extended our direct access to the world's largest and most sophisticated steel market, where Ispat Inland is the fifth largest integrated steelmaker and a major player in the automotive and appliance sectors. With this acquisition we have gained 6 million tons of new capacity in flat rolled and

Integrated steelmaking facilities at Ispat Inland's Indiana Harbor Works.

special bar quality production. As part of the acquisition, we also acquired partnership interests in two joint ventures with Nippon Steel – I/N Tek and I/N Kote – which have world-class cold rolled and galvanizing lines for manufacturing the highest quality flat rolled and coated steels.

Strong Customer Base

Helped by the robust demand from the automotive sector and a strong customer base that includes all automotive manufacturers, as well as the largest manufacturers of appliances, electric motors and office furniture, Ispat Inland's production lines continued to run full for 1998. To the extent that most of its business was generated under long-term customer contracts, the company's order book was insulated from the fall in spot-market pricing.

Cost Savings

As a result of an aggressive cost reduction program initiated at the time of the acquisition, Ispat Inland achieved $114 million in annualized cost savings in 1998. These savings were primarily due to a reduction in the salaried workforce, global purchasing synergies, improved maintenance practices and other operating improvements.

Operational and Market Excellence

Since its acquisition, Ispat Inland has achieved significant improvement in performance over its pre-acquisition period, in spite of the difficult market conditions experienced in the latter part of the year caused by the high level of imported steel into the US. The company increased its operating profit in each succeeding quarter of 1998 after its acquisition, recording an operating profit per ton of $37 in the fourth quarter, and $33 per ton in the third quarter, as compared to $22 per ton in the pre-acquisition period in the first half of 1998.

Improvements were made in almost all areas including capacity utilization, environmental compliance, safety, production volumes, as well as prime yield throughput. Important synergies were realized with Ispat International's other operations. For example, Ispat Mexicana began to supply high quality slabs to Ispat Inland for the manufacture of hot rolled, cold rolled and coated steels for the quality conscious automotive and appliance sectors.

No. 7 Blast Furnace control room at Ispat Inland.

High strength steels manufactured by Ispat Inland are used in manufacturing external body parts by leading automotive companies.

Quality

During 1998, Ispat Inland focused on enhancing its high quality value-added product range and services for customers. This strong emphasis on the achievement of customer satisfaction enabled the company to exceed the stringent quality targets demanded by customers who are crucial to its growth plans, such as Ford, Honda, Toyota, Whirlpool and Maytag.

Yield

Ispat Inland held on to the significant gains made over the last several years. Its 1998 conversion of raw steel to prime yield was 84.5% compared to 83.04% in 1997. The company continues to work on incremental improvements in yield, largely through higher levels of first-time-through prime. In addition, higher levels of both yield and quality are expected after a capital-improvement project expected to be completed in 1999, when the curved mold in No. 1 Slab Caster at No. 4 Basic Oxygen Furnace is replaced with a straight mold.

Throughput

During the year, when many steelmakers cut production, Ispat Inland set numerous annual production records at many of its facilities:

- Annual production record of 3,479,199 tons of liquid iron at No.7 Blast Furnace
- No. 2 Basic Oxygen Furnace cast 1,903,528 tons of slabs and 456,276 tons of blooms
- No. 4 Basic Oxygen Furnace, the larger steel shop, cast 2,836,700 tons of slabs. They achieved a world refractory lining record of 32,234 heats in No. 5 Furnace and 29,336 heats in No. 6 Furnace by the end of the year and continuing in 1999, without incurring the cost and lost production of a reline
- The 80" Hot Strip Mill rolled 4,772,273 tons of hot band
- The 12" Bar Mill produced 624,906 tons of bars
- Numerous annual records at Ispat Inland's cold rolling and galvanizing facilities

Safety

Ispat Inland had the safest year in its history in 1998. It worked jointly with United Steelworkers Local 1010 towards its goal of becoming the safest integrated steelmaker in the United States. It ended the year with a total injury rate of 5.2 per 200,000 labor hours.

Global Customer Service

Ispat International is among the acknowledged leaders in the consolidation process in the global steel industry, which in the past has tended to focus on national markets. As merger and acquisition activity increases among large-scale steel buyers, we are also seeing the rapid development of 'global industry sectors' begin to exert an influence on the structure of the world steel industry. As these sectors consolidate and extend their own operations into new markets, they are looking for global suppliers who have the appropriate quality and cost structures to follow them into new markets, to meet their enhanced expectations.

Ispat International's own growth is targeted at creating a global concern that is aligned with the needs of customers operating on a regional or global scale. Our acquisition of Ispat Inland has given us a central role in the US steel market, and significantly strengthened the quality of our production capabilities and knowledge base, as well as broadened our product mix and global market reach. We are now consolidating Ispat Inland's R & D expertise as a center of excellence to serve all the Company's subsidiaries and their customers.

Ispat Inland's advanced R&D facilities have among the best resources and expertise in the world steel industry.

Our enhanced ability to offer a broad range of value-added products is allowing us to position ourselves as a single source of supply for global buyers. Ispat International's global teams of technical, commercial and logistic experts understand the competitive dynamics of the international market place because, unlike many of our competitors, we operate in the global context. We think globally and act locally in a manner that allows us to provide similar levels of high quality, consistent and competitive services around the world. Our long-term relationships with customers are based on a shared mindset, mutual interests and the continuous generation of synergy and economies of scale.

By working closely with customers to grow our understanding of their needs, we can generate additional value through innovative solutions that exploit the diversity of knowledge and skills within Ispat International. Our determination to extend our reputation as an innovative manufacturer of high value-added steel products is matched by recognition that, as a global concern, we must operate to world-class standards. All of our steelmaking operations are already certified to ISO standards, while some have achieved higher degrees of quality accreditation. The practice of continuously improving independently verified standards to meet specific targets is ongoing throughout the Company.

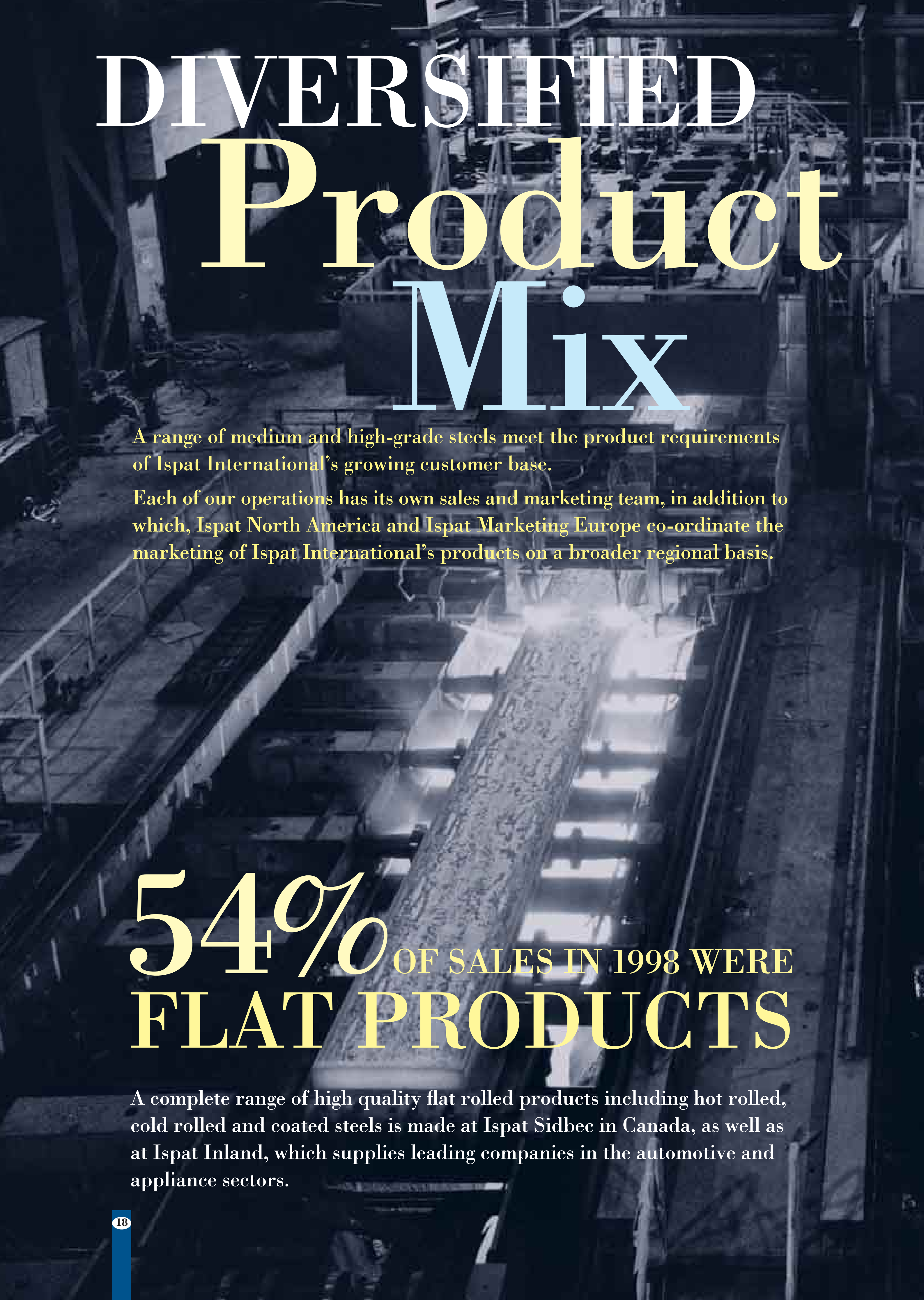
MAJOR GLOBAL STEELMAKING OPERATIONS

MEETING

ENHANCED CUSTOMER EXPECTATIONS IN OVER 55 COUNTRIES

THROUGH QUALITY, COST EFFICIENCY AND FLEXIBILITY

ARGENTINA • AUSTRIA • BARBADOS • BELGIUM • BOLIVIA • BRAZIL • CANADA • CHILE • CHINA • COLUMBIA • COSTA RICA • CROATIA • CZECH REPUBLIC • DENMARK • DOMINICAN REPUBLIC • EGYPT • ECUADOR • FRANCE • FINLAND • GERMANY • GREECE • GUATEMALA • HOLLAND • HONDURAS • HUNGARY • INDIA • IRELAND • ITALY • JAMAICA • LEBANON • LUXEMBOURG • MALAYSIA • MARTINIQUE • MEXICO • MOROCCO • NICARAGUA • NORWAY • PERU • POLAND • PORTUGAL • PUERTO RICO • ROMANIA • RUSSIA • SLOVAKIA • SLOVENIA • SOUTH AFRICA • SPAIN • SWEDEN • SWITZERLAND • TAIWAN • THAILAND • TRINIDAD • TURKEY • UK • USA • VENEZUELA



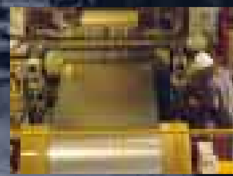
DIVERSIFIED Product Mix

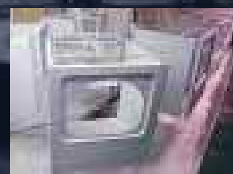
A range of medium and high-grade steels meet the product requirements of Ispat International's growing customer base.

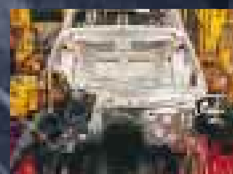
Each of our operations has its own sales and marketing team, in addition to which, Ispat North America and Ispat Marketing Europe co-ordinate the marketing of Ispat International's products on a broader regional basis.

54% OF SALES IN 1998 WERE FLAT PRODUCTS

A complete range of high quality flat rolled products including hot rolled, cold rolled and coated steels is made at Ispat Sidbec in Canada, as well as at Ispat Inland, which supplies leading companies in the automotive and appliance sectors.

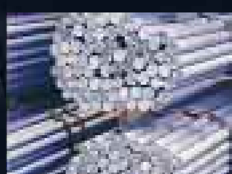






Ispat Mexicana produces high quality continuously cast slabs using vacuum degassing. Primary applications include the rolling of slab into deep drawing sheet for exposed and unexposed automotive and appliance applications, as well as plate for welded tube for sour gas applications.

46% OF SALES IN 1998 WERE LONG PRODUCTS



Ispat International is one of the world's leading producers of high quality wire rods. Wire products, special bar quality (SBQ), bars, pipes and structurals and medium sections are also produced for a wide range of applications.

BUILDING A GLOBAL ENTERPRIZE

The future value of Ispat International lies in its people and how their knowledge and experience is deployed in the interests of the Company, its customers and its shareholders. To ensure that this value is realized, the frontline workforce at each operating subsidiary consists of teams of highly experienced metallurgists, engineers, researchers and managers.

Each acquisition brings with it a new pool of experience, which is integrated with the rest of Ispat International's expertise through the Company's Knowledge Integration Program and overall goals. Following the acquisition of Ispat Inland, Ispat International's total number of employees has increased to over 15,000 employees from over 7,000 employees. With this increased knowledge base, we are able to further improve our performance in all areas, such as global purchasing synergy, transportation, logistics, maintenance and operating practices, as well as finance, marketing and management to various degrees.

Ispat International encourages an entrepreneurial culture, based on autonomy and accountability, that gives all employees the freedom to grasp the challenges and to execute the opportunities of the local and global marketplaces.

Bonus-related incentives exist for all employees at each of our operations. Each scheme is independently designed and implemented by each company, and is linked to productivity performance. Ispat International also has incentives and rewards for the performance of senior management in relation to corporate performance and the Company's goals.

Ispat International's aim is to encourage real collaboration between our operations for the development of a true global enterprise. Superior financial performance, high levels of customer satisfaction, an experienced and motivated workforce and transnational teamwork, all significantly increase our ability to generate shareholder and customer value.

Directors and Advisors

BOARD OF DIRECTORS

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

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

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

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

Ram Shanker Misra,
Member of the Board

Usha Mittal,
Member of the Board

Malay Mukherjee,
Member of the Board

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

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

Ambassador Andrés Rozental,
Member of the Board

Fernando Ruíz Sahagon,
Member of the Board

Narayanan Vaghul,
Member of the Board

AUDITORS

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

LEGAL ADVISORS

De Brauw Blackstone Westbroek
Advocaten & Notarissen
Coolse Poort' – 10th Floor
Coolsingel 139
P.O. Box 2066
3000 CB Rotterdam
The Netherlands

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

SUMMARY FINANCIAL INFORMATION

(Millions of US Dollars, except per share data)

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

	Year Ended December 31,				
	1994	1995	1996	1997	**1998**
Statement of Income Data					
Net sales	$ 784	$ 1,704	$ 1,732	$ 2,171	**$ 3,492**
Cost of sales (exclusive of depreciation)	580	1,236	1,363	1,697	**2,845**
Gross profit (before deducting depreciation)	204	468	369	474	**647**
Gross margin	26.0%	27.5%	21.3%	21.8%	**18.5%**
Depreciation	16	46	49	50	**91**
Selling, general and administrative expenses	50	85	52	80	**129**
Other non-cash items	-	-	-	20	**21**
Operating income	138	337	268	324	**406**
Operating margin	17.6%	19.8%	15.5%	14.9%	**11.6%**
Other income (expense) – net	7	(2)	66	1	**(2)**
Financing costs:					
Net interest expenses	(34)	(29)	(41)	(55)	**(132)**
Net gain (loss) from foreign exchange	(198)	(223)	(22)	(8)	**16**
Income (loss) before taxes	(87)	83	271	262	**288**
Net income (loss)	(81)	83	234	236	**237**
Basic and diluted earnings per common share	(0.73)	0.75	2.11	2.02	**1.93**
Cash dividends per common share[1]					**$ 0.15**

	As at December 31,				
	1994	1995	1996	1997	**1998**
Balance Sheet Data					
Cash and cash equivalents, including short-term investments	$ 41	$ 63	$ 279	$ 804	**$ 525**
Property, plant and equipment – net	485	606	759	942	**3,205**
Total assets	1,025	1,452	1,953	2,882	**5,927**
Payable to banks and current portion of long-term debt	255	299	338	436	**549**
Long-term debt	422	555	877	1,104	**2,400**
Shareholders' equity	(226)	(133)	59	662	**801**
Other Data					
Net cash provided by operating activities			82	(95)	**253**
Net cash provided by financing activities			224	531	**987**
Net cash used in investing activities			(93)	(296)	**(1,474)**
EBITDA[2]	$ (37)	$ 158	$ 361	$ 367	**$ 511**
Adjusted EBITDA[3]	(37)	158	361	387	**532**
Total production of DRI (thousand of tonnes)	3,042	4,557	5,030	5,765	**6,292**
Total production of liquid steel (thousand of tons)	3,209	5,800	6,404	7,775	**11,637**
Total shipments of steel products (thousand of tons)	2,932	5,373	5,931	7,256	**10,792**

1. *Cash dividends are presented on cash basis.*
2. *EBITDA is defined as net income plus income tax expense, net interest expenses, depreciation and amortization.*
3. *Adjusted EBITDA is defined as EBITDA excluding the impact of other non-cash items.*

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

For the years ended December 31, 1997 and 1998 (Millions of US Dollars, unless otherwise indicated)

Overview

Ispat International N.V., incorporated on May 27th, 1997 under the laws of The Netherlands, is a holding company with no business operations of its own. The Company's major assets are its 100% indirect equity interests in the following Operating Subsidiaries: (i) Ispat Inland, United States; (ii) Ispat Mexicana (Imexsa), Mexico; (iii) Ispat Sidbec (Canada); (iv) Caribbean Ispat Limited (CIL), Trinidad; (v) Ispat Germany, comprising Ispat Hamburger Stahlwerke (IHSW) and Ispat Stahlwerk Ruhrort/Ispat Walzdraht Hochfeld (ISRG/IWHG), Germany; and (vi) Irish Ispat, Ireland.

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

Discussed below are specific factors that contributed to the improvement in the Company's operating and financial performance during 1998.

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

Internal Growth: The Company also demonstrated continuous internal growth in its operations in 1998. Excluding the results of Ispat Inland, which was acquired in July 1998, the Company's consolidated shipments increased by 16% to 8.4 million tons, net sales increased by 11% to $2,400 and adjusted EBITDA increased by 11% to $407 in 1998, as compared to 1997.

In addition to the foregoing, the Company's operating and financial performance in 1998 was significantly impacted by a severe downturn in the global steel markets and consequently, generally reduced price realization across all operating subsidiaries. However, the Company continued to pursue its strategy of increasing shipments and further improving product-mix and most importantly reducing costs across the Company to mitigate, in part, the impact of the adverse pricing environment.

In 1998, the Company reduced costs at most of its operating subsidiaries. For example, at Ispat Inland, cost reductions realized since its acquisition in July 1998, totaled $114 on an annualized basis. At Ispat Mexicana and at Ispat Sidbec, cost reductions achieved in 1998 over 1997 totaled $75 and $20 respectively.

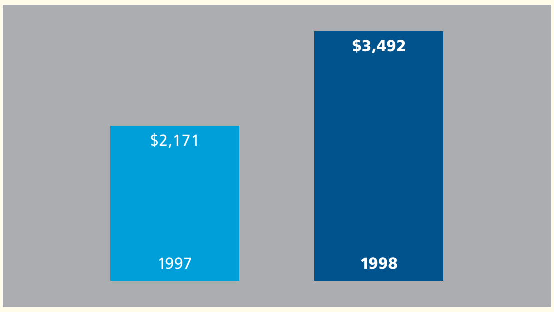
On March 2nd, 1999, the Company signed a Memorandum of Understanding with Usinor covering exclusivity to acquire of Unimétal, Tréfileurope and SMR and their related subsidiaries. Together, these companies had total revenues of approximately FFr4,400 ($735 or €675) in 1998, generated from shipments of 1.5 million tons of long products.

The Company believes that this acquisition, if completed, will give us further opportunities for consolidating our long products business, and for achieving market leadership in the high-quality wire rods segment in Europe. The closure of this transaction is subject to final due diligence and certain other regulatory approvals.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net Sales: Net sales increased by approximately 61% to $3,492 from $2,171 in 1997, primarily due to inclusion of the results of Ispat Inland from the date of its acquisition on July 17th 1998 and the full-year's inclusion of ISRG/IWHG in Germany, which was acquired on October 1st 1997. This was offset partly by generally lower average realized selling prices in 1998, as compared to 1997.

NET SALES



At Imexsa, net sales increased to $783 from $772 primarily due to increase in line pipe sales. Slab sales at Imexsa decreased primarily due to reduction in average selling price of slabs by approximately 10% offset by an increase in slab shipment by 8%. At CIL, net sales decreased by 11% to $226 from $253 in 1997, owning to a reduction in average realized selling prices of steel products by 5% and reduction in DRI sales by 43%. At Ispat Sidbec, net sales decreased by 8% to $569 from $618, mainly caused by a reduction

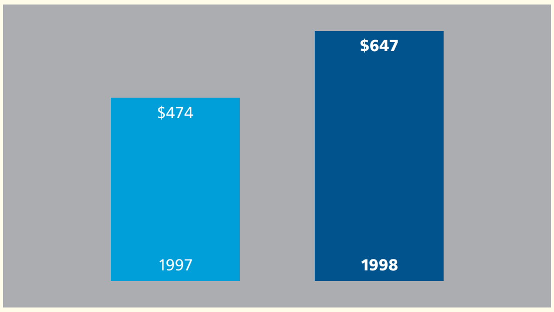
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTINUED

For the years ended December 31, 1997 and 1998 (Millions of US Dollars, unless otherwise indicated)

in volumes by 5% and a 2% reduction in average realized selling price. At Ispat Germany, net sales increased by 74% to $753 from $434 in the previous year, which reflects the full-year inclusion of ISRG/IWHG as compared to only 3 months in 1997.

Gross Profit: Gross profit for the year, excluding the effect from other non-cash items, as described in the notes to the consolidated financial statements, increased by 36% to $647 from $474 in 1997, primarily due to the inclusion of Ispat Inland from the date of its acquisition. Gross margin declined to 18.5% from 21.8% on a consolidated basis primarily due to generally lower average realized selling prices, partially offset by a reduction in the cost of production at most of the Company's operating subsidiaries.

GROSS PROFIT

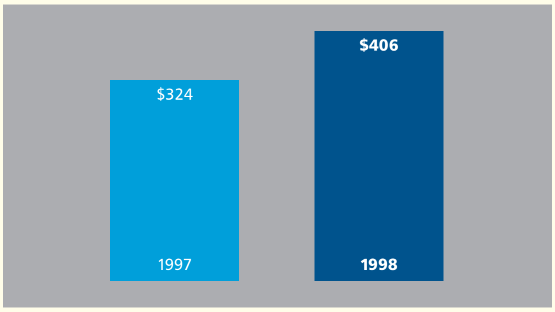


At Imexsa, gross margin remained flat at 27%. The reduction in the selling price of slab by 10% was offset by a matching reduction in the cost of slabs. Gross margin at CIL fell to 18.0% from 27.6% mainly due to reduction in average realized selling prices of steel products by 5% and lower margin from DRI sales. Average cost at CIL increased marginally due to increase in electricity tariffs. At Ispat Sidbec, gross margin improved to 21.3% from 19.6% in 1997 in spite of a 2% reduction in average realized selling prices, offset by a 5% reduction in the average cost per ton. At Ispat Germany, gross margin decreased to 12.6% from 13.1%, primarily due to full year inclusion of ISRG/IWHG and generally lower average realized selling prices as compared to 1997.

Operating Income: Operating income increased by 25% to $406 from $324, primarily due to the inclusion of Ispat Inland and ISRG/IWHG. As a percentage of net sales, operating income decreased to 11.6% from 14.9%.

At Imexsa, operating income, remained unchanged and as a percentage of net sales decreased to 21.4% from 22.9% due to increased sales. At CIL, operating income

OPERATING INCOME



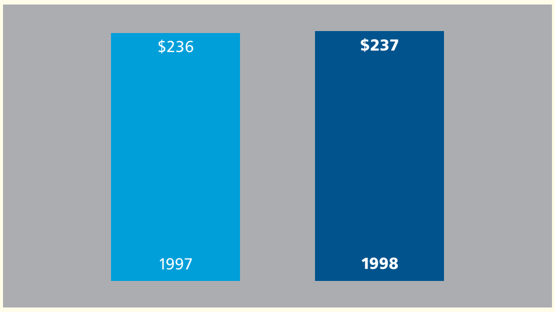
decreased by 68% and, as a percentage of net sales decreased to 6.3% from 17.5%, mainly caused by lower gross margin and an increase in depreciation for the year. At Ispat Sidbec, operating income increased by 12%, and operating margin increased to 16.8% from 13.7%, primarily due to higher gross margin and lower SG&A expenses for the year.

At Ispat Germany, operating income increased by 101% primarily due to the full year inclusion of operations of ISRG/IWHG. Ispat Germany's operating income as a percentage of net sales increased to 8.1% from 7.1% in spite of reduced gross margins, due to the reduction in SG&A expenses.

Financing Costs: Net interest expense increased by 140% to $132. Interest expense increased by 85% to $178, owing to the increase in debt raised at Ispat Sidbec and Ispat Inland to finance the acquisition of Ispat Inland, and higher interest expense at Imexsa. Interest income increased by 12% resulting primarily from a higher average cash balance.

Net Income: Net income increased to $237 from $236 due to the foregoing reasons and the increase in tax expense in 1998 to $51 from $26 in 1997.

NET INCOME



CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Ispat International N.V. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998, all expressed in millions of US dollars. These consolidated financial statements, which have been prepared on the basis of generally accepted accounting principles in the United States, 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. as discussed in Note 1 to the financial statements) as of December 31, 1996 and for the year ended December 31, 1996, the consolidated financial statements of Ispat Sidbec Inc. (formerly Sidbec-Dosco (Ispat) Inc.) as of December 31, 1997 and 1998 and for each of the two years in the period ended December 31, 1998, the consolidated financial statements of Irish Ispat Limited as of December 31, 1997 and for the year ended December 31, 1997, and the consolidated financial statements of the Ispat Hamburg Group of Companies and Caribbean Ispat Limited as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998, (each of which consists of consolidated subsidiaries of the Company), which financial statements reflect total assets constituting 41% and 27%, respectively, of consolidated total assets as of December 31, 1997 and 1998, and total net sales constituting 67%, 58% and 31%, respectively, of consolidated total net sales for the years ended December 31, 1996, 1997 and 1998. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements were prepared in accordance with accounting principles generally accepted in the United States. The financial statements for 1996 and 1997 have been presented in accordance with accounting principles generally accepted in the United States as the Company adopted in 1998.

In our opinion, based on our audits and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Ispat International N.V. and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles in the United States.

Deloitte & Touche
Registeraccountants
Rotterdam, The Netherlands
February 22, 1999, except as to Note 18, which is as of March 2, 1999.

CONSOLIDATED BALANCE SHEETS

(Millions of US Dollars, except share data)

	December 31, 1997	December 31, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 419	**$ 188**
Short-term investments	385	**337**
Trade accounts receivable, net of allowance for doubtful accounts of $7 and $24 at December 31, 1997 and 1998	415	**618**
Inventories	536	**1,072**
Prepaid expenses and other	51	**60**
Deferred tax assets	22	**23**
Total Current Assets	1,828	**2,298**
Property, Plant and Equipment – net	942	**3,205**
Investments in Affiliates	36	**273**
Deferred Tax Assets	45	**39**
Other Assets	31	**112**
Total Assets	$ 2,882	**$ 5,927**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Payable to banks and current portion of long-term debt	$ 436	**$ 549**
Trade accounts payable	283	**408**
Accrued expenses and other liabilities	189	**339**
Deferred tax liabilities	69	**38**
Total Current Liabilities	977	**1,334**
Long-Term Debt	1,104	**2,400**
Deferred Tax Liabilities	25	**87**
Deferred Employee Benefits	82	**1,213**
Other Long-Term Obligations	32	**92**
Total Liabilities	2,220	**5,126**
Committments 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	558	**480**
Retained Earnings	35	**253**
Cumulative Other Comprehensive Income	65	**64**
Total Shareholders' Equity	662	**801**
Total Liabilities and Shareholders' Equity	$ 2,882	**$ 5,927**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31, 1996	1997	1998
Net sales	$ 1,732	$ 2,171	**$ 3,492**
Costs and expenses:			
Cost of sales (exclusive of depreciation shown separately below)	1,363	1,697	**2,845**
Depreciation	49	50	**91**
Selling, general and administrative	52	80	**129**
Other non-cash items	-	20	**21**
	1,464	1,847	**3,086**
Operating income	268	324	**406**
Other income (expense) – net	66	1	**(2)**
Financing costs:			
Net interest expense	(41)	(55)	**(132)**
Net gain (loss) from foreign exchange	(22)	(8)	**16**
	(63)	(63)	**(116)**
Income before taxes	271	262	**288**
Income tax expense:			
Current	2	3	**5**
Deferred	35	23	**46**
	37	26	**51**
Net income	$ 234	$ 236	**$ 237**
Basic and diluted earnings per common share	$ 2.11	$ 2.02	**$ 1.93**
Weighted average common shares outstanding (in millions)	111	117	**123**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of US Dollars)

	Year Ended December 31, 1996	1997	1998
Net income	$ 234	$ 236	**$ 237**
Other comprehensive income (loss):			
Foreign currency translation adjustment	(26)	(1)	**(3)**
Other	-	-	**2**
	(26)	(1)	**(1)**
Comprehensive income	$ 208	$ 235	**$ 236**

See notes to the 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	Retained Earnings	Cumulative Other Comprehensive Income	Shareholders' Equity
Balance at December 31, 1995	111	$ 4	$ 191	$ (420)	$ 92	$ (133)
Net Income		-	-	234	-	234
Foreign currency translation adjustment		-	-	-	(26)	(26)
Capital distribution		-	(1)	(15)	-	(16)
Balance at December 31, 1996	111	4	190	(201)	66	59
Net Income		-	-	236	-	236
Foreign currency translation adjustment		-	-	-	(1)	(1)
Common stock issued	16	-	400	-	-	400
Treasury stock (Note 11)	(1)	-	(32)	-	-	(32)
Balance at December 31, 1997	126	4	558	35	65	662
Net Income		-	-	237	-	237
Foreign currency translation adjustment		-	-	-	(3)	(3)
Other		-	-	-	2	2
Treasury stock (Note 11)	(6)	-	(78)	-	-	(78)
Dividends on common shares	-	-	-	(19)	-	(19)
Balance at December 31, 1998	**120**	**$ 4**	**$ 480**	**$ 253**	**$ 64**	**$ 801**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of US Dollars)

	Year Ended December 31, 1996	1997	1998
Operating activities:			
Net income	$ 234	$ 236	**$ 237**
Adjustments required to reconcile net income to net cash provided (used) by operations:			
Depreciation	49	50	**91**
Deferred employee benefit costs	-	-	**(19)**
Other non-cash items	-	20	**21**
Net foreign exchange loss (gain)	23	7	**(15)**
Gain on sale of property, plant and equipment	(90)	-	**-**
Deferred income tax	33	20	**45**
Others	-	-	**(11)**
Changes in operating assets and liabilities, net of effects from purchases of subsidiaries:			
Trade accounts receivable	6	(76)	**(9)**
Short-term investments	(16)	(369)	**45**
Inventories	(57)	(96)	**(11)**
Prepaid expenses and other	(34)	36	**(16)**
Trade accounts payable	(10)	73	**(42)**
Accrued expenses and other liabilities	(56)	4	**(63)**
Net cash provided (used) by operating activities	82	(95)	**253**
Financing activities:			
Proceeds from payable to banks	514	634	**677**
Proceeds from long-term debt	415	266	**1,260**
Proceeds from long-term debt to affiliated companies	-	19	**-**
Payments of payable to banks	(449)	(581)	**(673)**
Payments of long-term debt payable to unrelated parties	(85)	(18)	**(180)**
Payments of long-term debt payable to affiliated companies and the controlling shareholder	(61)	(15)	**-**
Payment of subordinated note payable to the controlling shareholder	(94)	(142)	**-**
Purchase of treasury stock	-	(32)	**(78)**
Issue of share capital – net	-	400	**-**
Dividends	(16)	-	**(19)**
Net cash provided by financing activities	224	531	**987**
Investing activities:			
Purchases of property, plant and equipment	(242)	(292)	**(359)**
Proceeds from sale of property, plant and equipment	136	-	**-**
Acquisition of net assets of subsidiaries, net of cash acquired	13	(3)	**(1,115)**
Other	-	(1)	**-**
Net cash used in investing activities	(93)	(296)	**(1,474)**
Effect of exchange rate changes on cash	3	-	**3**
Net increase (decrease) in cash and cash equivalents	216	140	**(231)**
Cash and cash equivalents:			
At the beginning of the year	63	279	**419**
At the end of the year	$ 279	$ 419	**$ 188**

Supplemental disclosures of cash flow information:

	1996	1997	1998
Cash paid during the year for:			
Interest	$ 70	$ 108	**$ 186**
Income taxes	1	2	**4**

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS continued

(Millions of US Dollars)

Supplemental schedule of non-cash investing and financing activities:

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 of which $3 and $2 has been paid in 1997 and 1998, respectively. In connection with the acquisition, the Company assumed debt of $68, including the purchase price of $17.

On July 17, 1998, the Company acquired, through newly created subsidiaries, 100% of the issued and outstanding shares of Inland Steel Company ("Ispat Inland") from its then parent company Inland Steel Industries, for a consideration of $1,399, which consisted of a net cash payment of $1,115, and assumption of debt of $284.

See notes to the consolidated financial statements.

(Millions of US Dollars except per share amounts)

NOTE 1 NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of business

Ispat International N.V. ("Ispat International") together with its subsidiaries (the "Company") is a manufacturer of semi-finished and finished steel products. The Company owns and operates steel companies in the United States of America ("US"), Mexico, Canada, Trinidad and Tobago ("Trinidad"), 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 major assets are interests in the capital shares of the Operating Subsidiaries. Prior to the formation of Ispat International, the Operating Subsidiaries were under common control by a sole shareholder (see Notes 7 and 11). The accompanying financial statements have been prepared to reflect the entities under common control (similar to a pooling of interest) for all periods presented until incorporation date of Ispat International.

Basis of presentation

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

The records of each of the Operating Subsidiaries are maintained in the currency of the country in which the Operating Subsidiary is located, using the statutory or generally accepted accounting principles of such country. For consolidation purposes, the financial statements which result from such records have been remeasured to conform to US GAAP, 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 Stahlwerke 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
Ispat Inland Inc.	July 17, 1998	US

(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 formation of Ispat International ("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.

(Millions of US Dollars except per share amounts)

NOTE 1 NATURE OF BUSINESS AND BASIS OF PRESENTATION continued

- 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.

Remeasurement and translation of the financial statements of operations in Mexico

Effective January 1, 1997, the Company determined that the Mexican economy should be classified as a hyperinflationary economy. As a result, the Company for its Mexican Operations has determined that the functional currency for US GAAP purposes is the US dollar for all years beginning on or after January 1, 1997. Up to December 31, 1996, the Company considered the Mexican economy as non-hyperinflationary; consequently, the Mexican peso was the functional currency for each period prior to January 1, 1997. The financial statements of the Company's operations in Mexico have been remeasured or translated into US dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". The remeasurement and translation procedures are summarized as follows:

- Monetary items in the balance sheet are translated into US dollars at the closing exchange rate as of each balance sheet date.
- Beginning January 1, 1997, all nonmonetary assets and liabilities are remeasured by applying the historical exchange rates as of the dates on which the transactions were recorded. The historical exchange rate used to remeasure nonmonetary assets and liabilities recorded by the Company at December 31, 1996 is the exchange rate in effect on that date. Prior to January 1, 1997, nonmonetary assets and liabilities were translated into US dollars at the closing exchange rate as of each balance sheet date.
- Beginning January 1, 1997, items on the statement of income that relate to nonmonetary assets and liabilities are remeasured into US dollars at the historical exchange rate; all other items are remeasured using the weighted average exchange rate in the year such transactions are recorded. For periods prior to January 1, 1997, all items in the statement of income are translated at the weighted average exchange rate in the year such transactions are recorded.
- Differences resulting from the remeasurement of the Mexican peso financial statements for periods beginning on or after January 1, 1997 are reported as a component of net income. Differences resulting from the translation of the Mexican peso financial statements for periods prior to January 1, 1997 are reported as other comprehensive income.
- The exchange rates used in the remeasurement or translation of the financial statements of Mexican Operations were as follows (Mexican pesos to one US dollar):

	As of December 31,	Average for the year
1998	9.8963	9.1530
1997	8.0681	7.9692
1996	7.8703	7.8050

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 SFAS No. 52. Translation procedures are as follows: assets and liabilities, both monetary and non-monetary, are translated at the closing rate as of each balance sheet date, and income and expense items are translated at weighted average exchange rates in the year such transactions are recorded.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in basis of presentation

For 1998 the Company adopted US GAAP as the basis for reporting its financial statements. Prior years financial statements have been restated to be in accordance with US GAAP. Certain reclassifications have been made to prior years amounts, now reflected in US GAAP, to conform to the current year presentation.

Changes in accounting estimates

Effective January 1, 1998 the Company prospectively changed the estimated useful life of its machinery and equipment at certain of its subsidiaries. This change decreased depreciation expense and increased net income by $17 or $0.14 per common share in 1998. This change was made to better reflect how these assets are expected to be used over time and to provide a better matching of revenues and expenses.

Use of estimates

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

Recent accounting pronouncements

Comprehensive income

Effective January 1, 1998 the Company adopted SFAS No. 130, “Reporting Comprehensive Income”. In accordance with SFAS No. 130, the Company changed its reporting to display comprehensive income and its components in the Company’s Statement of Comprehensive Income. As of December 31, 1998, the components of comprehensive income include cumulative translation difference of foreign operations and minimum pension liability adjustment related to investments in affiliates.

Segment reporting

The Company has adopted SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”. The Company operates in a single business segment, which is composed of the Operating Subsidiaries involved in the manufacturing of semi-finished and finished steel products.

Accounting for derivative instruments and hedging activities

In 1998 the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, which requires recognition of all derivative instruments in the balance sheet as either assets or liabilities, measured at fair value, and is effective for fiscal years beginning after June 15, 1999. This statement additionally requires changes in the fair value of derivatives to be recorded each period in current earnings or comprehensive income depending on the intended use of derivatives. The Company is currently assessing the impact of this statement on its results of operations, financial position and cash flows.

Cash equivalents

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

Short-term investments

Short-term investments, primarily consisting of short-term debt securities, are accounted for in accordance with SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. As on December 31, 1998 and 1997 all securities presented under short-term investments are designated as trading and are classified in the consolidated balance sheets as current assets.

Inventories

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

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. Gains and losses on retirement or disposal of assets are determined as the difference between net disposal proceeds and carrying amount and reflected in income. Depreciation of carrying value is computed on the straight-line basis over the useful lives of the related assets, ranging from 10 to 50 years for buildings and 2 to 45 years (1997: 3 to 45 years) for machinery and equipment. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", long lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows of the individual assets and consolidated cash flows for long-lived assets, not identifiable individually.

Investment in affiliates

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

Debt issuance costs

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

Retirement benefits

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

- 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.

Revenue recognition

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

Other non-cash items

Due to purchase accounting adjustment at Ispat Inland, cost of goods sold for 1998 was impacted by a non-cash item of $21. The Company had also recorded $20 as a non-cash item in 1997 due to write off of certain deferred tax assets at Ispat Mexicana.

Financing costs

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

Research and development costs

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

Environmental costs

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

Taxes on income

The provision (benefit) for income taxes includes income taxes currently payable and those deferred. Under SFAS No. 109, "Accounting for Income Taxes", deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. Deferred tax assets are reduced by any tax benefits for which it is more likely than not that they will not be realized.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments

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

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

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

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

Earnings per common share

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

(Millions of US Dollars except per share amounts)

NOTE 3 ACQUISITIONS

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 years. In connection with the acquisition, the Company assumed debt owed to the seller of $68, including the purchase price of $17, and recorded negative goodwill in the amount of $29 which has been deducted from nonmonetary long-term assets acquired.

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

The above acquisitions have been accounted for by the purchase method of accounting. The purchase price has been allocated based on the estimated fair values of the assets acquired and the liabilities assumed. The Company's consolidated statements of income include the results of operations of the acquired businesses since their acquisition date.

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

Unaudited pro forma financial information

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

	Year Ended December 31, 1997	1998
Net Sales	$ 4,639	**$ 4,783**
Operating Income	504	**478**
Net Income	253	**232**
Earnings per common share	2.16	**1.89**

(Millions of US Dollars except per share amounts)

NOTE 4 INVENTORIES

	December 31, 1997	1998
Finished products	$ 127	**$ 309**
Production in process	142	**365**
Raw materials	177	**303**
Manufacturing supplies, spare parts and other	90	**95**
	$ 536	**$ 1,072**

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings and improvements	Machinery and equipment	Construction in process	Total
Balance at December 31, 1996:					
Gross value	$ 9	$ 146	$ 747	$ 169	$ 1,071
Accumulated depreciation	-	(40)	(271)	-	(311)
Net carrying value	9	106	476	169	760
Balance at December 31, 1997:					
Gross value	11	203	875	162	1,251
Accumulated depreciation	-	(40)	(269)	-	(309)
Net carrying value	11	163	606	162	942
Balance at December 31, 1998:					
Gross value	58	446	2,800	311	3,615
Accumulated depreciation	-	(56)	(354)	-	(410)
Net carrying value	**$ 58**	**$ 390**	**$ 2,446**	**$ 311**	**$ 3,205**

(Millions of US Dollars except per share amounts)

NOTE 6 INVESTMENTS IN AFFILIATES

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

Investee	Operating activity	Ownership percentage	Type of ownership	December 31, 1997	December 31, 1998
Located in United States:					
Empire Iron Mining Partnership (E.I.M.P.)	Taconite/Pellets	40%	Partnership	$ -	**$ 53**
PCI Associates	Pulverized coal	50%	Partnership	-	**16**
I/N Tek	Cold rolling	60%	Partnership	-	**50**
I/N Kote	Galvanizing	50%	Partnership	-	**103**
Located in Mexico:					
Consorcio Minero Benito Juárez Peña Colorada S.A. de C.V. ("Peña Colorada")	Mining and pelletizing plant	50%	Common stock	14	**16**
Servicios Siderúrgicos Integrados, S.A. de C.V. ("Sersiin")	Port operations, lime, industrial gases and engineering workshop	50%	Common stock	10	**11**
Located in Canada:					
Sorevco	Galvanizing plant	50%	Limited partnership	8	**8**
Delta Tube	Tubes	40%	Limited partnership	2	**2**
Located in Germany:					
W.D.I Westfälische Drahtindustrie GmbH	Wire drawing	33.3%	Common stock	-	**7**
Other	–	–	–	2	**7**
				$ 36	**$ 273**

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

	Year Ended December 31, 1997	Year Ended December 31, 1998
Condensed Statement of Income Data:		
Gross Revenue	$ 364	**$ 1,778**
Net Income	13	**107**

	Year Ended December 31, 1997	Year Ended December 31, 1998
Condensed Balance Sheet Data:		
Current Assets	$ 103	**$ 448**
Total Assets	497	**1,859**
Current Liabilities	65	**453**
Total Liabilities	101	**1,241**
Net Assets	396	**618**

Summary condensed combined financial information for 1996 is not disclosed because of immateriality.

(Millions of US Dollars except per share amounts)

NOTE 7 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	Year Ended December 31, 1996	1997	1998
Transactions:			
Purchases of raw material			
– Peña Colorada	$ 31	$ 33	**$ 31**
– Sersiin	15	15	**18**
– E.I.M.P	-	-	**55**
– PCI Associates (Tolling fee)	-	-	**16**
Product sales			
– Sorevco	29	25	**18**
– I/N Kote	-	-	**158**
– other	16	4	**7**
Product purchases			
– I/N Tek	-	-	**69**
– other	-	8	**43**

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, $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 affiliates of the Company.

NOTE 8 PAYABLE TO BANKS

Payable to banks includes borrowings and bank overdrafts. The Company has secured and unsecured bank lines and other working capital facilities totaling the equivalent of $1,275 of which $806 is committed and $469 is uncommitted. At December 31, 1998, the Company had a total of $708 in borrowings outstanding under such bank lines and working capital facilities, of which $393 is presented under current liabilities and $315 is presented as long-term debt. Borrowings under the lines are primarily denominated in US dollars, except for borrowings of $nil and $103 at December 31, 1997 and 1998, respectively, under a Deutsche mark 300 million revolving credit facility (Deutsche mark 100 million revolving credit facility in 1997) and $23 and $30 as at December 31, 1997 and 1998, respectively, under a 147 million Canadian dollar facility (130 million Canadian dollar facility in 1997) and $nil and $4 as at December 31, 1997 and 1998, respectively under a 13.5 million Irish Punt facility (8 million Irish Punt facility in 1997). 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 6.23% to 12.54% in 1997 and 3.4% to 10.13% in 1998. 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 $527 at December 31, 1998.

(Millions of US Dollars except per share amounts)

NOTE 9 LONG-TERM DEBT

	December 31, 1997	1998
First Mortgage Bonds:		
Series U, Tranche B, US$350	$ -	**$ 348**
Series U, Tranche C, US$350	-	**348**
Series R, 7.9% due January 15, 2007	-	**64**
Series 1977, 5 3/4% due February 1, 2007	-	**25**
Series 1993, 6.8% due June 1, 2013	-	**44**
Series 1995, 6.85% due December, 2012	-	**19**
Senior Secured Credit Facilities:		
Tranche A, US$ 150, LIBOR plus 1.25%-2.25%	-	**140**
Tranche B, US$ 125, LIBOR plus 1.75%-2.75%	-	**124**
Tranche C, US$ 125, LIBOR plus 2.25%-3.25%	-	**124**
Credit line agreement denominated in US dollars, floating interest	190	**285**
Unsecured Structured Senior Export Certificates, 10 1/8%	300	**269**
Unsecured Senior Notes, 10 3/8%	175	**142**
Industrial Development Revenue Bonds:		
Pollution Control Project No 11, 7 1/8 % due June 1, 2007	-	**25**
Pollution Control Project No 13, 7 1/4% due November 1, 2011	-	**43**
Exempt Facilities Project No 14, 6.7% due November 1, 2012	-	**6**
Exempt Facilities Project No 15, 5 3/4% due October 1, 2011	-	**52**
Exempt Facilities Project No 16, 7% due January 1, 2014	-	**8**
Thyssen Stahl AG, denominated in Deutsche mark	73	**45**
Loan payable to Export-Import Bank of the United States, LIBOR plus 0.30%	67	**59**
Loans payable to financial institutions	41	**50**
Senior Notes, 10.4%	50	**-**
Senior Secured Notes, 10.4%	107	**107**
Loans payable to International Finance Corporation, LIBOR plus 3.25% – 3.34%	66	**76**
Other	122	**141**
Total long-term debt	1,191	**2,544**
Less current portion of long-term debt	87	**144**
Total long-term debt	$ 1,104	**$ 2,400**

First Mortgage Bonds

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

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

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

A substantial portion of the Company's facilities at its Indiana Harbor Works is subject to the lien to First Mortgage. This property had a book value of approximately $1,600 as on December 31, 1998.

NOTE 9 LONG-TERM DEBT continued

Senior Secured Credit Facilities

The Tranche A facility is bearing an interest at rates ranging from LIBOR plus 1.25% to LIBOR plus 2.25% depending on the achievement of certain financial ratios. For 1998 the effective average rate is 7.88%. The facility will mature in July 2003 and is repayable in quarterly instalments of $5 until December 2000, $8 until December 2002 and $20 in March 2003 and July 2003.

The Tranche B facility is bearing an interest at rates ranging from LIBOR plus 1.75% to LIBOR plus 2.75% depending on the achievement of certain financial ratios. For 1998 the effective average rate is 7.84%. The facility will mature in July 2004 and is repayable in quarterly instalments of $3 until March 2004 and $118 in July 2004.

The Tranche C facility is bearing an interest at rates ranging from LIBOR plus 2.25% to LIBOR plus 3.25% depending on the achievement of certain financial ratios. For 1998 the effective average rate is 8.34%. The facility will mature in January 2005 and is repayable in quarterly instalments of $3 until June 2004 and $118 in January 2005.

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

Credit line agreement denominated in US dollars, floating interest

Loans payable to Mexican banks under a credit line agreement denominated in US dollars with annual floating interest rates ranging from 8.0% to 8.8% in 1998. The loans are due in semi-annual installments and with maturities ranging from 2000 to 2001.

Unsecured Structured Senior Export Certificates, 10 1/8%

Unsecured Structured Senior Export Certificates due 2003 (the "1996 Certificates") denominated in US dollars with interest payable quarterly at 10 1/8% per annum. Principal amount of the senior certificates is payable in quarterly instalments beginning on August 31, 1998. The amount of such principal repayment is calculated pursuant to a level debt service schedule. The 1996 Certificates are redeemable in whole or in part at a price equal to 100% of the outstanding principal amount, plus accrued interest and a prepayment make whole premium defined in the agreement.

Unsecured Senior Notes, 10 3/8%

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.

Thyssen Stahl AG, denominated in Deutsche mark

Purchase price payable to Thyssen Stahl AG maturing in 2003 denominated in Deutsche mark with interest payable at the discount rate of the Deutsche Bundesbank plus 2.5% (5.0% at December 31, 1998).

Loan payable to Export-Import Bank of the United States

Loan payable to a financial institution guaranteed by the Export-Import Bank of the United States ("Exim Bank") denominated in US dollars. The loan accrues interest at annual floating rates of LIBOR plus 0.30% (5.9% at December 31, 1998). The principal is payable in semi-annual instalments beginning on April 15, 1998 maturing in 2003.

Loans payable to financial institutions

Loans payable to financial institutions denominated in US dollars to finance the purchase of equipment secured by the related assets. The interest rates on the loans are ranging from 7.4% to 7.61%. Principal and interest are due in monthly installments with maturities ranging from 1999 to 2007.

Senior Secured Notes, 10.4%

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

(Millions of US Dollars except per share amounts)

NOTE 9 LONG-TERM DEBT continued

Loans payable to International Finance Corporation, LIBOR plus 3.25% – 3.34%

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 $383 at December 31, 1998. Principal and interest are due in semi-annual installments beginning December of 1998 with interest accruing at LIBOR plus 3.25% to 3.34%, maturing in 2004 through 2006. The controlling shareholder has guaranteed the loan.

Other

Various loans with interest rate ranging from 5.3% to 13.0%.

Maturities of long-term debt are as follows:

	Years Ending December 31,
1999	$ 144
2000	226
2001	479
2002	186
2003	195
Subsequent years	1,314
Total	$ 2,544

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.

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. Substantially all of the Company's net assets as at December 31, 1998 (see Note 11) were subject to restrictive covenants, affecting capital distributions and the ability of the subsidiaries to loan or advance funds to the shareholders.

(Millions of US Dollars except per share amounts)

NOTE 10 FINANCIAL INSTRUMENTS AND CREDIT RISK

Fair value of financial instruments

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

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

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

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

	December 31, 1997		**December 31, 1998**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Instruments payable to unrelated parties bearing interest at variable rates	$ 448	$ 448	**$ 1,626**	**$ 1,570**
Instruments payable to unrelated parties bearing interest at fixed rates	743	783	**918**	**873**
Long-term debt, including current portion	$ 1,191	$ 1,231	**$ 2,544**	**$ 2,443**
Payable to banks	$ 349	$ 349	**$ 405**	**$ 405**

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

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

	December 31, 1997		**December 31, 1998**	
	Carrying value	Estimated fair value	**Carrying value**	**Estimated fair value**
Forward exchange contracts – contract amounts of $63 and $50 at December 31, 1997 and 1998, respectively	$ -	$ 1	**$ -**	**$ (1)**

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

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

The 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.

NOTE 10 FINANCIAL INSTRUMENTS AND CREDIT RISK continued

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

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

NOTE 11 SHAREHOLDERS' EQUITY

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 reflect the capital structure after the incorporation of Ispat International.

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.

The Company purchased 5,358,200 and 1,458,960 of its own Class A Shares on the open market for a total consideration of $82 and $32 during the years ended December 31, 1998 and 1997 respectively. 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.

The Company during the year awarded 198,750 common shares to certain senior executives of the company in connection with the Global Offering. The Company also awarded 29,850 common shares to certain senior executives as bonus shares. The afore-mentioned shares were taken from treasury stock at a cost of $4.

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

Ispat International has no business operations of its own, accordingly it can only pay dividends or distributions to the extent it is able to arrange the dividend distribution from its subsidiaries, recognizes gain from the sale of its assets or records share premium from the issuance of (new) common shares. The Company's Operating Subsidiaries are subject to certain restrictions under the terms of certain of their debt agreements for paying dividends.

(Millions of US Dollars except per share amounts)

NOTE 12 EMPLOYEE BENEFIT PLANS

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

	Operating Subsidiary US From July 17, 1998, through November 30, 1998	Operating Subsidiary Canadian From January 1, through December 31, 1997	Operating Subsidiary Canadian From January 1, through December 31, 1998
Change in benefit obligation			
Benefit obligation at beginning of the period	**$ 2,148**	$ 199	**$ 215**
Service cost	**12**	4	**5**
Interest cost	**65**	17	**15**
Contributions	**-**	1	**1**
Amendments	**(65)**	-	**-**
Actuarial (gains) losses	**(21)**	14	**-**
Benefits paid	**(51)**	(11)	**(11)**
Foreign currency exchange rate differences	**-**	(9)	**(15)**
Benefit obligation at end of the period	**$ 2,088**	$ 215	**$ 210**
Change in fair value of plan assets			
Fair value of plan assets at beginning of the period	**2,019**	153	**174**
Actual return on plan assets	**(30)**	29	**-**
Employers contribution	**25**	9	**8**
Participants' contribution	**-**	1	**1**
Benefits paid	**(51)**	(11)	**(11)**
Foreign currency exchange rate differences	**-**	(8)	**(12)**
Fair value of plan assets at end of the period	**$ 1,963**	$ 173	**$ 160**

Defined Benefit Plans

The Company's Operating Subsidiaries in US, 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.

The funded status of the pension plans are as follows:

	Operating Subsidiary US Year Ended December 31, 1998	Operating Subsidiary Canadian Year Ended December 31, 1997	Operating Subsidiary Canadian Year Ended December 31, 1998
Benefit obligation	**$ 2,088**	$ 215	**$ 210**
Fair value of assets	**1,963**	173	**160**
Funded (under funded) status of the plans	**(125)**	(42)	**(50)**
Unrecognized net loss	**94**	-	**12**
Unrecognized transition asset	**-**	(7)	**(6)**
Unrecognized prior service cost	**(65)**	16	**14**
Accrued pension liability at	**$ (96)**	$ (33)	**$ (30)**
Pension plans with accumulated benefit obligation in excess of plan assets			
Projected benefit obligation		$ 122	**$ 127**
Accumulated benefit obligation		122	**127**
Fair value of plans' assets		81	**83**

(Millions of US Dollars except per share amounts)

NOTE 12 EMPLOYEE BENEFIT PLANS continued

The following assumptions were used:

	Operating Subsidiary US From July 17, 1998, through November 30, 1998	Operating Subsidiary Canadian From January 1, through December 31, 1996	1997	1998
Change in benefit obligation				
Discount rates for obligations	**6.75%**	9.00%	7.75%	**7.25%**
Assumed rates of compensation increases	**9.50%**	4.75%	4.75%	**4.75%**
Expected long-term rate of return on assets	**4.00%**	8.25%	9.00%	**7.25%**

Reconciliation of the post-retirement benefit obligation of the US Operating Subsidiary from July 17, 1998 through November 30, 1998 measurement date was as follows:

Benefit obligation at July 17, 1998	**$ 1,010**
Service cost	**7**
Interest cost	**31**
Plan amendment	**(104)**
Actuarial loss	**31**
Benefits paid	**(22)**
Benefits obligation at November 30, 1998	**$ 953**

Funded status of the post-retirement benefit obligation (US Operating Subsidiary)

	December 31, 1998
Benefit obligation	**$ 953**
Fair value of assets	-
Funded status of plan	**(953)**
Unrecognized net loss	**31**
Unrecognized prior service cost	**(104)**
Accrued post-retirement benefit obligation at December 31, 1998	**$ (1,026)**

The following weighted average assumptions for the US Operating Subsidiary were used at July 17, 1998 and November 30, 1998 in accounting for the post-retirement benefit plan:

Discount rate	**6.75%**
Expected return on plan assets	**4.00%**
Rate of compensation increase	**4.50%**

The plan amendment gain for the US Operating Subsidiary reflects the plan change announced during the fourth quarter of 1998 that becomes effective January 1, 1999. The amendment provides that pension benefits for most of the Company's non-represented salaried employees will be determined in a "cash balance" arrangement. For each covered employee a notional account is credited with a percentage of pay and interest. At termination, the account balance is available to the employee as either a lump sum payment or annuity.

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.

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, 1996, 1997 and 1998, respectively.

(Millions of US Dollars except per share amounts)

NOTE 13 INCOME TAX

The provision for income tax is as follows:

	Year Ended December 31, 1996	1997	1998
Current:			
Canada	$ 1	$ 1	**$ 1**
Germany	-	1	**2**
Others	1	1	**2**
Deferred:			
US	-	-	**5**
Mexico	72	(5)	**34**
Canada	(38)	24	**16**
Germany	(2)	3	**(9)**
Others	3	1	**-**
Income tax expense (benefit)	$ 37	$ 26	**$ 51**

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, 1996	1997	1998
Taxes at aggregate statutory rates of all jurisdictions:				
	US	$ -	$ -	**$ 6**
	Mexico	62	41	**52**
	Canada	27	30	**24**
	Germany	(2)	6	**23**
	Trinidad	8	14	**3**
		95	91	**108**
Increase (decrease) resulting from:				
Tax loss carryforwards	Germany	1	(3)	**(10)**
Tax loss carryforwards	Trinidad	-	-	**(1)**
Manufacturing tax credits	Canada	(5)	(6)	**(4)**
Export allowances	Trinidad	(6)	(13)	**-**
Benefit arising from interest in partnership	Canada	-	-	**(6)**
Depreciation	Germany	-	-	**(10)**
Depreciation	Trinidad	-	-	**1**
Inflationary effects	Mexico	7	16	**(14)**
Change in valuation allowance	Mexico	11	(64)	**-**
Change in valuation allowance	Germany	-	-	**(9)**
Inventories	Germany	-	-	**2**
Restructuring	Germany	-	-	**(3)**
Benefits from recognition of temporary differences in periods other than those in which they arise	Canada	(62)	-	**-**
Others	Various	(4)	5	**(3)**
Income tax expense (benefit)		$ 37	$ 26	**$ 51**

(Millions of US Dollars except per share amounts)

NOTE 13 INCOME TAX continued

Deferred income tax

Temporary differences and the resulting deferred tax assets and liabilities at December 31, 1997 and 1998 are summarized as follows:

		December 31, 1997	1998
Current deferred tax liabilities:			
Inventories	Mexico	$ (67)	**$ (38)**
Accrued rental income	Mexico	-	**(2)**
Total current deferred tax liabilities		(67)	**(40)**
Current deferred tax assets:			
Tax loss carryforwards	Ireland	-	**17**
Tax loss carryforwards	Canada	22	**21**
Others	Mexico	-	**2**
Others	Germany	-	**3**
Total current deferred tax assets		22	**43**
Net current deferred tax asset (liability)		(45)	**3**
Noncurrent deferred tax liabilities:			
Property, plant and equipment	Mexico	(85)	**(97)**
Property, plant and equipment	US	-	**(495)**
Property, plant and equipment	Germany	(2)	**(8)**
Property, plant and equipment	Trinidad	(2)	**(3)**
Debt issuance costs	Mexico	(5)	**(3)**
Imputed interest	Mexico	-	**(6)**
Others	Germany	-	**(2)**
Others	Canada	-	**(3)**
Total noncurrent deferred tax liabilities		(94)	**(617)**
Noncurrent deferred tax assets:			
Tax loss carryforwards	Mexico	67	**18**
Tax loss carryforwards	US	-	**9**
Tax loss carryforwards	Canada	16	**-**
Tax loss carryforwards	Germany	62	**7**
Tax loss carryforwards	Ireland	1	**-**
Tax loss carryforwards	Trinidad	-	**1**
Environmental accrual	US	-	**9**
Environmental accrual	Canada	2	**1**
Employee benefit costs	US	-	**447**
Employee benefit costs	Canada	11	**12**
Employee benefit costs	Germany	1	**1**
Accrued restructuring costs	US	-	**10**
Accrued restructuring costs	Canada	2	**-**
Accrued restructuring costs	Germany	-	**14**
Property, plant and equipment	Canada	11	**18**
Investment in affiliates	Mexico	15	**-**
Others	Mexico	-	**6**
Others	US	-	**23**
Others	Canada	2	**-**
Total noncurrent deferred tax assets		190	**576**
Net noncurrent deferred tax asset (liability)		96	**(41)**
Net deferred tax asset (liability) before valuation allowances		51	**(38)**
Valuation allowance	Mexico	(14)	**-**
Valuation allowance	Ireland	(1)	**(17)**
Valuation allowance	Germany	(63)	**(8)**
Net deferred tax asset (liability)		$ (27)	**$ (63)**

(Millions of Us Dollars except per share amounts)

NOTE 14 FINANCING COSTS

Net interest expense consists of the following:

	Year Ended December 31, 1996	1997	1998
Interest expense	$ (72)	$ (96)	**$ (178)**
Interest income	31	41	**46**
Net interest expense	$ (41)	$ (55)	**$ (132)**
Financing costs capitalized to major capital projects	15	14	**18**

NOTE 15 COMMITTMENTS

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
1999	$ 19
2000	18
2001	17
2002	13
2003	12
Thereafter	73
Total minimum lease payments	$ 152

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

In the ordinary course of its business the Company has guaranteed certain debt of its subsidiaries totaling $1,723.

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

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

The Company's Operating Subsidiary in the US has guaranteed $14 and $167 of long-term debt attributable to PCI Associates and I/N Kote, two of its equity investments, respectively.

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's Mexican subsidiary has postponed installation of its new continuous caster machine and has project committments of $42 with the equipment supplier.

NOTE 15 COMMITTMENTS continued

The Company's Operating Subsidiary in Trinidad has outstanding project committments towards construction of a new direct reduction plant for an amount of $28.

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

The Company, in connection with the acquisition of the Irish Operating Subsidiary, agreed with the Irish government to commit the Operating Subsidiary to invest a minimum of $28 in capital expenditures by May 30, 2002 in the Irish plant. At December 31, 1998, the Company has invested $12 under this committment. 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.

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 Deutsche mark 70 million to secure the Operating Subsidiary's ongoing operations and to maintain a specific level of manpower. As of December 31, 1998, the Operating Subsidiary has invested approximately Deutsche mark 58 million under these committments. In the event the Company fails to invest the aggregate of Deutsche mark 70 million 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 committment commencing January 1, 2000 until fulfillment of the committment.

NOTE 16 CONTINGENCIES

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

The US Operating Subsidiary is involved in various environmental and other administrative or judicial actions initiated by governmental agencies. While it is not possible to predict the results of these matters, the Company does not expect environmental expenditures, excluding amounts that may be required in connection with the 1993 consent decree in the 1990 EPA lawsuit, to materially affect the Company's results of operations or financial position. Corrective actions relating to the EPA consent decree may require significant expenditures over the next several years that may be material to the results of operations of the financial position of the Company.

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

At December 31, 1998, the Company's reserves for environmental liabilities totaled $27, $21 of which is related to the sediment remediation under the 1993 EPA consent decree.

The Company's Operating Subsidiary in the US is anticipated to make capital expenditures of $2 to $55 annually in each of the next five years for the construction, and have ongoing annual expenditures of $40 to $50 for the operation of air and water pollution control facilities to comply with current federal state and local laws and regulations.

Anti-dumping and countervailing duty investigations of steel wire rods imported to the 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 1998, the ITC ruled that neither subsidized nor dumped imports from Canada, Germany and Trinidad were causing or threatening to cause material injury to the US wire rod industry. As a result of these determinations, the Company's exports to the US are not subject to any anti-dumping or countervailing duties. The petitioners have appealed each of the ITC's negative determinations to the United States Court of International Trade ("CIT"). The Company has intervened in these appeals, which recently were consolidated into single action, and intends to file a brief report in support of the ITC's negative determinations. A ruling by the CIT in the consolidation action is expected in the third or fourth quarter of 1999.

On December 30, 1998, the petitioners filed a new action with the ITC seeking relief under Section 201 of the United States Trade Act of 1974 against wire rod imports from virtually all countries exporting to the US. The petition requests the imposition of a four-year quantitative restriction on imports, with quotas assigned to each country at as yet unspecified levels. Under Section 201, quotas or other relief (e.g. increased tarriffs or tarriff rate quotas) may be imposed only if the IT rules that imports are a substantial cause of serious injury to the US wire rod industry, and the President (USA) separately determines that such relief should be imposed.

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.

In 1997, British Steel plc instituted proceedings before the Court of First Instance in Luxembourg against the European Commission, challenging the approval by the European Commission of aid of approximately $56 to Irish Steel immediately prior to its acquisition by the Company. Irish Ispat, together with the Irish government filed a motion to intervene in the proceedings. The Company cannot predict the final outcome of these proceedings.

(Millions of US Dollars except per share amounts)

NOTE 17 SEGMENT AND GEOGRAPHIC INFORMATION

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

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

	US	Mexico	Canada	Trinidad	Europe	Adjustments & eliminations	Consolidated
YEAR ENDED DECEMBER 31, 1996							
Sales to unaffiliated customers	$ -	$ 617	$ 579	$ 166	$ 370	$ -	$ 1,732
Transfers between geographic areas	-	-	10	44	-	(54)	-
Net sales	-	617	589	210	370	(54)	1,732
Operating income	-	167	77	24	1	(1)	268
Total assets at December 31, 1996	-	1,007	492	298	268	(110)	1,955
Depreciation	-	7	19	13	10	-	49
Capital expenditures	-	158	17	58	9	-	242
YEAR ENDED DECEMBER 31, 1997							
Sales to unaffiliated customers	$ -	$ 815	$ 618	$ 206	$ 532	$ -	$ 2,171
Transfers between geographic areas	-	10	-	47	-	(57)	-
Net sales	-	825	618	253	532	(57)	2,171
Operating income	-	170	85	44	23	2	324
Total assets at December 31, 1997	-	1,413	473	451	513	32	2,882
Depreciation	-	10	21	8	11	-	50
Capital expenditures	-	149	27	110	16	-	302
YEAR ENDED DECEMBER 31, 1998							
Sales to unaffiliated customers	$ 1,075	$ 815	$ 566	$ 189	$ 847	$ -	$ 3,492
Transfers between geographic areas	-	69	3	37	11	(120)	-
Net sales	1,075	884	569	226	858	(120)	3,492
Operating income	63	189	95	14	61	(16)	406
Total assets at December 31, 1998	3,109	1,385	858	504	608	(537)	5,927
Depreciation	47	12	13	9	10	-	91
Capital expenditures	25	102	36	121	75	-	359

(Millions of US Dollars except per share amounts)

NOTE 17 SEGMENT AND GEOGRAPHIC INFORMATION continued

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.

	US	Canada	Europe	Asia	Latin America	Other	Domestic	Total
1996:								
Mexico	$ 357	$ -	$ 18	$ 86	$ -	$ -	$ 156	$ 617
Canada	117	-	-	-	-	-	462	579
Trinidad	61	4	3	4	47	25	22	166
Ireland	-	-	43	3	-	-	6	52
Germany	5	-	149	28	1	-	135	318
Consolidated	$ 540	$ 4	$ 213	$ 121	$ 48	$ 25	$ 781	$ 1,732
1997:								
Mexico	$ 389	$ 61	$ 20	$ 106	$ -	$ -	$ 239	$ 815
Canada	132	-	1	-	-	-	485	618
Trinidad	60	8	3	-	80	30	25	206
Ireland	-	-	78	3	1	-	11	93
Germany	14	1	157	46	1	4	216	439
Consolidated	$ 595	$ 70	$ 259	$ 155	$ 82	$ 34	$ 976	$ 2,171
1998:								
US	$ -	$ 10	$ -	$ -	$ 9	$ -	$ 1,056	$ 1,075
Mexico	399	37	32	58	13	-	276	815
Canada	116	-	-	-	-	-	450	566
Trinidad	53	10	2	-	75	24	25	189
Ireland	-	1	88	-	-	1	12	102
Germany	25	-	297	14	8	6	395	745
Consolidated	**$ 593**	**$ 58**	**$ 419**	**$ 72**	**$ 105**	**$ 31**	**$ 2,214**	**$ 3,492**

NOTE 18 SUBSEQUENT EVENTS

On March 2, 1999, the Company and Usinor Group signed a Memorandum of Understanding covering exclusivity with Usinor Group, with a view to buy Unimétal, Tréfileurope, SMR (Société Métallurgique de Revigny) and their related subsidiaries. Both parties intend to close the transaction by mid-1999, subject to the completion by Ispat International of its final due diligence and certain other regulatory approvals.

Shareholder Information

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Fax: 52 753 22723.

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Fax: 1 514 286 4071.

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Fax: 1 868 636 5696.

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Fax: 49 40 7408 218.

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Fax: 49 203 52 66332.

Ispat Walzdraht Hochfeld GmbH
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Fax: 49 203 606 7654.

Irish Ispat Limited
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Fax: 353 21 378879.

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Fax: 44 171 629 7993.

Ispat North America Inc.
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Ispat Shipping Limited
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Fax: 44 171 629 2438.

Shareholder Information Relating to the Company's Dutch Annual Accounts

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

Safe Harbor Statement

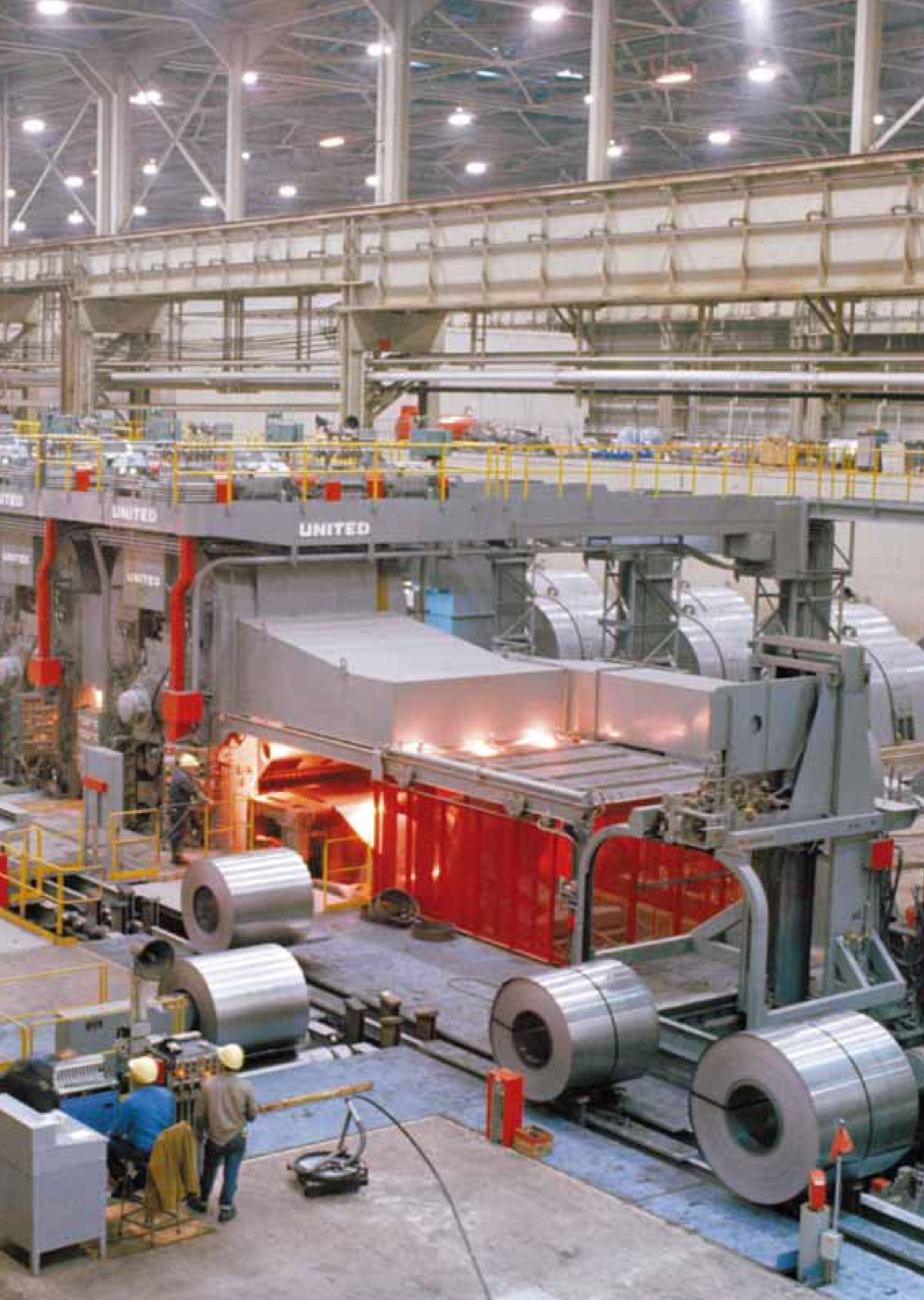
The Company has made, and may continue to make, various forward-looking statements with respect to its financial position, business strategy, projected costs, projected savings, and plans and objectives of management. Such forward-looking statements are identified by the use of forward-looking words or phrases such as "anticipates", "intends", "expects", "plans", "believes", "estimates", or words or phrases of similar import. These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, and the statements looking forward beyond 1998 are subject to greater uncertainty because of the increased likelihood of changes in underlying factors and assumptions. Actual results could differ materially from those anticipated by the forward-looking statements.

Certain Defined Terms

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

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

Designed by Ludgate Design, London. Printed by Taylor Bloxham Corporate & Financial Limited, England.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ISPAT INTERNATIONAL N.V.
Member of **THE LNM GROUP**

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