ISPAT INTERNATIONAL NV
Form 20-F/A
August 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F/A
(AMENDMENT NO. 3)

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number 001-14666

ISPAT INTERNATIONAL N.V.
(Exact name of Registrant as specified in its charter)

The Netherlands
(Jurisdiction of incorporation or organization)
15th Floor, Hofplein 20
3032 AC Rotterdam
The Netherlands
(Address of Registrant's principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Class A Common Shares	Euronext Amsterdam N.V. (the "Amsterdam Stock Exchange")
	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

(Title of Class)

Securities for which there is reporting obligation pursuant to Section 15(d) of the Act

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(Title of Class)

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Class A Common Shares, par value EUR 0.01 per share............49,587,492

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

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EXPLANATORY NOTE

This Form 20-F/A is being filed solely to amend the Annual Report on Form 20-F for the fiscal year ended December 31, 2003, filed by Ispat International N.V. on March 10, 2004, as amended on March 17, 2004, and on April 9, 2004 (the "Form 20-F"), in the following ways:

- to reflect a restatement of the consolidated statements of cash flows for the years ended December 31, 2002 and 2001. Previously, gains on early extinguishment of debt were included in cash flows from operating activities, rather than being reported as part of the Company's financing activities. Additionally, a non-cash equity investment was included in cash flows from operating activities and investing activities, rather than being excluded from the statement of cash flows and disclosed as a non-cash investment transaction; and

- to update certain disclosure in Item 3, "Key Information - Selected Financial Data," Item 5, "Operating and Financial Review and Prospects - Liquidity and Capital Resources" and Item 15, "Controls and Procedures" to reflect the restatement described above; and

- to revise the Independent Auditors' Report of Deloitte Accountants relating to the consolidated financial statements of Ispat International N.V. and Subsidiaries as of December 31, 2003 to make reference to the "combined" financial statements of the Ispat Hamburg Group of Companies rather than the "consolidated" financial statements of the Ispat Hamburg Group of Companies for the year ended December 31, 2001.

Except for the above amendments, no changes have been made to the consolidated financial statements of Ispat International N.V. as contained in the Form 20-F. Other than as expressly set forth above, this Form 20-F/A does not, and does not purport to, amend, update or restate the information in the Form 20-F or reflect any events that have occurred after the Form 20-F was filed. Unless otherwise indicated, the exhibits previously filed with the Form 20-F are not re-filed herewith.

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PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Unless the context otherwise requires, the term "Ispat International" refers to Ispat International N.V. and the term "Company", "corporation", "enterprise" or "Ispat" refers to Ispat International and the operating subsidiaries taken as a whole. In addition, unless the context otherwise requires, all descriptions of the Company in this Annual Report are provided as if the Company had existed since 1989 and the operating subsidiaries were owned by Ispat International from their date of acquisition or creation by the controlling shareholder.

This Annual Report contains audited consolidated financial statements and notes thereto of the Company as at December 31, 2002 and 2003 and for each of the years ended December 31, 2001, 2002 and 2003 (together, the "Consolidated Financial Statements") and selected consolidated financial information of the Company for the periods presented in the Consolidated Financial Statements and as of December 31, 1999, 2000 and 2001 and for the years ended December 31, 1999 and 2000. Prior to the formation of Ispat International and the consummation of the Company's reorganization in July 1997, the operating subsidiaries other than Ispat Duisburg, Ispat Inland and Ispat Unimetal were under common control and the Consolidated Financial Statements and the selected unaudited financial information have been prepared to reflect the reorganization of the operating subsidiaries under common control (similar to a pooling of interests) for all periods prior to the date of reorganization. The Consolidated Financial Statements and the selected unaudited consolidated financial information, which include the accounts of Ispat International and its subsidiaries, all of which are controlled by Ispat International, have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") (see also Note 2 to the Consolidated Financial Statements) and have been audited by Deloitte & Touche Accountants, independent auditors. Intercompany balances and transactions have been eliminated on consolidation. The financial records of each of the operating subsidiaries are maintained in the currency of the country in which such subsidiary is located using the statutory or generally accepted accounting principles of such country. For consolidation purposes, financial statements have been prepared in conformity with U.S. GAAP and expressed in U.S. Dollars, the reporting currency.

CERTAIN DEFINED TERMS

All references to 'Ispat International' are to 'Ispat International N.V.'; to 'Ispat Inland' are to Ispat Inland Inc.; to 'Imexsa' or 'Ispat Mexicana' are to Ispat Mexicana, S.A. de C.V.; to 'Ispat Sidbec' are to Ispat Sidbec Inc.; to 'Caribbean Ispat' are to Caribbean Ispat Limited; to 'Ispat Europe' or 'Ispat Europe Group' are collectively to Ispat Hamburger Stahlwerke GmbH ('IHSW' or 'Ispat Hamburg'), Ispat Stahlwerk Ruhrort GmbH ('ISRG' or 'Ispat Ruhrort'), Ispat Walzdraht Hochfeld GmbH ('IWHG' or 'Ispat Hochfeld'), Ispat Unimetal S.A., Trefileurope S.A. and SMR SNC. All references to the "controlling shareholder" refer, collectively, to Lakshmi N. Mittal and the members of his immediate family.

Unless otherwise stated, all references to "Dollars" or "$" or "USD" are to the currency of the United States of America. All references to "Pesos" are to Mexican Pesos, the currency of Mexico. All references to "C$" are to Canadian dollars, the currency of Canada. All references to "Euro" or "(euro)" are to the currency of the euro zone.

The term "operating subsidiary" refers to each of the subsidiaries of the Company that are engaged in the manufacture of steel and steel-related products.

As used herein, all references to "cash cost of production" are to all direct and indirect manufacturing costs (excluding depreciation) for the applicable product translated from the currency in which it is reported into Dollars at the average exchange rate for the relevant period.

"Production capacity" means the annual production capacity of plant and equipment based on existing technical parameters as estimated by management. "Steel products" as used herein refers to finished and semi-finished steel products and excludes direct reduced iron ("DRI"). All quantity figures for shipments of our steel products include intercompany sales.

The term "tonnes" as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds. The term "ton" as used herein means a short ton. One short ton is equal to 2,000 pounds. All references to iron ore, iron ore pellets, DRI, hot metal and scrap are calculated using tonnes, and all references to steel products including liquid steel are calculated using tons.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected consolidated financial information of the Company for each of the periods indicated. This section has been updated to give effect to the restatement as discussed in Note 21 to the audited consolidated financial statements included in Item 8, and should be read in conjunction with the accompanying audited consolidated financial statements, which have been prepared in accordance with U.S. Generally Accepted Accounting Principles.

(All amounts in $ millions except per share and quantity information)	Years Ended December 31,			
	1999	2000	2001	200
Statement of Income Data				
Sales(1)	$ 4,898	$ 5,343	$ 4,486	$ 4,8
Cost of sales (exclusive of depreciation)(1)	4,270	4,670	4,273	4,3
Gross profit (before deducting depreciation)	628	673	213	5
Gross margin as percentage of Sales	12.8%	12.6%	4.7%	10
Depreciation	164	177	177	1
Selling, general and administrative expenses	156	181	155	1
Other operating expenses	--	--	75	
Operating income / (loss)	308	315	(194)	1
Operating margin as percentage of Sales	6.3%	5.9%	(4.3%)	2
Adjusted Operating Income/(Loss)(2)	308	315	(119)	2
Adjusted Operating margin(2)	6.3%	5.9%	(2.7)%	4
Other income (expense) - net(3)	15	23	13	
Financing costs:				
Net interest expenses	(184)	(216)	(228)	(2
Net gain / (loss) from foreign exchange and monetary position	(11)	--	(9)	
Income / (Loss) before taxes(3)	128	122	(418)	
Net income / (loss)	85	99	(312)	
Basic and diluted earnings / (loss) per common share(4)	0.71	0.82	(2.58)	0.
Cash dividends per common share(5)	$ 0.15	$ 0.15	--	

	At December 31,			
	1999	2000	2001	200
Balance Sheet Data				
Cash and cash equivalents, including short-term investments	$ 317	$ 292	$ 85	$ 7
Property, plant and equipment - net	3,333	3,299	3,109	3,03
Total assets	5,966	5,978	5,313	5,51
Payable to banks and current portion of long-term debt	457	391	338	26
Long-term debt	2,184	2,124	2,041	2,02
Shareholders' equity	854	884	338	12

(All amounts in $ millions except per share and quantity information)	At December 31,			
	1999	2000	2001 Restated - See Note 21	200 Resta See N
Other Data:				
Net cash provided by operating activities	599	381	22	13
Net cash used in investing activities	(184)	(195)	(35)	(8
Net cash used by financing activities	(432)	(139)	(118)	(7
Total production of DRI (thousands of tonnes)	6,353	6,872	4,918	5,89
Total shipments of steel products (thousands of tons)	15,430	16,356	14,118	15,03

(1) In 2001, the Company adopted EITF 00-10 (issued by the FASB Emerging Issues Task Force) which requires the inclusion of all shipping and handling fees and costs billed to customers in the Sales figure as well as in Cost of Sales. The Company accordingly recast prior period numbers for 1999 and 2000 to reflect the same. In the above, the Sales are inclusive of shipping and handling fees and costs; and Sales and Cost of Sales for 1999, 2000, 2001, 2002 and 2003 are based on the EITF 00-10 methodology. The application of EITF 00-10 does not affect earnings, as it only involves inclusion of shipping and handling fees and costs in both Sales and Cost of Sales.

A reconciliation of Sales and Net Sales is given below:

	1999	2000	2001	2002
Sales	4,898	5,343	4,486	4,889
Less: Freight and handling costs	218	246	208	243
Net Sales	4,680	5,097	4,278	4,646

(2) Adjusted Operating Income / (Loss) is after adjusting for certain one-time costs. These costs are non-recurring in nature and have been added back to operating income / (loss) to reflect the true underlying trend of operating income / (loss). A reconciliation of reported operating income / (loss) to Adjusted Operating Income is given below:

	1999	2000	2001	2002	200
Reported Operating Income / (Loss)	308	315	(194)	142	15
Add: Other Operating Expenses					
Write down in value of e-commerce software			17		
Provision for arbitration related to scrap Supply contract			19		
Irish Ispat Closure			17		
Impairment loss on oceangoing vessels			22		
Write-down of 2A Bloomer and 21" Bar Mill				23	
Write-down in investments of Empire Mine				39	
Adjusted Operating Income / (Loss)	308	315	(119)	204	15

(3) During the first quarter of 2003, the Company purchased $22 million ($39 million in first quarter of 2002) of its own bonds at discounts from face value. As a result of these purchases, the Company recognized a gain of $13 million ($19 million net of tax in 2002) in other income. In accordance with adoption of Statement of Financial Accounting Standard 145: Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS 145") by the Company as of January 1, 2003, gain or loss on extinguishments of debt that was previously classified as an extraordinary item in prior periods was reclassified and included within "other (income) expense-net" on the Company's income statement.

(4) Earnings per common share are 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 formation of Ispat

International on May 27, 1997 and its reorganization which was consummated in July 1997 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.

(5) Dividends are presented on cash basis.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition or results of operations could be materially adversely affected by any of the risks and uncertainties described below. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our financial condition and business operations.

Suspension of our acquisition activities may affect our competitive position and financial performance

In the past, the acquisition and successful turnaround of under-performing assets was an important contributor to the Company's growth. Because of the Company's current financial situation and high leverage, and the decision to focus on debt reduction, the Company has not made any significant acquisitions in the period 2000-2003, and may not be able to make acquisitions in the future. This may adversely affect the Company's competitive position and, consequently, its results of operations and financial performance.

Our high debt level may limit our flexibility in managing our business

At December 31, 2003, we had outstanding $2,277 million in aggregate principal amount of indebtedness consisting of $363 million of short-term indebtedness (including current portion of long-term debt) and $1,914 million of long-term indebtedness. Additionally, a portion of our working capital financing consists of uncommitted lines of credit, which may be cancelled by the lenders in certain circumstances.

The high level of debt outstanding could have important adverse consequences to the Company, including the following:

- We have significant cash interest expense and principal repayment obligations;
- Our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired;
- Our current debt level may limit our flexibility to adjust to changing market conditions, reduce our ability to withstand competitive pressures and make us more vulnerable to a downturn in general economic conditions; and
- Adverse business conditions may lead to difficulties in debt servicing which may limit our ability to make acquisitions, finance capital expenditures and working capital requirements.

We have guaranteed our subsidiaries' debt, which may limit our flexibility in managing our business

We have provided guarantees for some of the debt and credit lines of our operating subsidiaries. We may also enter into liquidity support agreements that may require us to make capital contributions or subordinated loans to certain of our subsidiaries.

Out of the total debt of $2,277 million at December 31, 2003, approximately $1,500 million was guaranteed by Ispat International. Some of these guarantees have provisions whereby a default in one operating subsidiary could, under certain circumstances, lead to defaults at other operating subsidiaries.

Any possible invocation of any of these guarantees could cause some or all of the other guaranteed debt to accelerate, creating severe liquidity pressures. Further, it may also limit our ability to raise additional financing and may limit our flexibility in managing our business.

We have limited our capital expenditure

Due to the severe liquidity constraints during the last three years, our capital expenditure has been limited to spending required to maintain the operating condition of our plant and equipment.

Capital expenditure in 2003 was $164 million as compared to $108 million in 2002 and $97 million in 2001. However, included in the total capital expenditures mentioned above, $89 million in 2003 and $12 million in 2002 pertained to the reline of Blast Furnace No. 7 at Ispat Inland.

Our limited capital expenditure may affect our ability to upgrade current, or purchase new, plant and equipment and may, therefore, lead to reduced efficiencies. Any reduction in efficiency may adversely affect our revenues, profit margins and cash flows as well as our competitive position.

Our income taxes may substantially increase if changes in the tax laws or their interpretation occur

We may face a significant increase in our income taxes if tax rates in the jurisdictions where our operating subsidiaries operate increase and/or are modified by regulatory authorities in a manner adverse to our Company. This may adversely affect our cash flows, liquidity and ability to pay dividends.

See "Item 5--Operating and Financial Review and Prospects--Income taxes". In the past, we have paid minimal income taxes due to, among other things:

- A favorable tax regime in Trinidad and Tobago allowed Caribbean Ispat to be exempt from tax on all income derived from exports, which constitute a substantial portion of Caribbean Ispat's sales. This tax regime has now been amended and this benefit no longer exists;

- The existence of net operating losses at certain of our operating subsidiaries prior to their acquisition, which were allowed to be carried forward created tax savings in tax in the past. These may not be available in the future;

- The availability of accelerated depreciation resulted in lower taxes on a cash basis due to timing differences between the recognition of certain expenses for tax and book purposes at certain of our operating subsidiaries. Further, we also had the benefits of consolidation of entities within one jurisdiction, in particular Imexsa. This benefit has been reduced by the recent changes in the tax laws in Mexico, which restrict the extent to which such set-offs could be used in any given year; and

- A recent change in the tax laws in Germany that (a) removes deductibility provisions with respect to certain types of interest payments and (b) provides for certain minimum cash tax liability in relation to reported income is expected to increase the amount of cash tax payable by our German operating subsidiaries.

Changes in tax laws, amendments to certain provisions in such laws, modification or withdrawal of special provisions in the tax laws, changes in the interpretation of applicable tax law provisions or new or changed administrative

procedures in any of the jurisdictions in which we operate could result in a material change to our tax liabilities and could have a resultant adverse impact on the results of our operations and cash flows.

See also "Item 8--Financial Information--Legal Proceedings" and Note 16 to the Consolidated Financial Statements.

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Pension Plan under-funding at some of our operating subsidiaries and the need to make substantial cash contributions, which may increase in the future, may reduce the cash available for our business

The Company's principal operating subsidiaries in the U.S., Canada, Trinidad, Germany and France provide defined benefit pension plans to their employees. Some of these plans are currently under-funded, in particular Ispat Inland's pension plan. As at December 31, 2003, the value of Ispat Inland's pension plan assets was $1,781.4 million, while the projected benefit obligation was $2,555.9 million, resulting in a deficit of $774.5 million.

Please see Note 11 to the Consolidated Financial Statements.

A large part of our pension liabilities and funding requirements are at our U.S. operating subsidiary.

The funded status of Ispat Inland's pension plan has been adversely affected in the last few years by a number of factors including low interest rates, equity market performance, reduction in discount rate and significant changes in actuarial assumptions. This also has had an impact on future cash funding requirements. In addition to the agreement with the Pension Benefit Guaranty Corporation ("PBGC"), there are also significant cash contribution requirements under Title I of the Employee Retirement Income Security Act of 1974, as amended, or ERISA. Assuming continuing legislative relief, modestly rising interest rates, and reasonable market returns, the total of these contribution requirements (including the contributions required under the Pension Benefit Guaranty Corporation and Ryerson Tull agreements) could exceed $500 million over the next four to five years and could be significantly higher depending on future asset performance, the levels of interest rates used to determine ERISA minimum funding requirements, actuarial assumptions and experience, union negotiated changes and future government regulations. Total cash contributions made to Ispat Inland's pension plan were $313.5 million from 1998 through December 31, 2003. The contribution required in 2004 is $111.5 million.

The funding requirements may be even higher than the amounts mentioned above in 2004, 2005 and/or 2006 if temporary funding relief provisions currently before the U.S. Congress are not enacted. In January 2004, the Senate passed HR 3108, which included both interest rate relief and deficit reduction contribution relief for steel companies. However, the bill needs to be reconciled with the House of Representatives version in a conference committee. The Senate has appointed conferees to the committee, but the House of Representatives has not. After the bill comes out of conference, it must be signed by the President to become law. The Administration has threatened to veto legislation that includes deficit reduction contribution relief. Despite being passed by the Senate, there can be no assurance that HR 3108 will become law. Our funding obligations depend upon future asset performance, the level of interest rates used to measure ERISA minimum funding levels, actuarial assumptions and experience, union negotiated changes and future government regulation.

Due to the large number of variables that determine pension funding requirements, which are difficult to predict, as well as any legislative action, future cash funding requirements for our pension plans could be significantly higher than amounts currently estimated. These funding requirements could have a material unfavourable impact on our business, operating results and cash flows.

We may be unable to fully utilize our deferred tax asset

As at December 31, 2003, we had $565 million recorded as a deferred tax asset on our balance sheet. These assets can only be utilized if, and to the extent that, our operating subsidiaries generate adequate levels of taxable income in future periods to setoff the loss carryforwards and reverse the temporary differences before they expire. Our ability to generate taxable income is subject to general economic, financial, competitive, legislative, regulatory and other factors which are beyond our control. Consequently, we cannot assure you that we will generate sufficient taxable income to realize our deferred tax asset. If we generate lower taxable income than the amount we have assumed in determining the deferred tax asset, then a valuation reserve will be required, with a corresponding charge against income.

International trade actions or regulations and trade-related legal proceedings may adversely affect our sales, revenues and business in general

Ispat International is an international company with sales spanning many countries, and, therefore, its business has significant exposure to the effects of trade actions and barriers. Recently, various countries, including the United States have, or are contemplating, the institution of trade actions and barriers. For example,

in March 2000 the United States imposed a "Section 201" tariff rate quota on imports of steel wire rod, and in 2001 and 2002, U.S. trade agencies made affirmative determinations under U.S. antidumping and countervailing duty laws against exports of steel wire rod to the United States. In March 2002, the U.S. administration again invoked Section 201 to limit certain steel imports into the United States. The action included 30% tariff rate increases for hot-rolled sheet, cold-rolled sheet, coated sheet, and hot-rolled bar, with the rate declining to 24% in the second year and 18% in the third. In addition, there was a tariff rate quota imposed on steel slab. These measures had a generally positive effect on the results of our U.S. operating subsidiary.

While the Section 201 trade protection measures have been withdrawn in 2003, we cannot predict the timing and nature of similar or other trade actions by the United States or any other country. Because of the international nature of our operations, we will be affected by any trade actions or restrictions introduced by the European Union, the United States, Canada, Mexico or any other country where we sell, or have the potential for selling, our products. Any such trade actions could adversely affect our sales, revenues and results of operations; and, depending on the timing, nature and jurisdiction of such actions, such adverse effects could be material.

In addition to the more general trade barriers described above, if we were party to a regulatory or trade-related legal proceeding that was decided against us or any of our operating subsidiaries, it could adversely affect our business, financial condition, results of operations, cash flows or prospects. See also "Item 8--Financial Information--Legal Proceedings" and Note 16 to the Consolidated Financial Statements.

Due to our global presence, we could be affected by changes in governmental policies and international economic conditions

Governmental, political and economic developments relating to inflation, interest rates, taxation, currency fluctuations, social or political instability, diplomatic relations, international conflicts and other factors, in countries in which we have operations, may adversely affect our business, financial condition, results of operations and prospects.

We do not have, and do not intend to obtain, political risk insurance in any country where we conduct business.

Absence of domestic markets in certain subsidiaries may limit our flexibility in managing our business

Some of our subsidiaries are primarily export oriented, as domestic markets are not adequate to support operations. Any rise in trade barriers or trade related actions in main export markets, or any fall in demand in these markets due to weak economic conditions or other reasons, may adversely affect the operations of these subsidiaries and may limit our flexibility in managing business.

See also "Item 8--Financial Information--Legal Proceedings" and Note 16 to the Consolidated Financial Statements.

Over dependence on domestic markets in certain subsidiaries may also limit our flexibility in managing our business

Certain of our subsidiaries are substantially dependent on the domestic market in their country of operation. While this provides stability to the operations most of the time by building long term customer relationships, it could also in certain situations have an adverse impact. A prolonged fall in demand prompted by weak economic or industry conditions could adversely affect financial results, as non-domestic market alternatives may be difficult to find.

We may experience currency fluctuations and become subject to exchange controls that could adversely affect our business

We operate and sell our products in a number of countries, and as a result, our business, financial condition, results of operations and prospects could be adversely affected by fluctuations in exchange rates. Major changes in exchange rates, particularly changes in the value of the Dollar against the currencies where we have operations, could have an adverse effect on our business and profits. For example, the recent significant depreciation of the Dollar against several currencies, particularly against the Canadian dollar, had a major adverse effect on the competitiveness and the export sales of our Canadian operating subsidiary.

The imposition of exchange controls or other similar restrictions on currency convertibility in the countries where we have operations could adversely affect our business, financial condition, results of operations and prospects While we are not currently affected by any foreign exchange controls or restrictions in the countries where we operate, we could be impacted by such controls or restrictions in the future.

We could experience labor disputes which could disrupt our business

A substantial majority of our employees are represented by labor unions and are covered by collective bargaining or similar agreements, which are subject to periodic renegotiation. Strikes or work stoppages could occur prior to, or during the negotiations leading to new collective bargaining agreements, during wage and benefits negotiations or, occasionally, during other periods for other reasons. For example, there was a 12-day strike at Imexsa in August 2003 because of a dispute at a neighboring, unrelated steel plant with whom Imexsa's employees share a common union.

Each of our operating subsidiaries has concluded collective bargaining agreements with labor unions representing a substantial majority of its employees. At some of our subsidiaries, these agreements include a "no strike" clause. Although we believe that we will successfully negotiate new collective bargaining agreements with our unions when existing agreements expire, such negotiations:

- may not be successful;
- may result in a significant increase in the cost of labor; or
- may break down and result in the disruption of the operations of our operating subsidiaries.

Any such breakdown leading to work stoppage and disruption of operations could have an adverse effect on our operations and financial results.

Additionally, many of the contractors working at our operating subsidiaries' plants employ workers who are represented by various trade unions. Disruptions with these contractors could also adversely impact our operations.

Credit rating downgrades or similar triggers may affect our flexibility in managing business

Our Company does not have a high credit rating and has been downgraded by the rating agencies in the past. For example, during the course of 2002 as a result of developments relating to the restructuring of the debt at Imexsa, certain of the credit ratings of the Company and its subsidiaries were downgraded. Following the successful restructuring of Imexsa, these credit ratings were upgraded, although in certain instances not to previous levels. More recently, in October 2003, our credit rating was placed on credit watch for a possible downgrade by Standard & Poor's arising from concerns relating to liquidity. This credit watch has since been removed. Although we do not have negative rating triggers in our debt agreements, any decline in our credit rating may lead to some of our lenders recalling loans, withdrawing credit lines or increasing the cost of borrowing. Any of these actions may adversely affect liquidity management, our competitiveness and ability to manage our business.

Cyclicality of the steel industry

The steel industry is highly cyclical in nature and sensitive to general economic conditions and other factors beyond our control, such as worldwide production capacity and fluctuations in steel imports and tariffs,

which are difficult to predict. Because we obtain nearly all of our revenues from the sale of steel and steel-related products, any economic downturn in Europe, North America, Asia or elsewhere could result in a significant decrease

in demand or prices for our steel and steel-related products, which could in turn result in decreases in our gross and operating margins and declines in our business, financial condition, results of operations and prospects. For example, in 2000-2001, an economic downturn in North America and other parts of the world, combined with a surge in imports into some of our principal markets, primarily the United States, resulted in significantly lower steel prices, which resulted in a substantial reduction in profits and operating margins for our Company. Although the market for steel products has generally improved, this improvement has been accompanied by substantial increases in the prices of raw materials, energy and transportation. The volatility and the length and nature of business cycles affecting the steel industry have become increasingly unpredictable, and the recurrence of another major downturn in the industry before the cycle recovers adequately and long enough to allow our financial condition to improve may have a material adverse impact on our business, operations, profits and financial condition.

We face significant price and other forms of competition from other steel producers, which could hurt our results of operations

Generally, the markets in which we conduct business are highly competitive. Increased competition could cause us to lose market share, increase expenditures or reduce pricing, any one of which could hurt our results of operations. The global steel industry has historically suffered from substantial over-capacity. Excess capacity in some of the products sold by us will intensify price competition for such products. This could require us to reduce the price for our products and, as a result, negatively impact our results of operations. We compete primarily on the basis of quality and the ability to meet customers' product specifications, delivery schedules and price. Some of our competitors may:

- Benefit from greater capital resources;
- Have lower employee post retirement benefit costs. See also "Item 5--Operating and Financial Review and Prospects";
- Have different technologies; and
- Have lower raw material and energy costs.

In addition, our competitive position within the global steel industry may be affected by, among other things:

- The recent trend toward consolidation amongst our competitors in the steel industry, particularly in Europe and the United States;
- Exchange rate fluctuations that may make our products less competitive in relation to the products of steel companies based in other countries; and
- The development of new technologies for the production of steel and steel-related products.

We may encounter supply shortages and increases in cost of raw materials, energy and transportation

We require substantial amounts of raw materials/energy in our production process, consisting principally of iron ore fines, iron ore pellets, scrap, electricity and natural gas. Any prolonged interruption in the supply of raw materials or energy, or substantial increases in their costs, could adversely affect our business, financial condition, results of operations and prospects. For example, there was a temporary loss of production at Imexsa in the fourth quarter of 2002 caused by a natural gas supply disruption following an explosion

at the supplier's premises. The availability and prices of raw materials may be negatively affected by:

- New laws or regulations;
- Suppliers' allocations to other purchasers;
- Interruptions in production by suppliers;

- Accidents or other similar events at suppliers' premises or along the supply chain;
- Changes in exchange rates;
- Consolidation in steel-related industries;
- Worldwide price fluctuations and other factors; and
- Availability and cost of transportation.

In addition, energy costs, including the cost of natural gas and electricity, make up a substantial portion of our cash cost of production. The price of energy has varied significantly in the past and may vary significantly in the future largely as a result of market conditions and other factors beyond our control. Because the production of DRI and steel involves the use of significant amounts of natural gas, we are sensitive to the price of natural gas.

Further, global developments, particularly the dramatic increase in the demand for materials and inputs used in steel manufacturing from China, may cause severe shortages and/or substantial price increases of key raw materials and ocean transportation capacity. Inability to recoup such cost increases from increases in the selling prices of our products, or inability to cater to our customers' demands because of non-availability of key raw materials or other inputs, may adversely impact our operations and profits.

Competition from other materials may negatively affect our results of operations

In many applications, steel competes with other materials, such as aluminum (particularly in the automobile industry), cement, composites, glass, plastic and wood. Additional substitutes for steel products could adversely affect future market prices and demand for steel products.

Equipment downtime or shutdowns could adversely affect our results of operations

Our manufacturing processes are dependent on critical steelmaking equipment, such as furnaces, continuous casters, rolling mills and electrical equipment (such as transformers), and this equipment may incur downtime as a result of unanticipated failures or other events, such as fires or furnace breakouts. Our manufacturing plants have experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such equipment failures or other events. Such disruptions could have an adverse effect on operations, customer service levels and financial results.

We have a controlling shareholder who can appoint our directors and determine the outcome of shareholder votes

Our controlling shareholder indirectly has the right to make binding nominations for the appointment of all members of our Board of Managing Directors (the "Board of Directors") and to determine the outcome of any action requiring shareholder approval. In addition, the controlling shareholder will have the ability, by virtue of his indirect ownership of class B common shares, to prevent or cause a change in control of our Company and our subsidiaries. Some of our debt could become due prior to its stated maturity following a change in control of our Company if the controlling shareholder were to decide to dilute his ownership below stated levels of ownership.

As of the date of this report, our controlling shareholder indirectly owned all of our class B common shares and 26,149,500 class A common shares, representing 48% of the class A common shares, with an aggregate of approximately 96% of the voting rights. Holders of class A common shares are entitled to one vote per share, and holders of class B common shares are entitled to ten votes per share.

We may encounter potential conflicts of interest

Our controlling shareholder or entities owned or controlled by our controlling shareholder may make acquisitions in the same or related lines of business. In addition to his shareholding in Ispat International, our controlling shareholder currently also owns and controls P.T. Ispat Indo, a mini-mill in Indonesia and LNM Holdings N.V. LNM Holdings N.V. in turn owns and controls several steel and steel-related companies,

including Ispat Karmet JSC in Kazakhstan, Ispat Sidex S.A. in Romania, Ispat Tepro S.A. in Romania, Ispat Petrotub S.A. in Romania, Ispat Annaba Spa in Algeria, Ispat Tebessa Spa in Algeria and Ispat Nova Hut a.s. in the Czech Republic. In addition, LNM Holdings N.V. also has a significant minority interest (and is currently seeking regulatory approval to acquire a majority interest) in Iscor Limited in South Africa. Further, in March 2004 LNM Holdings N.V. acquired a majority shareholding in Polskie Huty Stali S.A. an integrated steel plant in Poland. Also, in October 2003 LNM Holdings N.V entered into a binding share purchase agreement for the acquisition of a majority shareholding in S.C. Siderurgica S.A., a long steel products manufacturing plant in Romania.

Our controlling shareholder, who is Chairman of our Board of Directors, also acts as a director of LNM Holdings N.V., Ispat Karmet JSC in Kazakhstan, Ispat Annaba Spa in Algeria, Ispat Sidex S.A. in Romania, P.T. Ispat Indo in Indonesia, Ispat Nova Hut a.s. in the Czech Republic, Iscor Limited in South Africa and Poliskie Huty Stali S.A. in Poland. Each of LNM Holdings N.V., Ispat Karmet JSC and P.T. Ispat Indo is a party to a management services agreement with our Company, pursuant to which LNM Holdings N.V., Ispat Karmet JSC and P.T. Ispat Indo pay a periodic fee to our Company as compensation for management services rendered to them by our Company.

We have engaged in commercial and financial transactions with affiliates, as detailed in Note 6 to the Consolidated Financial Statements. We conduct these transactions on terms that are no less favorable to us than those we could have obtained from unaffiliated third parties.

The existence of two separate entities under common ownership and engaged in similar business could give rise to potential conflicts of interest.

Because we are a holding company with no revenue-generating operations of our own, we depend on cash flows and earnings of our subsidiaries, which may not be

sufficient to meet our needs

Because Ispat International is a holding company with no business operations of its own, we are dependent upon the earnings and cash flows of, and dividends and distributions from, our operating subsidiaries to pay our expenses, meet any future debt obligations including contingent obligations in relation to the guarantees issued by us and pay any cash dividends or distributions on the class A common shares that may be authorized by our Board of Directors and shareholders. If we are unable to generate sufficient cash flow from such earnings and distributions from our subsidiaries, we may have to delay or cancel the payment of dividends on class A common shares. The Company did not pay a dividend to the class A common shares in 2001, 2002 and 2003. Other potential measures to obtain funds, such as by selling assets, may be restricted by our operating subsidiaries' debt instruments, and our ability to use equity financings is dependent on our results of operations and prevailing market conditions.

Our major assets are interests in the capital stock of our operating subsidiaries. We rely on our operating subsidiaries to generate sufficient earnings and cash flows to pay dividends or distribute funds to our Company to enable us to pay our expenses and meet any future debt obligations. Our operating subsidiaries' ability to pay dividends to us is subject to limitations under the applicable laws of their respective jurisdictions and the terms of certain of their debt agreements.

The ability of our operating subsidiaries to pay dividends or distribute funds to our Company may also be restricted by, among other things, the imposition of, or increases in the rate of, taxes on dividends or distributions in the jurisdictions in which the operating subsidiaries operate or are taxable, or by the imposition of policies restricting the ability of our operating subsidiaries to convert the currencies of the countries in which they operate into other currencies.

Under Dutch law, we can only pay dividends distributions to the extent we receive dividends from our subsidiaries, recognize gain from the sale of our assets, or record share premium as a result of the issuance of common shares. See Note