

Annual Report 2001

International Briquettes Holding IBH

International Briquettes Holding, IBH, is a world-class company based in Venezuela, dedicated to the low cost production and sale of hot briquetted iron that serves as a substitute for high quality scrap in steel production processes. Its primary clients are steel companies from the United States and Europe. International Briquettes Holding, IBH (Nasdaq: IBHVF) consolidates the financial results of Venprecar and has a 50/50 partnership with BHP Billiton, under which are the Orinoco Iron and Operaciones RDI plants, and Brifer, which holds the intellectual rights of the FINMET[®] technology.

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TO OUR INVESTORS:

During the fiscal year October 2000–September 2001, the world steel industry crisis continued for its third consecutive year affecting the prices for briquettes due to the effects of pig iron oversupply and the increase of scrap inventories.

During the last four years, the world steel market has realized an accelerated growth in production, against a very slight increase in consumption. The production surpluses that began to be generated in 1997 brought about the price crisis that has been taking place since the second half of 1998, and that yielded, by the end of the year 2001, an inventory accumulation that exceeds 50 million metric tons. This volume represents approximately 6% of the world steel production in the year 2001.¹ This crisis, qualified by the analyst Peter Marcus as the worst in the history of the steel industry², has forced the Organization for Economic Cooperation and Development, OECD, to express the need for governments to favor conditions to reduce the world steel supply.

It is worthy to mention that the United States, IBH's products main destination, reduced its metallic consumption this year with respect to the prior fiscal period. Considering this circumstance, the IBH Division diversified its portfolio during the fiscal period, obtaining new customers that represented 17% of its total sales.

Consolidated Results

International Briquettes Holding, IBH, reported sales of US\$ 61 million in fiscal year 2001, as compared to sales of US\$ 80 million in fiscal year 2000. IBH recorded an operating loss of US\$ 17 million and a net loss of US\$ 74 million. The aspects that

¹ Source: Latin American Iron and Steel Institute, International Steel Institute

² World Steel Dynamics. Presentation to the ILAFA-42 Congress, October 2001

greater impacted the results were the low prices for the briquette, Venprecar's lower production, and the losses brought about by the investment in Orinoco Iron, as will be explained further down.

Venprecar:

During the fiscal period, the Venprecar plant reported a production of 691 thousand metric tons of briquettes, which represents a 15% decrease with respect to the previous fiscal period. During the first four months of the accounting period, the plant's production capacity was affected by failures in the heat recuperators, which were replaced during the maintenance shutdown in February. Following that, the company decided to continue operating the plant at approximately 90% of its capacity with the purpose of extending the working life of the reformer's catalytic tubes. Operating practices recommend this equipment to be replaced soon because it is in the final stage of its useful life. The company will be able to make this investment only when IBH's financial situation is stable and the prices for metallic recover. This important factor, together with the low price levels for briquettes caused the operating losses reported by IBH during the period.

Investment in Orinoco Iron

Regarding IBH's participation in Orinoco Iron, these operations reported a loss of US\$ 59 million to IBH's consolidated results, or 80% of the net loss, due to a combination of low volumes produced, depressed prices during the fiscal period and the accumulation of financial interest.

During the fiscal year ended September 30, 2001, it was not possible to simultaneously operate more than two of the four production trains of the Orinoco Iron plant due to, among other factors, the limited working capital available and the international price crisis for the briquette.

Most of the failures found in certain equipment, some of them under warranty, were corrected during the fiscal period. However, problems in certain equipment at the Orinoco Iron plant are still present.

Some improvements were introduced, among them, the installation of water injection systems to the production trains in order to stabilize the temperature during the reduction process. These modifications helped to reach campaigns higher than 90 days, which represents a positive change in relation to prior runs, and to reach during certain periods, consumption and production indicators in accordance with the design parameters.

Considering the low price level for the briquette, Orinoco Iron recently decided that during fiscal period 2002 (October 2001-September 2002) only one of the two production modules of the plant will operate.

Financial Condition:

On March 29, 2001, BHP, now BHP Billiton, issued a press release informing that it would recognize as a loss its investment in the Orinoco Iron project and that it would cease future investments in it. The press release established that based on an operational and market conditions analysis, the Australian partner did not expect the Orinoco Iron project to reach BHP's operating and financial performance targets needed to justify any further investment in the project, nor would it be able to satisfy the terms initially established in the project's financing agreement.

During the year 2001, Orinoco Iron was unable to meet the payment terms, conditions and some "Covenants" set out in its loan contract. As a consequence, Orinoco Iron's creditor banks accelerated the maturity of the total amount of principal and interest outstanding under Orinoco Iron's credit facility, and requested from the guarantors, Venprecar, a subsidiary of IBH among them, the corresponding payments. In May 2001, BHP paid Orinoco Iron's creditor banks US\$ 314 million, corresponding to its

proportional quota (50%) of the debt that it guaranteed. Currently, Orinoco Iron and IBH are negotiating the restructuring of Orinoco Iron's debt that reaches some US\$ 658 million with the creditor banks and BHP Billiton.

Similarly, IBH is holding talks with BHP Billiton, with the purpose of reaching agreements about the pre-existing obligations related to the partnership. IBH and BHP Billiton are also evaluating options to possibly incorporate a new shareholder to Orinoco Iron.

Assuming that the restructuring of the debt will allow deferral of the capital and interest amortization payments, and considering the recent operating results of the plant, Orinoco Iron re-estimated its investment requirements in excess of US\$ 100 million³ to cover the working capital and investment in assets needed.

Transfer to Nasdaq Small Cap Market

In July 2001, IBH applied to register its shares in Nasdaq Small Cap Market. This request from IBH was because the market value of public float had fallen below the US\$ 5 million minimum value required to keep the shares in the Nasdaq National Market.

On August 8, Nasdaq confirmed the transfer of IBH's shares to the Nasdaq Small Cap Market, which has been in effect since August 10. In this way, continuity was given to the trade of IBH shares through the Nasdaq Market, keeping the IBHVF symbol, as well as the availability of information relative to transaction volumes and closing prices through on-line services and specialized news agencies.

Operaciones RDI

Separately, the affiliate Operaciones RDI (50% owned by IBH) started a temporary shutdown of the plant due to maintenance requirements and unfavorable market conditions. The Operaciones RDI plant, formerly Fior Plant, started operations in 1976.

³ In March 2001, a fund requirement of US\$ 220 million was announced.

Reestablishing operations in this plant will not be considered until market prices recover.

Brifer

The company that holds the intellectual rights over the Fior[®] and Finmet[®] processes, Brifer, together with Voest-Alpine Industrieanlagenbau, informed that the Finmet[®] plant located in Port Hedland, Australia, was able to operate the four production trains simultaneously with a production close to 7,000 metric tons per day. This is equivalent to the nominal capacity of 70 tons per hour per train.

Priority Attention Aspects

During the fiscal year, management gave top priority attention to the restructuring of Orinoco Iron's debt. This continues to be of fundamental importance in the new accounting period started in October 2001, since IBH's future is conditioned by its resolution. In this sense, talks with the creditor banks, with the suppliers and with BHP Billiton continue in order to reach a satisfactory agreement. Orinoco Iron's creditor banks have expressed their interest in achieving a successful restructuring of the financial obligations. It is necessary to point out that the Corporación Venezolana de Guayana, in meeting its objective of adding value to the products of their companies, preserving employment in the region and generating indirect exports through the development of the industry, has supported the operations of Orinoco Iron and other direct reduction steel companies in Guayana.

As of the close of the fiscal year 2001, we noticed some external aspects that signal a difficult environment facing the new year: a) in the international environment, an extension of the steel crisis, worsened by the consequences on the economy resulting from the events of September 11, as well as the effect of possible protection measures that are being advanced in several countries; b) in the local environment, the impact of the drop in oil prices and continued overvaluation of the bolivar. These factors have

delayed the completion of Orinoco Iron's financial restructuring process.

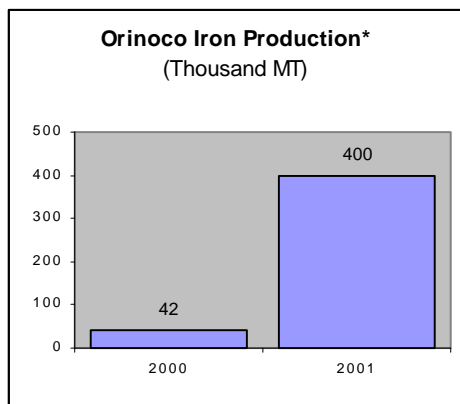
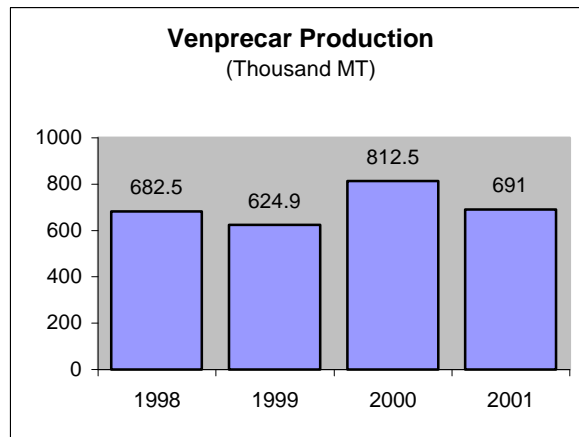
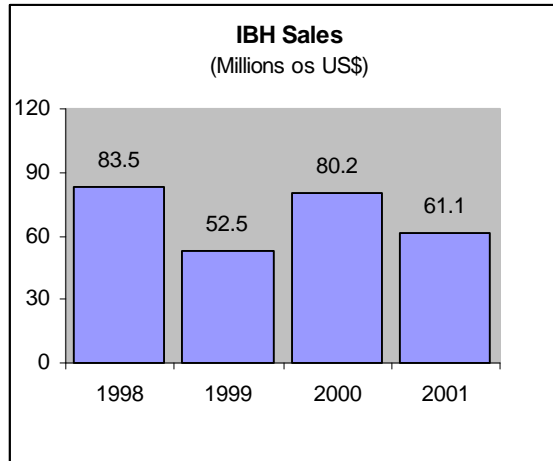
Again, we recognize the effort of all the workers of IBH and its subsidiary and affiliate companies, their loyalty and commitment in the pursuit of meeting, in spite of the adverse market and operating conditions that we faced during fiscal 2001.

Sincerely,

Oscar Augusto Machado
Chairman

Neil Malloy
Director

Caracas, December 12, 2001.



* Orinoco iron's operating tests began in May 2000. The fiscal period ended September 30, 2000.

NASDAQ: IBHVF

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