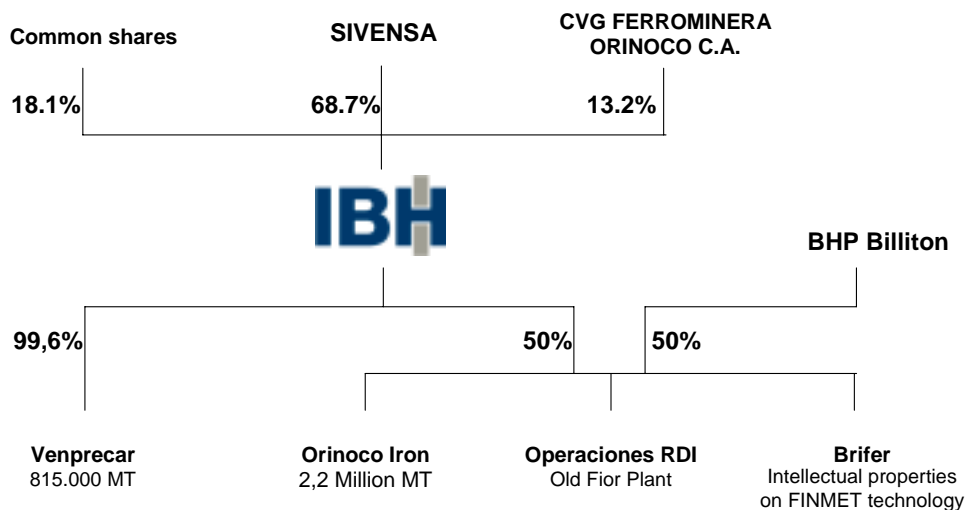




International Briquettes Holding

ANNUAL REPORT 2003

International Briquettes Holding, IBH, is a corporation based in Venezuela, which holds companies 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 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.



Board of Directors

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EXECUTIVE PRESIDENT OF ORINOCO IRON

Víctor Orozco

MANAGER OF VENPRECAR PLANT

REPORT PRESENTED BY THE BOARD OF DIRECTORS OF
INTERNATIONAL BRIQUETTES HOLDING (IBH) TO THE SHAREHOLDERS
GENERAL MEETING TO BE HELD ON JANUARY 29, 2004

To our Shareholders:

Following the end of the company's fiscal year on September 30, 2003, in compliance with legal and statutory regulations, we submit for the consideration of this Meeting, the accounts presented by the Board of Directors, the Statutory Auditors' Report and Independent Auditors' Report, the latter consolidated as established by the Venezuelan Capital Market Law.

1. **PRESENTATION OF FINANCIAL STATEMENTS**

International Briquettes Holding, IBH, was incorporated as a company in the Cayman Islands in 1997. Because the company's functional currency is the United States dollar, IBH has adopted it as the reporting currency for its financial statements. IBH shares were listed on the Nasdaq stock market, which is why the company decided, after incorporation, to use the Generally Accepted Accounting Principles in the United States of America (US GAAP) for presentation of its financial statements.

Since IBH shares are also listed on the Caracas Stock Exchange, the company is subject to the Venezuelan Capital Market Law and to the regulations issued by the Venezuela National Securities Commission (CNV). According to current legal provisions in Venezuela, companies listed on local capital markets, including foreign companies, must publish restated financial statements in bolivars according to Generally Accepted Accounting Principles in Venezuela. For this reason, in addition to the financial statements in dollars, IBH also publishes its financial statements in restated bolivars.

In accordance with Article 6 of the CNV regulations for preparation of financial statements, the results used as basis for declaring and paying dividends do not include the equity investment in subsidiaries and affiliates. Based on this provision, the individual financial statements (without equity investment in subsidiaries and affiliates) are used for determining the existence of profits on which dividends can be

distributed. Also, a dividend can be declared on the net profits obtained, if any, in the income statement after offsetting all the accumulated losses from previous years.

The individual IBH financial statements in restated bolivars for fiscal 2003 show a profit that only partially offsets the losses accumulated from previous years. Accordingly, IBH will not declare dividends based on net profits for fiscal 2003.

2. RESTRUCTURING OF ORINOCO IRON DEBT

Orinoco Iron is one of the companies of the 50/50 joint venture with the Anglo-Australian Corporation BHP Billiton. In 1997, Orinoco Iron contracted financing of US\$613 million to develop, build and operate its iron-ore direct reduction briquette plant using the new FINMET technology. The loan was guaranteed in equal parts by IBH and BHP (now BHP-Billiton).

Since the start of its operations in 2000, the financial results of Orinoco Iron have been affected by factors such as delays in start-up of the plant, delays associated with the adaptation of the new technology, failures in certain equipment which was replaced by the manufacturers, high production costs, and low international briquette prices. Consequently, in 2003, 2002 and 2001, Orinoco Iron could not meet the payment conditions and certain covenants established in the debt agreements.

In March 2001, BHP announced that it would write off its investment in Orinoco Iron, and cease any further contributions to the project. BHP paid the Orinoco Iron creditor banks the sum related to its 50% interest in the debt contracted to build the plant. At present, IBH and BHP are negotiating with the creditor banks to restructure the remaining 50% of the debt, which, at September 30, 2003, totaled \$364 million, corresponding to the portion guaranteed by IBH and Venprecar. The continuity of IBH operations depends on finding a solution to the financial situation of Orinoco Iron.

At the end of fiscal 2002, IBH declared the total loss of the value of the investment in affiliates, along with accounts receivable from the companies that form the joint venture, as explained later in this report in sections (6.c) and (6.f). However, IBH has not recorded the contingent liability for the Orinoco Iron debt in its balance sheet,

considering that the company may be able to pay its debt if the objectives of the strategic plan prepared by IBH management, its Venprecar subsidiary and its Orinoco Iron affiliate are achieved. This plan envisages:

- a. Finalize negotiations with BHP Billiton on the terms and conditions of the Orinoco Iron debt with BHP Billiton.
- b. Complete negotiations with creditor banks on restructuring the Orinoco Iron debt.
- c. Obtain the working capital required by Orinoco Iron through talks with its main suppliers and financial institutions, and explore the possible entry of new shareholders.
- d. Increase production through start-up of all production trains, which will increase income, reduce costs per ton, leading to increased cash flows.

Despite confidence in the successful restructuring of Orinoco Iron's liabilities, management decided, conservatively, to include a warning on this situation in the IBH audited financial statements in bolivars and in United States dollars.

As mentioned in the report for the third quarter of the IBH fiscal year, in June 2003, IBH, the Orinoco Iron creditor banks and Corporación Venezolana de Guayana (CVG) set up a commission to study alternatives and define the terms of the restructuring with a view to guaranteeing the long-term operating capacity of Orinoco Iron. The participation of CVG Ferrominera Orinoco and CVG EDELCA, suppliers of iron ore and electricity, respectively, has been fundamental in achieving the current operating situation of Orinoco Iron, and in supporting the restructuring schemes analyzed to date. The commission has worked on a set of proposals that could eventually contribute to an agreement to restructure the company's debt.

3. LABOR RELATIONS

In the fiscal year, Venprecar and the labor union that groups all company workers signed a new collective agreement with duration of 30 months from July 10, 2003.

During the accounting period of this report, operations in the Orinoco Iron plant were affected by the climate of labor agitation caused by the prolonged negotiations with the workers on the collective agreement. The company made its best efforts to negotiate on reasonable terms without putting operating viability at risk. Finally, Orinoco Iron and the union reached an agreement that will come into effect in the second week of December 2003.

4. REQUEST FOR NASDAQ DELISTING

As decided in the Shareholders' General Meeting held on January 27, 2003, IBH requested the delisting of its shares on the Nasdaq Small Cap Market, which came into effect on February 18. IBH shares continue to be listed on the Caracas Stock Exchange.

5. ENVIRONMENT

The highlights of the international and local environment which affected the IBH subsidiary Venprecar, and the affiliated company Orinoco Iron in the fiscal year are commented on below:

a. INTERNATIONAL

During the fiscal year, prices of metallics (scrap, pig iron and briquettes) rose on the global market. The average price of briquettes on-barge US Gulf (New Orleans) increased 38.6% from October 2002 to September 2003¹. The average price in fiscal 2003 was the highest for iron ore briquettes in the last five years, basically due to strong demand for metallics on the international market, low volumes of scrap and pig iron inventory in European and Asian countries, and briquette shortages.

b. NATIONAL

In the domestic sphere, the performance of IBH companies (Venprecar and Orinoco Iron) was affected by the following factors:

¹ Percentages calculated by Orinoco Iron from monthly data published by CRU Monitor, Steel, Metallics, Scrap and Pig Iron.

- i. Limitations on availability of natural gas due to production levels in the national oil industry in late 2002 and 2003, which affected the reliability of the gas supply to the Venprecar and Orinoco Iron plants.
- ii. Deviations in the quality of the iron ore supplied to the Orinoco Iron plant.
- iii. Introduction of an exchange control regime with a fixed buying rate of Bs 1,596/US\$ and selling rate of Bs 1,600/US\$. The new system, announced in February 2003, imposed severe restrictions on processes for obtaining foreign exchange for imports, as well as on payments of financial debt and profits.

c. ASPECTS OF THE EXCHANGE CONTROL REGIME

To instrument the new regime, the administration set up the Foreign Exchange Administration Commission (CADIVI) to coordinate, administer, control and establish requirements, procedures and restrictions for the new exchange control regime.

The regulations establish that all foreign exchange that enters the country must be sold to the Central Bank of Venezuela, and temporarily suspend trading in bolivars in State paper issued in foreign currency. From January 22, 2003 until the date of this report, Venprecar and Orinoco Iron sold US\$46.0 million and US\$52.4 million, respectively, in foreign exchange received from exports to the Central Bank.

The Venprecar subsidiary complied with the requirements for registration of users. At the date of this report, the company had obtained foreign exchange totaling US\$47,862 from CADIVI. Amounts authorized by CADIVI but pending receipt were US\$150,524, and pending approval US\$1,295,083.

The Orinoco Iron affiliate also complied with CADIVI requirements for registration of users. At the date of this report, the company had received foreign exchange for US\$1,672,280 from CADIVI. Amounts approved by

CADIVI but pending receipt were US\$463,830, and pending approval US\$7,816,497.

On January 22, 2003, CADIVI issued administrative regulations for registration of private-sector foreign debt. Orinoco Iron completed the CADIVI requirements for registration and recording of its net foreign debt for US\$728,045,559 in order to obtain the foreign exchange for payments at the official exchange rate. According to communication received November 24, 2003, CADIVI approved the recording and registration of debt for US\$267,836,024, and authorized liquidation of foreign exchange for US\$101,207,239 related to the balance of principal and interest due at November 30, 2003 of the debt with multilateral organizations and the bank debt guaranteed by OPIC (Overseas Private Investment Corporation). At the date of this report, Orinoco Iron had not received approval for the balance.

Venprecar has no bank debt and these requirements were not applicable.

6. IBH RESULTS FOR FISCAL 2003

The main changes in the financial statements in comparison with fiscal 2002 are commented on below:

- a. Sales of SEVENTY MILLION EIGHTY-NINE THOUSAND UNITED STATES DOLLARS (US\$70,089,000) compared with FIFTY-FOUR MILLION NINE HUNDRED AND EIGHT THOUSAND UNITED STATES DOLLARS (US\$ 54,908,000) reported the year before.
- b. Operating profit of EIGHT MILLION SEVEN HUNDRED TWENTY-ONE THOUSAND UNITED STATES DOLLARS (US\$ 8,721,000), compared with operating loss of FOURTEEN MILLION NINE HUNDRED THIRTY-TWO THOUSAND UNITED STATES DOLLARS (US\$ 14,932,000), in the preceding year.
- c. Provision for accounts receivable from subsidiaries of ONE MILLION FIVE HUNDRED SIXTEEN THOUSAND UNITED STATES DOLLARS (US\$

1,516,000) related to the IBH accounts receivable from the companies that form the IBH-BHP joint venture compared with EIGHT MILLION THREE HUNDRED TWO THOUSAND DOLLARS (US\$ 8,302,000) in the preceding year.

- d. Exchange loss of EIGHTY-NINE THOUSAND UNITED STATES DOLLARS (US\$ 89,000) compared with exchange gain of TWELVE MILLION FIVE HUNDRED FIFTY-SEVEN THOUSAND UNITED STATES DOLLARS (US\$ 12,557,000) in fiscal 2002.
- e. Net profit of THREE MILLION FIVE HUNDRED SEVENTY-TWO THOUSAND UNITED STATES DOLLARS (US\$ 3,572,000) compared with the net loss of SIXTY-NINE MILLION THIRTY-EIGHT THOUSAND UNITED STATES DOLLARS (US\$ 69,038,000) in 2002.

f. Items not comparable with fiscal 2002

As reported at the end of fiscal 2002, IBH recorded a provision for the total loss of the value of its investment in the companies that form the joint venture with BHP Billiton (Orinoco Iron, Operaciones RDI, and IBMS) equivalent to the total net value book value at September 30, 2002. The *Provision for total value of equity investments* made at the end of fiscal 2002 was for US\$ TWENTY-SIX MILLION SIX HUNDRED EIGHTY-SIX THOUSAND UNITED STATES DOLLARS (US\$ 26,686,000).

In relation to this investment, in 2002 the affiliates recorded a loss of equity investment of TWENTY-SEVEN MILLION FIVE HUNDRED FORTY-SIX THOUSAND UNITED STATES DOLLARS (US\$ 27,546,000).

Because this investment is no longer on the IBH balance sheet, the 2003 results do not include liabilities for these two items.

7. ANALYSIS OF PERFORMANCE OF VENPRECAR SUBSIDIARY

The Venprecar subsidiary reported sales of \$70 million in fiscal 2003, an increase of 20% from the previous year, due to higher international briquette prices as explained in point (5.a).

Production totaled 557,009 metric tons in comparison with 571,792 metric tons in the 2002 accounting period. The following factors explain the production level during the fiscal year:

- Reduction in supply of natural gas.

- Major scheduled shutdown to change gas reformer tubes and other equipment. These works took 45 days from February 15. The shutdown experienced delays caused by the partial closure of some Venezuelan ports in December 2002 and January 2003, which delayed the arrival of equipment. Since replacement of gas reformer equipment, the plant's operating performance has been satisfactory, and production levels have responded to the better conditions in the plant reaching revised design levels of 815,000 metric tons.

Venprecar reported an operating profit of US\$10.0 million compared with an operating loss of US\$12.5 million in fiscal 2002. The improvement is attributable to higher briquette prices, and the lower cost of sales as detailed below:

Cost of Sales

Total cost of sales fell 12% from fiscal 2002, despite the increase of 6.7% in the price of iron ore applicable in January 2003, due to the following factors:

- a. Devaluation of the currency, which caused an adjustment in costs in bolivars.

- b. Stabilization of production from the Venprecar plant after achieving a performance consistent with its revised design capacity (815,000 metric tons) after the shutdown for replacement of gas reformer equipment.

- c. Venprecar's lower depreciation in fiscal 2003 in comparison with 2002, due to lower production.

Administrative expenses

The subsidiary's administrative expenses in the results presented in the US GAAP increased 2% in relation to the previous year, due to the net effect of the wage raise and the devaluation of the bolivar.

Exchange gain (loss)

The exchange gain (loss) was mostly attributable to the effect of the fluctuation in the exchange rate on net monetary items denominated in bolivars, and is included in the profit and loss for the fiscal year. The US dollar revalued 9% against the bolivar during fiscal 2003 compared with 98% in the same period of 2002. Venprecar reported an exchange loss of US\$0.8 million in fiscal 2003 compared with a gain of US\$12.7 million in the previous period.

Net Profit

As result of the factors mentioned earlier, Venprecar reported a net profit of US\$13.4 million in the fiscal year, compared with US\$3.2 million in the previous fiscal year.

8. ANALYSIS OF PERFORMANCE OF AFFILIATE COMPANIES

a. ORINOCO IRON

Orinoco Iron's sales for the fiscal year totaled US\$60.6 million, an increase of 8.46% from US\$63.2 million in the previous fiscal year, due to higher international briquette prices.

According to the decision taken at the end of fiscal year 2001, and extended one year later, during the accounting period ended September 30, 2003, the Orinoco Iron plant operated only the two trains of one production module. In this period, production totaled 603,549 metric tons compared with 631,788 metric tons in the previous fiscal year.

The conditions that affected the production of the Orinoco Iron plant in the period were, in order of importance: the problems with gas supply, commented earlier; and the climate of labor instability caused by prolonged negotiations with company workers on the collective agreement. The affiliate made a great effort to

negotiate the contract on reasonable terms without putting its operating viability at risk, finally reaching an agreement in the first half of December 2003.

The cost of sales of Orinoco Iron fell to US\$74.3 million compared with US\$82.0 million in the 2002 fiscal period. Despite the decrease in cost of sales in relation to the previous year and as a percentage of sales revenue, the item remains high in relation to expected operating costs of Orinoco. This result is due to the impact of fixed costs on operations since trains 1 and 2, which maintained operations in 2002 and 2003, did not achieve higher production volumes.

Administrative expenses dropped 20.5% to US\$4.0 million, being the net result of wage increases, restructuring expenses of the Orinoco Iron debt, cost-cutting measures and the effect of the bolivar devaluation.

Overall, Orinoco Iron reported an operating loss of US\$9.7 million in the fiscal year, down from US\$23.7 million between October 2001 and September 2002.

Interest expense was US\$38.7 million in comparison with US\$59.4 million in fiscal 2002. The amount includes US\$13.0 million interest on the debt with financial institutions, US\$13.0 million on the debt with BHP Billiton, and 12.7 million on the debt with the main suppliers. Additionally, in this fiscal year, adjustments of US\$15 million were made in favor of Orinoco Iron derived from changes in the interest accrual policy on the debt balances.

These factors explain why the net loss of US\$46.0 million reported in the fiscal year was lower than the US\$53.5 million reported in 2002.

b. OPERACIONES RDI

Operaciones RDI operates the old Fior briquette plant. Since 2001, because of the high investment required and low briquette prices, the IBH-BHP Billiton joint venture indefinitely suspended the operations of this plant.

Although briquette prices improved in 2003, the investment required to resume operations, uncertainty about gas supplies and price stability, and the

other priorities of the IBH-BHP Billiton joint venture, led to the decision to continue the shutdown of plant in fiscal 2003. It has not yet been decided when the plant will be reopened.

The affiliate management has begun negotiations with Orinoco Iron on the terms and conditions to regulate the rental of land and equipment owned by Operaciones RDI in use by Orinoco Iron, as well as the sale of certain equipment to the latter company.

c. BRIFER

Brifer International Ltd (Brifer) received no sales revenue during fiscal 2003. Brifer has intellectual property rights over the technology involved in the improved fluid-bed iron-ore fines reduction process (the Improved Fior process) and over the Finmet technology jointly with Voest Alpine Industrietalagenbau (VAI).

In royalties, Brifer is owed US\$6.0 million by BHP Billiton, and US\$3.4 million by Orinoco Iron.

d. IBMS

The international company Briquettes Marketing Services (IBMS) provides briquette marketing services to Venprecar and IBH affiliate companies under agreements signed.

9. ORINOCO IRON TRAINS 3 AND 4 OF MODULE 2

On September 20, 2003, train 3 of Module 2 began commercial operations. At the date of this report, the process of acquisition of certain parts and components had started for train 4, which is scheduled to begin commercial operations in the second half of fiscal 2004. However, considering the contingencies that could occur during the learning curve, the simultaneous operation of the plant's four production trains is not expected to take place during fiscal year 2004.

10. QUALITY: ISO 9001-2000

To adapt to the new quality standards for processes during this fiscal year, the Venprecar subsidiary and the IBH affiliated company Orinoco Iron started the process of introduction and certification of the ISO 9001 2000 standard.

11. With the exception of the matters commented on in point 2 of this report, at this date, we have no knowledge of the existence of litigation or civil, tax or commercial claims that would significantly influence or negatively affect the economic and financial position of IBH.

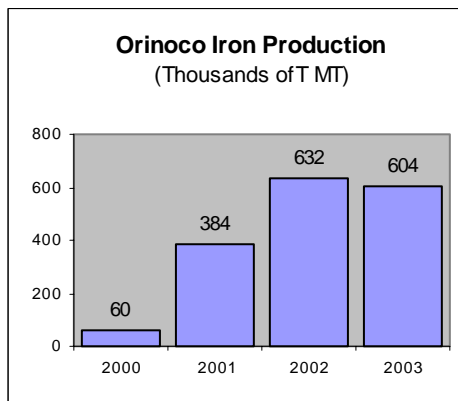
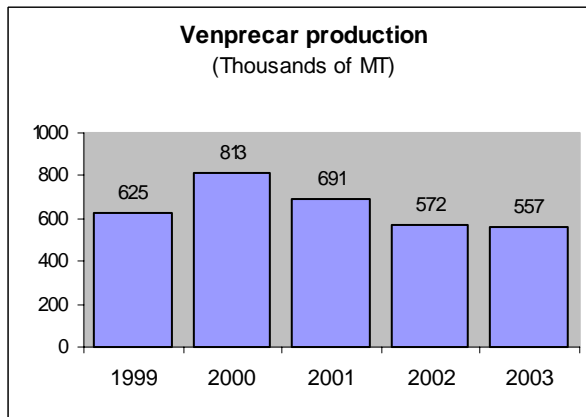
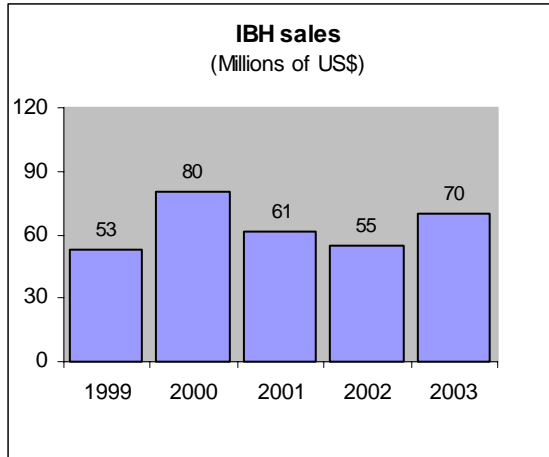
12. During the year there were no significant changes in credit, collections and sales policies. One customer represented 36% of the joint sales of Orinoco Iron and Venprecar.

13. The commercial borrowing of the Venprecar subsidiary is denominated in bolivars, while liabilities arising from guarantees granted for financing the Orinoco Iron project are denominated in dollars.

14. As required by the Venezuelan National Securities Commission, we inform you that the content of form CNV-FG-010 "Remunerations Paid to Directors and Executives," reflects, during the period reported, the sum of ONE BILLION THIRTY-FIVE MILLION TWO HUNDRED AND THREE THOUSAND THREE HUNDRED FORTY-SIX BOLIVARS (Bs. 1,035,203,346). This figure is composed of: TWO HUNDRED EIGHTY-SEVEN MILLION NINE HUNDRED FIFTY-EIGHT THOUSAND TWO HUNDRED FIFTY-SIX BOLIVARS (Bs. 287,958,256) related to Venprecar, and SEVEN HUNDRED FORTY-SEVEN MILLION TWO HUNDRED FORTY-FIVE THOUSAND NINETY BOLIVARS (Bs.747,245,090) related to Orinoco Iron.

The Board of Directors

Caracas, December 4, 2003.



INVESTOR RELATIONS

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