

INTERNATIONAL BRIQUETTES HOLDING

AND ITS SUBSIDIARIES

(A majority owned subsidiary of Siderúrgica Venezolana
"Sivensa," S.A.)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AND

CONSOLIDATED FINANCIAL STATEMENTS

IN U.S. DOLLARS IN ACCORDANCE WITH INTERNATIONAL

FINANCIAL REPORTING STANDARDS

SEPTEMBER 30, 2004 AND 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
International Briquettes Holding (IBH)

We have audited the consolidated balance sheets of International Briquettes Holding (IBH) and its subsidiaries at September 30, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, presented in U.S. dollars and prepared in conformity with International Financial Reporting Standards (IFRS). The preparation of these financial statements and their notes is the responsibility of IBH's management. Our responsibility is to express an opinion in these financial statements based on our audits.

We conducted our audits in accordance with international auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of International Briquettes Holding (IBH) and its subsidiaries at September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards (IFRS).

As described in Note 4, IBH belongs to a group of related companies and conducts significant transactions with other members of the group. Because of those relationships, these transactions may have taken place on terms other than those that would characterize transactions between unrelated companies.

To the Shareholders and Board of Directors

As described in Note 7, IBH and its subsidiary Venezolana de Prereducidos Caroní “Venprecar” have provided a security package for a portion of a long-term loan received by the affiliate Orinoco Iron. At September 30, 2004, the net portion secured by IBH and Venprecar amounts to US\$290 million (US\$364 million at September 30, 2003). In 2004 and 2003, Orinoco Iron has encountered financial difficulties and has been unable to comply with the conditions of payment and certain covenants of this loan agreement. Consequently, the balance of this loan is considered by creditor banks as due and payable. During 2004 creditor banks began executing certain guarantees set out in the loan agreement and, at September 30, 2004, cash balances of US\$8.7 million and accounts receivable of US\$32.2 million of the subsidiary Venprecar have been executed. Amounts executed were recorded by Venprecar as accounts receivable from Orinoco Iron. In September 2004 Orinoco Iron assumed Venprecar debts of US\$15.5 million and Bs 42,795 million (equivalent to US\$22.3 million), offsetting most of Venprecar’s accounts receivable from Orinoco Iron as a result of the aforementioned executions. IBH and Venprecar management estimate that Venprecar will also have to make future payments of approximately US\$220 million to honor the guarantee granted to Orinoco Iron’s creditor banks since, in their estimation, Orinoco Iron will not be able to pay its overdue debts in the short-term. At September 30, 2004, the subsidiary Venprecar set aside a provision for contingencies, at present value, in respect of the guarantee of approximately US\$190 million; its offsetting entry is a reimbursable account receivable from Orinoco Iron. Additionally, at September 30, 2004, IBH and Venprecar have other accounts receivable from Orinoco Iron for US\$51.5 million. Based on projected cash flows of Orinoco Iron, IBH and Venprecar management are of the opinion that all these accounts receivable will be recovered in the long-term. As indicated in Note 15, as from November 2004, IBH owns the majority of Orinoco Iron’s capital stock and has management control of Orinoco Iron. Orinoco Iron and IBH are currently negotiating with creditor banks to restructure the outstanding loan balance. To date, we are unable to foresee the outcome of these matters and its possible effect, if any, on the accompanying consolidated financial statements.

As described in Notes 1-c and 7-c, low international metal prices during 2002 and 2001 and delays in start-up and production build-up of the Orinoco Iron plant adversely affected the results of operations, cash flows and financial position of IBH and its affiliates Orinoco Iron and Operaciones RDI, which are part of a Joint Venture between IBH and BHP-Billiton. In March 2001 BHP-Billiton announced that it would write off its equity investment in Orinoco Iron and cease any further investment in this project. During 2002 IBH set aside a provision for loss in value of its investment in the companies comprising the Association, equivalent to the total net book value at September 30, 2002. These factors, the need for

To the Shareholders and Board of Directors

additional funding, and the current status of the overdue loan described in the previous paragraph raise substantial doubts as to the capacity of IBH and its affiliates to continue as a going concern. As described in Note 1, management of IBH and its affiliate Orinoco Iron have developed a strategic plan to assess different options to restructure outstanding financial debt and obtain additional funding and also are negotiating options to obtain a significant reduction of Orinoco Iron's debt. The accompanying consolidated financial statements have been prepared on the basis of a going concern and do not include adjustments that may arise from the outcome of these uncertainties.

ESPIÑEIRA, SHELDON Y ASOCIADOS
(A member firm of PricewaterhouseCoopers)



Carlos González G.

November 25, 2004
Caracas - Venezuela

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

(A majority owned subsidiary of Siderúrgica Venezolana
"Sivensa," S.A.)

CONSOLIDATED BALANCE SHEET

(Thousands)

<u>Assets</u>	September 30.		
	<u>2004</u> (Equivalent bolivars, see Note 2-q)	<u>2004</u> (U.S. dollars)	<u>2003</u> (U.S. dollars)
Current assets:			
Cash and cash equivalents	22,832,640	11,892	10,116
Cash in guaranty	13,645,440	7,107	715
Short-term investments	1,025,280	534	-
Accounts receivable (Notes 3 and 4)	167,151,360	87,058	22,712
Inventories (Note 5)	7,825,920	4,076	3,821
Prepaid expenses and other current assets	<u>2,874,240</u>	<u>1,497</u>	<u>107</u>
Total current assets	215,354,880	112,164	37,471
Accounts receivable from related companies (Notes 3, 4 and 7)	401,742,720	209,241	9,818
Property, plant and equipment, net (Notes 6 and 7)	265,587,840	138,327	146,305
Spare parts and other assets (Note 5)	<u>372,480</u>	<u>194</u>	<u>1,826</u>
Total assets	<u>883,057,920</u>	<u>459,926</u>	<u>195,420</u>
 <u>Liabilities and Shareholders' Equity</u> 			
Current liabilities:			
Short-term portion of provision for contingency for guarantee granted (Notes 7 and 14)	163,200,000	85,000	-
Accounts payable -			
Suppliers	16,984,320	8,846	6,745
Related companies (Note 4)	74,344,320	38,721	27,125
Profit sharing, vacation and other personnel accruals	2,353,920	1,226	1,019
Taxes	17,174,400	8,945	-
Other current liabilities	<u>424,320</u>	<u>221</u>	<u>230</u>
Total current liabilities	274,481,280	142,959	35,119
Long-term loans with financial institution (Note 8)	58,980,480	30,719	-
Accrual for employee termination benefits, net of advances to employees of US\$4,088 (US\$2,540 in 2002)	2,593,920	1,351	823
Deferred income tax (Note 10)	59,429,760	30,953	22,509
Provision for contingency for guarantee granted (Notes 7 and 14)	201,600,000	105,000	-
Other long-term liabilities and accruals (Note 7-a)	<u>41,550,720</u>	<u>21,641</u>	<u>9,818</u>
Total liabilities	638,636,160	332,623	68,269
Minority interests	7,305,600	3,805	3,712
Shareholders' equity (Note 11)	<u>237,116,160</u>	<u>123,498</u>	<u>123,439</u>
Total liabilities, minority interests and shareholders' equity	<u>883,057,920</u>	<u>459,926</u>	<u>195,420</u>

The accompanying notes are an integral part of the consolidated financial statements

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Thousands, except share and per share amounts)

	<u>Years ended September 30,</u>		
	<u>2004</u>	<u>2004</u>	<u>2003</u>
	(Equivalent bolivars, see Note 2-q)	(U.S. dollars)	(U.S. dollars)
Net sales:			
Exports (Note 3)	210,975,360	109,883	53,857
Domestic (Note 4)	1,125,120	586	13,148
Sales of subproducts	<u>890,880</u>	<u>464</u>	<u>3,084</u>
	212,991,360	110,933	70,089
Cost of sales (Note 4)	<u>(146,833,920)</u>	<u>(76,476)</u>	<u>(56,750)</u>
Gross profit	66,157,440	34,457	13,339
General and administrative expenses (Note 4)	(7,021,440)	(3,657)	(3,406)
Other income, net	<u>286,080</u>	<u>149</u>	<u>54</u>
Operating income	<u>59,422,080</u>	<u>30,949</u>	<u>9,987</u>
Interest income (Notes 4 and 7)	2,987,520	1,556	806
Interest expense (Notes 4 and 7)	(3,905,280)	(2,034)	(4,131)
Exchange gain (loss), net (Note 2-a)	5,719,680	2,979	(89)
Adjustment in value of long-term loans with financial institution (Note 8)	(8,515,200)	(4,435)	-
Provision for investment and accounts receivable from affiliates (Notes 4 and 7)	<u>(22,550,400)</u>	<u>(11,745)</u>	<u>(1,516)</u>
	<u>(26,263,680)</u>	<u>(13,679)</u>	<u>(4,930)</u>
Income before taxes and minority interests	33,158,400	17,270	5,057
Taxes (Note 10)	<u>(32,807,040)</u>	<u>(17,087)</u>	<u>2,440</u>
Income before minority interests	351,360	183	7,497
Minority interests	<u>(276,480)</u>	<u>(144)</u>	<u>(279)</u>
Net income	<u>74,880</u>	<u>39</u>	<u>7,218</u>
Net income per share		<u>0.002</u>	<u>0.361</u>
Weighted average number of shares outstanding		<u>19,987,467</u>	<u>19,987,467</u>

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INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

(Thousands of U.S. dollars)

	<u>Capital stock</u>	<u>Share premium</u>	<u>Revaluation surplus (Note 2-e)</u>	<u>Retained earnings</u>		<u>Total</u>
				<u>Legal reserve</u>	<u>Unappropriated (deficit)</u>	
Balances at September 30, 2002	201	228,735	39,775	6,093	(158,791)	116,013
Net income for 2003	-	-	-	-	7,218	7,218
Net change in revaluation	<u>-</u>	<u>-</u>	<u>3,330</u>	<u>-</u>	<u>(3,122)</u>	<u>208</u>
Balances at September 30, 2003	201	228,735	43,105	6,093	(154,695)	123,439
Net income for 2004	-	-	-	-	39	39
Net change in revaluation	<u>-</u>	<u>-</u>	<u>(1,266)</u>	<u>-</u>	<u>1,286</u>	<u>20</u>
Balances at September 30, 2004	<u>201</u>	<u>228,735</u>	<u>41,839</u>	<u>6,093</u>	<u>(153,370)</u>	<u>123,498</u>

The accompanying notes are an integral part of the consolidated financial statements

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands)

	<u>Years ended September 30.</u>		
	<u>2004</u>	<u>2004</u>	<u>2003</u>
	(Equivalent bolivars, see Note 2-q) (U.S. dollars) (U.S. dollars)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	74,880	39	7,218
Adjustments to reconcile net income to net cash provided by (used in) operating activities -			
Minority interests	278,400	145	279
Provision for accounts receivable from affiliates	22,550,400	11,745	1,516
Deferred income tax	16,212,480	8,444	(3,693)
Depreciation	16,339,200	8,510	8,413
Exchange loss (gain)	(5,719,680)	(2,979)	89
Allowance for doubtful accounts receivable and inventories	3,479,040	1,812	1,226
Net changes in operating accounts -			
Cash in guaranty	(12,272,640)	(6,392)	(715)
Short-term investments	(1,025,280)	(534)	-
Accounts receivable	(69,235,200)	(36,060)	(3,077)
Related companies, net	(53,617,920)	(27,926)	(12,759)
Inventories	(485,760)	(253)	1,208
Prepaid expenses and other assets	652,800	340	(12)
Accounts payable	28,529,280	14,859	11,542
Employee termination benefits, net	1,376,640	717	484
Accrued liabilities, other liabilities and employee benefits and other	<u>149,760</u>	<u>78</u>	<u>(170)</u>
Net cash provided by (used in) operating activities	<u>(52,713,600)</u>	<u>(27,455)</u>	<u>11,549</u>
NET CASH USED IN INVESTING ACTIVITIES:			
Additions to property, plant and equipment, net	(1,021,440)	(532)	(8,613)
NET CASH PROVIDED BY FINANCING ACTIVITIES:			
Loans received	<u>58,980,480</u>	<u>30,719</u>	<u>-</u>
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(1,835,520)</u>	<u>(956)</u>	<u>(77)</u>
CASH AND CASH EQUIVALENTS:			
Increase for the year	3,409,920	1,776	2,859
Balance at the beginning of the year	<u>19,422,720</u>	<u>10,116</u>	<u>7,257</u>
Balance at the end of the year	<u>22,832,640</u>	<u>11,892</u>	<u>10,116</u>
SUPPLEMENTARY INFORMATION:			
Revaluation of fixed assets	<u>(2,430,720)</u>	<u>(1,266)</u>	<u>3,330</u>

The accompanying notes are an integral part of the consolidated financial statements

INTERNATIONAL BRIQUETTES HOLDING

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

NOTE 1 - OPERATIONS:

International Briquettes Holding (IBH or the Company), a Cayman Islands corporation, was incorporated on October 14, 1997 and for accounting purposes is the successor to the former IBH (Old IBH). On October 15, 1997, IBH acquired all assets and assumed all liabilities of Old IBH, which for accounting purposes is the successor to Fior de Venezuela, S.A. (Fior). Fior is a 60%-owned Venezuelan subsidiary of Siderúrgica Venezolana “Sivensa,” S.A., which operated within the IBH Division, comprising Sivensa’s high-density iron briquettes (HBI) production facilities (see Note 4); CVG Ferrominera del Orinoco, C.A. owns the remaining 40% (see Notes 4 and 9). At September 30, 2004, IBH and its subsidiaries have 250 workers on the payroll. Affiliates comprising the Joint Venture with BHP-Billiton have 700 workers on the payroll.

a) Fior reorganization -

As part of a series of reorganization transactions during 1997, Fior transferred most of its assets, liabilities and contracts to Old IBH in exchange for all outstanding shares of Old IBH and a US\$20 million note receivable, which was paid by IBH that same year. In May 1997 Fior transferred most of the assets and contracts related to the HBI facility located in Ciudad Guayana, Venezuela (the Fior plant with an annual capacity of 400,000 tons) to its Venezuelan wholly owned subsidiary Operaciones RDI, C.A. (RDI), and RDI assumed most of the liabilities in connection with the Fior plant. Fior subsequently transferred all outstanding shares of RDI to Old IBH in exchange for new shares in Old IBH and a US\$20 million note. In May 1997 Fior and its subsidiaries took part in a series of transactions which resulted in the transfer of all outstanding shares of Brifer International Ltd. (Brifer), a wholly owned subsidiary of Fior in Barbados, to Old IBH in exchange for additional new shares in Old IBH. Furthermore, as a result of these transactions, Brifer owns all patents, intellectual property rights and rights related to the Fior Plant (the Improved Fior Process). In August 1997 Fior transferred all assets and contracts in connection with construction of a new HBI facility in Ciudad Guayana, Venezuela (the Orinoco Iron plant with a projected annual technical capacity of 2.2 million tons) to its Venezuelan subsidiary Orinoco Iron, C.A. (see Note 7). In October 1997 IBH acquired all assets and assumed all liabilities of Old IBH. Following these transactions, IBH acquired all outstanding shares of Old IBH.

For accounting purposes, all of these transactions were considered part of the Fior reorganization; therefore, transferred assets and assumed liabilities were all recorded by IBH at Fior's historical book value (the predecessor cost basis).

b) Venprecar exchange offer -

In November 1997 IBH (a wholly owned subsidiary of Fior at that date) completed an exchange offer of one ordinary share of IBH for every three outstanding Global Depository Shares (GDS) of Venezolana de Prerreducidos Caroní "Venprecar," C.A. (a 71.9%-owned subsidiary of Sivensa at that date) (see Note 9). Upon completion of the exchange offer, Venprecar became a 98.4%-owned subsidiary of IBH.

At a public auction held on December 18, 2003, IBH acquired 1,669,347 common shares of Venprecar, with a par value of Bs 100 each. Following this acquisition Venprecar became a 99.1%-owned subsidiary of IBH.

Venprecar is incorporated in Venezuela, manufactures HBI and operates in Sivensa's IBH Division. The Venprecar plant, located in Ciudad Guayana, Venezuela, has a rated annual capacity of 815,000 tons (see Note 6). Venprecar follows the same accounting practices and has the same year-end as IBH.

c) Going concern -

As described in Note 7, low international metal prices during 2002 and 2001 and delays in start-up and production build-up of the new Orinoco Iron plant adversely affected the results of operations, cash flows and financial position of IBH and its affiliates Orinoco Iron and RDI, which are part of a Joint Venture between IBH and BHP-Billiton. In March 2001 BHP-Billiton announced that it would write off its investment in Orinoco Iron and cease any further investment in this project. On the average, only two of the plant's four production trains have been operating simultaneously. Due to increased costs, lower-than-planned production rates, and depressed prices on international HBI markets during 2002 and 2001, actual revenues and cash flows have been substantially below amounts originally planned in the project. Management of IBH and its affiliate Orinoco Iron are currently negotiating a significant reduction of Orinoco Iron's debt and the restructuring of financial debts; IBH, BHP-Billiton and creditor banks are also evaluating options for potential incorporation of new Orinoco Iron shareholders (see Notes 14 and 15).

Given the current situation, it is IBH's priority to maintain operations of Orinoco Iron and Venprecar. Therefore, the Company has been using all of its financial resources for this purpose (see Note 7-c). RDI is not currently operating. Since Venprecar has guaranteed Orinoco Iron's debt, continuity of its operations is financially dependent on a solution being found to Orinoco Iron's financial situation.

d) Strategic plan -

Management of IBH, the subsidiary Venprecar, and the affiliate Orinoco Iron are preparing a medium-term business plan and are taking action to resolve current operational and financial matters mentioned below:

- Continue negotiations with Orinoco Iron senior lenders for the restructuring of the outstanding debt (see Note 7-b).
- Finalize negotiations with BHP-Billiton on terms and conditions for debt currently owed by Orinoco Iron to BHP-Billiton (see Note 15).
- Increase production through simultaneous and continuous operation of all production trains, which will allow reduction of production cost per ton and, therefore, increase cash flows.
- Obtain the additional working capital required by Orinoco Iron, which considers conversations with the main suppliers, financial institutions and the possible incorporation of new shareholders.

Orinoco Iron is currently documenting agreements with CVG Ferrominera and CVG Edelca, iron ore and electricity suppliers, respectively, regarding the payment terms of outstanding debts (see Note 4).

Since December 2003 three of the four production trains are once again operative; a fourth which had ceased to operate since February 2001 was recovered in April 2004, thereby allowing the Orinoco Iron plant to increase capacity and production levels. During the year ended September 30, 2004, Orinoco Iron produced 841,593 tons of briquettes compared to 589,256 tons produced in the previous year.

No assurance can be given that any of these actions will ensure a solution for the current operational or financial situation.

NOTE 2 - BASES OF PRESENTATION AND ACCOUNTING PRINCIPLES:

a) Bases of presentation and translation into U.S. dollars -

IBH presents its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and in U.S. dollars (US\$), which considers its measurement currency.

The financial statements have been prepared under the historic cost convention, adjusted for property, plant and equipment revaluations. The bases of presentation and principles described in this Note have been consistently applied for the reporting years, except for the change in accounting policy for spare parts inventories described in Note 5. The financial statements at September 30, 2004 were approved at a Board of Directors' Meeting held on November 25, 2004.

IAS used by IBH are those applicable at September 30, 2004 and exclude early adoption of improvements and reviews that will be mandatory in 2005. Recent revisions made by the International Accounting Standards Board to IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33, 36, 38, 39 and 40 will be adopted by IBH in 2005. Management is assessing and quantifying the potential effects of adoption.

IBH's main operations and assets are located in Venezuela, which has a highly inflationary economy. Subsidiaries and affiliates in Venezuela have significant export sales, costs, assets and debts denominated or referenced in U.S. dollars; hence, the U.S. dollar has been deemed their measurement currency. Financial statements expressed in bolivars (Bs) have been translated into U.S. dollars in conformity with International Accounting Standard No. 21 (IAS 21) and Interpretation No. 19 (SIC 19) as applicable to an entity whose measurement and reporting currency are the same. Pursuant to IAS 21 and SIC 19, (i) nonmonetary assets and capital accounts are translated at historical exchange rates, (ii) monetary assets and liabilities are translated at year-end exchange rates, and (iii) revenues and expenses are translated using average exchange rates for the period, except for items related to nonmonetary assets and liabilities (e.g. cost of sales, depreciation, and amortization of intangibles), which are translated using historical exchange rates. The translation adjustment is included in the consolidated statement of operations.

Exchange gains and losses arise mainly from the effect of exchange rate fluctuations on net monetary items denominated in Venezuelan bolivars (Bs) and are included in the consolidated statement of operations (see Note 13). IBH and its subsidiaries have the following monetary balances in bolivars at the dates shown:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of bolivars)	
<u>Assets:</u>		
Cash and cash equivalents	7,023,181	10,474,415
Accounts receivable	30,680,270	17,405,871
Other monetary assets	<u>1,984,442</u>	<u>265,232</u>
Total monetary assets	<u>39,687,893</u>	<u>28,145,518</u>
<u>Liabilities:</u>		
Accounts payable	(30,537,731)	(52,314,802)
Long-term loans (Note 8)	(14,226,482)	-
Other monetary liabilities	<u>(24,324,633)</u>	<u>(3,314,297)</u>
Total monetary liabilities	<u>(69,088,846)</u>	<u>(55,629,099)</u>
Total net monetary liabilities in bolivars	<u>(29,400,953)</u>	<u>(27,483,581)</u>
Total net monetary liabilities equivalent in U.S. dollars	<u>(US\$15,313)</u>	<u>(US\$17,177)</u>

The year-end exchange rates and the average exchange rates for each year were as follows:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
Exchange rate per U.S. dollar at the end of the year (Bs/US\$1) (Note 13)	1,920	1,600
Average exchange rate per U.S. dollar for the year (Bs/US\$1)	1,813	1,567

IBH does not engage in hedging activities.

b) Consolidation principles -

The consolidated financial statements include the accounts of IBH and (a) its wholly owned subsidiaries: Old IBH, Siderúrgica del Caroní “Sidecar,” C.A. and SVS International Steel Holdings and SDP International Corporation (incorporated in October 2003), and (b) its majority owned subsidiary Venezolana de Prerreducidos Caroní “Venprecar,” C.A. (see Notes 1 y 9). IBH has operating and financial control over all of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

c) Investments in affiliates -

Investments in 20% and 50%-owned affiliates are accounted for under the equity method (see Note 7). At September 30, 2004 and 2003, IBH does not have operating and/or financial control over its affiliates (see Note 15). All intercompany transactions with affiliates have been proportionally eliminated in the consolidated statement of operations. The Company accounts for impairment of investments whenever it considers the decrease as not temporary.

d) Inventories -

Inventories are valued at the lower of cost and net realizable value. Costs of iron briquettes, iron-ore and raw materials were determined based on the average cost method. As from the year ended September 30, 2004, spare parts with turnovers under a year are expensed during the period they were purchased (see Note 5); spare parts considered strategic or those with turnovers over one year are recognized as inventories and shown as long-term.

e) Property, plant and equipment -

Property, plant and equipment is recorded at values determined by independent appraisers in October 2003, which represent the depreciated replacement values of these assets. The excess of revalued amounts over the historic cost of the assets is taken directly to the equity account Revaluation of fixed assets, net of deferred income tax. Additions and improvements are capitalized, while disbursements for maintenance and minor repairs that do not extend the useful lives of the assets are expensed. IBH capitalizes interest incurred in specific projects to cost of fixed assets when construction takes considerable time or implies significant costs.

Depreciation of machinery and equipment is calculated based on the units-of-production method according to the estimated future production capacity of the assets. Depreciation of other fixed assets is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives of revalued assets are determined according to appraisals. The difference between depreciation charged to results based on revalued amounts and that

according to historic costs each year is transferred from Revaluation of fixed assets to Unappropriated retained earnings, net of deferred income tax.

f) Deferred income tax -

IBH accounts for income taxes in accordance with International Accounting Standard No. 12 (IAS 12) "Accounting for Income Taxes." IAS 12 requires an asset and liability method of accounting for income tax. Under this method, deferred income taxes reflect the net effect of the expected future tax consequences of: (a) "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement amounts and the tax bases of existing assets and liabilities, and (b) tax credits and loss carryforwards. Additionally, under IAS 12, the effect on deferred taxes of a change in tax rates is recognized as part of income for the year in which such changes are enacted. A deferred income tax asset is not recognized when a portion of deferred assets is not likely to be realized.

For revaluation of assets, IAS 12 requires recognition of a deferred income tax liability and a charge to equity calculated based on the difference between the revalued amount and the respective tax cost basis of the assets (see Note 2-e).

g) Accrual for employee termination benefits and profit sharing -

IBH and its subsidiaries record, on an accrual basis, their liability for employee termination benefits, which are a vested right of employees, based on the provisions of the Venezuelan Labor Law. This liability is presented net of advances granted to employees. Among other aspects, this Law provides for an indemnity payment, non-retroactive, equal to a minimum of 45 days of salary per year (up to a maximum of 90 days, depending on employee seniority), which is settled annually.

Additionally, the Labor Law calls for a yearly bonus payable to workers and employees of 15% of pre-tax profits, subject to a minimum annual payment of 15 days' salary and a maximum payment of 120 days' salary. For the years ended September 30, 2004 and 2003, IBH and its subsidiaries accrued a profit sharing bonus based on 120 days' salary.

IBH does not have a pension plan or other post-retirement benefit programs and it has no benefits plans based on Company stock options.

h) Sales -

Sales of iron briquettes are recorded as revenue on an accrual basis when briquettes are dispatched and risks and title are transferred to clients.

i) Cash and cash equivalents -

IBH considers as cash equivalents all highly liquid short-term investments maturing within three months. At September 30, 2004, cash and cash equivalents include short-term deposits of US\$5.8 million.

j) Use of estimates in the preparation of financial statements -

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of income and expenses for the reporting period. Actual results may differ from those estimates.

k) Basic and diluted net loss per share -

Basic and diluted net loss per share has been determined by dividing net loss for the year by the weighted average number of shares outstanding during the year. Basic and diluted loss per share is the same for all periods presented as the Company did not have any potentially dilutive instruments.

l) Fair value of financial instruments -

The carrying value of cash and cash equivalents, trade accounts receivable and accounts payable to suppliers approximates their fair value due to the short-term maturities of these instruments. The Company's long-term loans have variable, market-sensitive interest rates, therefore management considers their carrying amounts to approximate fair market value.

m) Concentration of credit, foreign exchange and market risk -

The financial instruments exposed to concentration of credit risk consist primarily of cash equivalents and accounts receivable. IBH cash is placed with a diversified group of financial institutions and trade accounts receivable from third parties are concentrated in two clients. IBH regularly assesses the financial condition of its clients. Accounts receivable are heavily concentrated in a commercial client and an affiliate (see Notes 3 and 4).

The Company exports most of its annual production to other countries, the U.S. primarily, and its sales are denominated in U.S. dollars. In 2004 approximately 28% of the Company's costs and expenses are denominated in bolivars. As a result, variations between inflation in Venezuela and local currency devaluation could affect the operating margin (see Notes 2-a and 13).

The Company is also exposed to the risk of briquette price fluctuation on international markets, as well as interest rate fluctuations.

The main raw materials and utilities used by the Company (iron ore, electricity and gas) are supplied by Venezuelan state-owned companies (see Note 4).

n) Accounting for derivative instruments and hedging activities -

IAS 29 "Accounting for Financial Instruments" establishes accounting and reporting standards for financial instruments, including derivatives, and requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at market value. The Company does not currently engage in hedging activities and does not have identified derivative instruments, except for the payment method option on promissory notes

described in Note 8. The Company recognizes transactions with financial instruments at the negotiation date.

o) Accounting for impairment of long-lived assets -

IAS 36 “Impairment of Assets” requires that the value of operating fixed assets not exceed value in use and that assets to be disposed of be reported at the lower of the carrying amount and recoverable fair value. The Company reviews its long-lived assets for impairment whenever events indicate that their carrying value may not be recoverable. If it is not expected that an asset will be recovered through discounted future cash flows, then the asset is written down to fair value, which is generally determined from estimated discounted future cash flows. Management believes that at September 30, 2004 and 2003, in conformity with IAS 36, there is no impairment in the carrying value of Venprecar’s plant.

p) Segment reporting -

IAS 14 “Segment Reporting” requires a business enterprise to report financial and descriptive information on its operating segments. Generally speaking, presentation of segment financial information is required on the same or similar basis as that used internally to assess segment performance and decide how to allocate resources to segments. Management believes that IBH operates in a single industry segment (briquettes) in one country only (Venezuela).

q) Financial statements translated into bolivars only for reader’s convenience -

Unless otherwise stated, all financial information included herein is expressed in U.S. dollars. Amounts in the 2004 consolidated financial statements expressed in U.S. dollars have been translated into bolivars solely for the reader’s convenience using the official exchange rate of Bs1,920/US\$1 in effect at September 30, 2004 (see Note 13).

Translation into bolivars using the exchange rate in effect at the date of origin of each transaction could result in bolivar amounts that differ significantly from those reported in the translation for convenience purposes. This convenience purpose translation should not be considered as a representation of the amounts in bolivars that have resulted, could have resulted or will result in the future from effective conversion of US\$ balances.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable comprise the following:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Customers	34,674	10,688
Related companies (Note 4)	33,414	3,299
Import duty drawbacks	11,462	6,591
Value added tax, net (Note 10)	3,433	2,043
Advances to suppliers	3,362	1,949
Other accounts receivable	4,227	185
Allowance for doubtful accounts	(3,514)	(2,043)
	<u>87,058</u>	<u>22,712</u>

During the year ended September 30, 2004, 79% of export sales of the subsidiary Venprecar went to Stemcor and, at September 30, 2004, trade accounts receivable from this client amount to US\$31 million.

Import duty drawbacks, which are established in the Venezuelan Customs Law, represent pending reimbursements of taxes and import duties paid by exporting companies.

The Company assesses customer creditworthiness on a regular basis and collectibility of other accounts receivable in order to set aside an allowance for doubtful accounts. The movements in the allowance for doubtful accounts were as follows:

	<u>Years ended September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Balance at the beginning of the year	(2,043)	(1,482)
Allowance for the year	(1,812)	(1,046)
Exchange effect	<u>341</u>	<u>485</u>
Balance at the end of the year	<u>(3,514)</u>	<u>(2,043)</u>

Total export sales was as follows:

<u>Destination</u>	<u>Years ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
United States of America	75,109	28,310
Spain	17,244	11,234
China	12,469	7,443
The Arab Emirates	-	4,586
Belgium	-	951
Italy	1,040	-
Mexico	4,021	-
Peru	-	<u>1,333</u>
	<u>109,883</u>	<u>53,857</u>

NOTE 4 - ACCOUNTS AND TRANSACTIONS WITH RELATED COMPANIES:

IBH, under various long-term contractual agreements, conducts business with its shareholders and certain affiliates (see Note 1). Accounts with related companies comprise the following:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Accounts receivable:		
Orinoco Iron, C.A. (affiliated company) (Note 7)	33,084	2,897
Siderúrgica del Turbio "Sidetur," S.A.	-	232
Rutedis, Ltd.	119	119
Steel Division Procurement	170	-
Other	<u>41</u>	<u>51</u>
	<u>33,414</u>	<u>3,299</u>
Long-term accounts receivable:		
Orinoco Iron, C.A. (affiliated company) (Note 7)		
Loans and other intercompany accounts	18,401	9,037
Reimbursable account receivable on guarantee granted to creditor banks (Notes 7-b and 14)	190,000	-
Operaciones RDI, C.A. (affiliated company) (Note 7)	<u>840</u>	<u>781</u>
	<u>209,241</u>	<u>9,818</u>

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Accounts payable:		
CVG Ferrominera del Orinoco, C.A. (indirect shareholder)	30,216	26,269
Brifer International, Ltd.	6,939	-
Siderúrgica Venezolana "Sivensa," S.A. (shareholder)	1,182	506
Steel Division Procurement	-	347
Siderúrgica del Turbio "Sidetur", S.A.	263	-
Other	<u>121</u>	<u>3</u>
	<u>38,721</u>	<u>27,125</u>

Significant transactions with related companies comprise the following:

	<u>Years ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Sale of HBI	586	13,148
Purchases of iron ore	36,400	26,100
Cost of electricity, gas and water	3,054	2,256
Purchases of spare parts and supplies	20	942
General and administrative expenses	171	610
Interest income (expense):		
From Joint Venture affiliates (Note 7)	1,495	-
From other related companies	(1,409)	(3,874)

The iron ore and pellets used by Venprecar to produce iron briquettes is provided by CVG Ferrominera del Orinoco, C.A. (FMO), a Venezuelan state-owned company and the only supplier of this mineral in Venezuela, under a contract entered into in 1988. The price of iron ore is fixed annually by reference to prevailing international market prices. This contract is for 10 years and has an automatic renewal clause. It was renewed in 1997 under the same terms and conditions for a period of 20 years. There is no minimum commitment to purchase iron ore. During 2003 and 2002, FMO has been providing extended terms of credit; this account payable is bearing interest on past due amounts. Venprecar is currently documenting the terms agreed for settlement of outstanding debts with FMO. During 2004 Venprecar recorded an additional liability with FMO of approximately Bs 6,032 million to recognize the estimated effects of preliminary agreements reached with FMO.

Electricity, gas and water consumed by Venprecar are delivered under contracts between service suppliers and Siderúrgica del Turbio "Sidetur", S.A., a subsidiary of Sivensa. Pursuant to these contracts entered into in 1991 for 10 years with automatic renewal clauses, Venprecar will reimburse Sidetur for the cost of services received. As of 2002, gas is directly supplied to Venprecar by PDVSA Gas. In addition, Venprecar and Sidetur share certain common

expenses.

The affiliate Orinoco Iron provides Venprecar certain sales services, and International Briquettes Marketing Services provides certain iron briquette marketing services in accordance with signed contracts.

Accounts receivable from the affiliate Orinoco Iron are mainly in respect of funds transferred to provide financial assistance for this affiliate's operations due to its current financial difficulties (see Notes 1-c and 7). These accounts receivable include US\$29.4 million which bear Libor + 2.5% interest per annum and US\$9.7 which bear 8% interest per annum. As described in Notes 7-b and 14, IBH and Venprecar management believe that accounts receivable from Orinoco Iron will be recovered.

In September 2003 the Company entered into an option purchase agreement with the affiliated company Orinoco Iron of approximately US\$2.9 million, for the purchase of Tax Reimbursement Certificates (CERTs). During the year ended September 30, 2004, Orinoco Iron paid the equivalent amount of principal and interest in respect of the aforementioned transaction.

Accounts with other related companies are interest-free.

NOTE 5 - INVENTORIES:

Inventories comprise the following:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Finished products (briquettes)	2,664	237
Iron ore and raw materials	808	1,384
Supplies and spare parts	-	4,177
Materials in transit	604	302
Provision for slow-moving inventories	<u>-</u>	<u>(710)</u>
	4,076	5,390
Less - spare parts classified as long-term	<u>-</u>	<u>(1,569)</u>
	<u>4,076</u>	<u>3,821</u>

During the year ended September 30, 2004, the subsidiary Venprecar adopted prospectively a change in accounting policy for purchases and consumption of inventories of spare parts and supplies with turnovers under a year (see Note 2-d). Cost of sales for 2004 increased approximately US\$4.5 million as a result. Additional Pro-forma information: Had Venprecar applied this change in policy retroactively, consolidated shareholders' equity at September 30, 2003 and 2002 would have decreased by US\$4.2 million and US\$4.8 million, respectively.

Inventories at those same dates would also have decreased by these same amounts, and consolidated net income for 2004 and 2003 would have increased by US\$4.2 million and US\$0.6 million, respectively.

The movements in the provision for slow-moving inventories were as follows:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Balance at the beginning of the year	(710)	(1,132)
Provision for the year	-	(180)
Write-offs	<u>710</u>	<u>602</u>
Balance at the end of the year	<u>-</u>	<u>(710)</u>

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment comprises the following:

	Estimated useful lives	<u>September 30,</u>			
		<u>2004</u>		<u>2003</u>	
		<u>Cost</u>	<u>Revaluation</u>	<u>Total</u>	<u>Total</u>
		(Thousands of U.S. dollars)			
Building and building improvements	20 years	52,477	(45,476)	7,001	7,001
Machinery and equipment	16 million production units	147,642	43,124	190,766	190,729
Other machinery and equipment	7 to 20 years	931	-	931	931
Vehicles	3 years	2,062	-	2,062	1,809
Office furniture and fixtures	3 years	754	-	754	447
Accumulated depreciation		<u>(122,072)</u>	<u>57,835</u>	<u>(64,237)</u>	<u>(55,796)</u>
		81,794	55,483	137,277	145,121
Land		70	833	903	903
Construction in progress		<u>147</u>	<u>-</u>	<u>147</u>	<u>281</u>
		<u>82,011</u>	<u>56,316</u>	<u>138,327</u>	<u>146,305</u>

Depreciation expense for the years ended September 30, 2004 and 2003 was US\$8.5 million, and US\$8.4 million, respectively, which was charged to cost of sales.

As a result of the normal wear and tear of the Veprecar's plant, certain replacements were required to the fuel-gas reformer and heat recovery system to reestablish production capacity of the plant. The cost of repairs and equipment replacement were approximately US\$8.6 million; depreciation of equipment to be replaced was accelerated in 2002. Replacements began in February 2003 and were completed in April 2003, and the plant recovered normal productions levels. As described in Note 7, this plant is included in the security package provided on the loan received by the affiliate Orinoco Iron.

Below is a summary of movements of property, plant and equipment for the years ended September 30:

	2004			2003
	Cost	Revaluation	Total	Total
	(Thousands of U.S. dollars)			
Balance at the beginning of the year	92,271	54,034	146,305	146,075
Additions	506	353	859	8,677
Withdrawals	(11)	(316)	(327)	(34)
Depreciation for the year	<u>(10,755)</u>	<u>2,245</u>	<u>(8,510)</u>	<u>(8,413)</u>
Balance at the end of the year	<u>82,011</u>	<u>56,316</u>	<u>138,327</u>	<u>146,305</u>

NOTE 7 - FINMET PROJECT AND JOINT VENTURE COMPANIES:

a) Join Venture agreement and contributions

Fior (predecessor of IBH) was developing a project for the construction of a plant for the direct reduction of iron ore in the Guayana region of Venezuela. This plant employs the Finmet (Finos Metalizados) process developed by Fior and Voest-Alpine Industrieanlagenbau (VAI) (see Note 11). In September 1997 IBH formed a Joint Venture with an Australian mining company, BHP-Billiton, to develop, construct and operate this project, as well as to operate the plant formerly owned by Fior. Net assets formerly owned by Fior (see Note 1), including project costs, represented the initial net assets of the Joint Venture.

Each of IBH and BHP-Billiton has a 50% ownership interest in the Joint Venture, which consists of four companies, each of which is 50% owned by the two parties: i) Orinoco Iron, C.A. (Orinoco Iron), which began operating in August 2000, owns and operates a new 2.2 million tons per year expected capacity hot briquette iron plant utilizing the Finmet process (the Orinoco Iron plant); ii) Operaciones RDI, C.A. (RDI), which began operating in May 1997, owns and operates the plant formerly owned by Fior; iii) Brifer International Ltd. (Brifer), which owns the Company's proprietary rights on the technology involved in the improved fluid bed iron-ore fines reduction process (the Improved Fior process) and, together with VAI, the Finmet process (see Note 12), and iv) International Briquettes Marketing Services (IBMS), which provides briquette marketing services.

In September 1997, under a Joint Venture agreement, BHP-Billiton subscribed capital stock increases in RDI and Orinoco Iron and bought 50% of Brifer's shares from IBH. This gave BHP-Billiton a 50% participation in these companies. Since IBH has commitments to support the Joint Venture financially (additional capital contributions and guarantees on bank financing), IBH's gain on this sale was recorded as a reduction of its investment base in the Joint Venture. Therefore, IBH's investment cost basis in the Joint Venture will be less than its proportionate share in equity.

As a result of the transfers of assets described in Note 1, IBH granted loans to the Joint Venture companies for US\$61.9 million. In November 1997 these loans were repaid to IBH.

IBH acquired, without recourse, participations in long-term loans granted by a bank to Orinoco Iron and RDI. Repayment of these long-term loans was conditioned upon Orinoco Iron and RDI complying with commitments to financial creditors and maintaining certain ratios of indebtedness and cash flows. Participations in these loans were considered as permanent financing to support the Joint Venture companies and presented as part of IBH's investment cost basis in these companies. In January 2001 the total balance of participations acquired by IBH and interest accrued until that date were contributed by IBH to increase Orinoco Iron's capital stock.

During 2002 IBH set aside a provision for loss in investment in Joint Venture companies equivalent to total net book value due to recurrent losses incurred by these affiliates and the affiliate Orinoco Iron's inability to restructure its loans or obtain additional funding required (see Note 1-c). At September 30, 2004 and 2003, the net book value of the IBH investment is reduced to zero. Since deficit of the companies comprising the Joint Venture at September 30, 2004 is US\$42 million and IBH has guaranteed a portion of Orinoco Iron's financial debt, IBH has set aside an additional provision of US\$21 million to recognize its share in the aforementioned deficit.

Below is a summary of combined financial information for the Joint Venture companies, accounted for under the equity method:

	<u>Years ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Combined balance sheet data at the end of the year:		
Current assets (liabilities), net - negative working capital	(779,026)	(780,506)
Property, plant and equipment, net	909,880	924,754
Total assets	1,120,221	980,502
Debt with banks	467,175	363,993
Debt with BHP-Billiton (Note 15)	382,356	363,993
Total liabilities	1,162,654	946,001
Shareholders' equity (deficit)	(42,433)	34,500
Combined statement of operations data:		
Net sales	139,678	68,737
Gross loss	(14,067)	(6,896)
Operating loss	(30,066)	(12,161)
Financing cost, net	(43,193)	(36,106)
Net loss	(78,909)	(35,361)
Capital investments	5,746	466

b) Financing for Orinoco Iron plant construction -

In order to finance the construction of the Orinoco Iron's plant, Orinoco Iron borrowed US\$613 million (senior debt) pursuant to several credit facilities. The credit facilities contemplate financial covenants that restrict Orinoco Iron's ability to distribute dividends to shareholders if certain ratios of indebtedness and cash flows are not met. 50% of this debt is guaranteed by IBH and Venprecar.

Lenders will share a common security package consisting of: (1) a pledge on substantially all of the assets of Orinoco Iron (as borrower) and RDI (as guarantor); (2) a pledge on sale, construction and supply contracts and insurance policies of Orinoco Iron and RDI; (3) a pledge by IBH of its share ownership in Orinoco Iron, RDI, SVS International Steel Holdings (SVS) and Venprecar; (4) a pledge by SVS of its share ownership in Siderúrgica del Caroní "Sidecar," S.A.; (5) a pledge by Sidecar of its share ownership in Venprecar; (6) a real estate mortgage on the land and civil works owned by Venprecar; (7) a mortgage on the commercial establishment of Venprecar; (8) escrow agreements on two bank accounts of Venprecar and; (9) an unconditional guarantee by RDI.

Pursuant to support agreements, IBH and BHP-Billiton agreed to: (1) provide their respective capital and financing contributions prior to completion of the Orinoco Iron's plant; (2) guarantee that future cash flows from RDI, prior to completion of the Orinoco Iron's plant, will be available for the project; (3) commit to provide, if necessary, their respective share of a credit facility up to US\$90 million, and (4) guarantee payment of their share of senior debt, if necessary before completion of the plant.

Since 2001, Orinoco Iron has been unable to meet payment conditions and certain covenants set out in this loan agreement. In May 2001 BHP-Billiton paid creditor banks of Orinoco Iron US\$314 million in respect of its percentage (50%) of the secured debt. After this payment, BPH-Billiton became an Orinoco Iron creditor for this amount, making this debt now subject to the same rights of its initial creditors and subordinated to debt settlement with creditor banks. In November 2004 BHP-Billiton assigned this debt to Orinoco Iron's creditor banks (see Note 15).

Orinoco Iron and IBH are currently negotiating with creditor banks to restructure the outstanding balance of these debts, which amounts to US\$672 million at September 30, 2004 (US\$728 million at September 30, 2003) (see Note 15).

During 2004 bank and BHP-Billiton interest was calculated at between 6.25% and 3.94% (7.5% and 4.38% in 2003), including an additional late interest rate of 2% beginning May 2001.

During 2004 creditor banks began executing certain guarantees set out in the loan agreement and, at September 30, 2004, cash balances of US\$23.2 million and accounts receivable of US\$68.2 million (of which US\$8.7 million and US\$32.2 million, respectively, belonged to Venprecar) have been executed. Amounts executed were recorded by Venprecar as accounts

receivable from Orinoco Iron (see Notes 3 and 4). In September 2004 Orinoco Iron assumed Venprecar debts of US\$15.5 million and Bs 42,795 million (equivalent to US\$22.3 million), offsetting most of Venprecar's accounts receivable from Orinoco Iron as a result of the aforementioned executions.

In addition, IBH and Venprecar management estimate that Venprecar will also have to make future payments of approximately US\$220 million to honor a guarantee granted to Orinoco Iron's creditor banks since, in their estimation, Orinoco Iron will not be able to pay its overdue debts in the short-term (see Note 1-c). At September 30, 2004, the subsidiary Venprecar set aside a provision for contingencies, at present value, in respect of the guarantee of approximately US\$190 million (US\$85 million in the short-term); its offsetting entry is a reimbursable account receivable from Orinoco Iron (see Notes 4 and 14). Additionally, at September 30, 2004, Venprecar has other account receivables from Orinoco Iron for US\$51.5 million (see Note 4). Based on projected cash flows of Orinoco Iron, IBH and Venprecar management are of the opinion that all these accounts receivable will be recovered in the long-term.

c) Going concern - Orinoco Iron and RDI -

In August 2000 the Orinoco Iron's plant began partial commercial operations; however, certain equipment failures delayed start-up and the build-up of production and increased construction and plant start-up costs. On the average, only two of the plant's four production trains have been operating simultaneously. As a result of increased costs, lower-than-planned production rates and depressed prices on international markets during 2002 and 2001, actual revenues and cash flows have been substantially below amounts originally planned in the project. Due to these situations, Orinoco Iron has been unable to meet its obligations and is negotiating with creditor banks, main suppliers and BHP-Billiton to restructure its debts.

On March 29, 2001, BHP-Billiton issued a press release announcing that it would write off its equity investment in the Orinoco Iron project and cease any further investment in this project. The BHP-Billiton press release stated that BHP-Billiton's decision was based on a review which concluded that, in the context of changed operating and market conditions, BHP-Billiton does not expect the Orinoco Iron project to meet BHP-Billiton's operational and financial performance targets necessary to justify any further investment in the project or to satisfy bank completion requirements initially established in the project financing contract. IBH has been meeting with BHP-Billiton and creditor banks to reach agreements as to the obligations and preexisting agreements in respect of this Association; IBH, BHP-Billiton and creditor banks are also evaluating options to incorporate new Orinoco Iron shareholders and negotiating an important reduction of Orinoco Iron's debt.

BHP-Billiton has indicated that it may, if certain conditions are met and if appropriate approvals are obtained from the relevant government entities involved and from Orinoco Iron's senior lenders, be willing to agree to certain transactions, which would result in a significant reduction of its receivable against Orinoco Iron (see Note 15).

RDI (a 50%-owned affiliate of IBH) incurred in recurring operating losses and in March 2001

began a temporary shutdown of its plant due to maintenance requirements and unfavorable market conditions. No decision has been made as to how long this plant will be closed. Projections for RDI indicate that renewal of operations depends on a significant and sustained increase in briquette prices worldwide, as well as additional major investments to reactivate the plant. Management of RDI is considering alternatives to address this matter and is negotiating with Orinoco Iron the terms and conditions that will regulate the sale to Orinoco Iron of certain assets owned by RDI. At September 30, 2004, RDI has total assets of some US\$4.8 million and deficit of some US\$4.5 million.

NOTE 8 - LONG-TERM LOANS:

At September 30, 2004, long-term loans comprise the following:

	(Thousands of U.S. dollars)
Promissory notes with a financial institution:	
Denominated in U.S. dollars and maturing in 2015	23,309
Denominated in bolivars and maturing in 2015	<u>7,410</u>
	<u>30,719</u>

Promissory notes denominated in U.S. dollars may be settled in bolivars at the creditor's choice. The bolivar equivalent is to be determined at the highest exchange rate offered under the following three options: (i) the official exchange rate, if applicable; (ii) the free exchange rate, if applicable, or (iii) a reference rate determined by market values of CANTV shares and ADRs. At September 30, 2004, these promissory notes are stated at the highest value which could result from the aforementioned options. The effect of this valuation is included in the results for the year.

Promissory notes denominated in bolivars may be settled in U.S. dollars at the creditor's choice. The equivalent is to be determined at the highest exchange rate offered under the following three options: (i) the official exchange rate, if applicable; (ii) the free exchange rate, if applicable, or (iii) a reference rate determined by market values of CANTV shares and ADRs. At September 30, 2004, these promissory notes are stated at the highest value which could result from the aforementioned options.

Promissory notes denominated, in either U.S. dollars or bolivars, were issued in September 2004 and mature in 2015, bearing interest per annum at LIBOR plus 4.5%. The first 24 months are interest-free.

NOTE 9 - EXCHANGE OFFER:

On November 19, 1997, IBH (a wholly owned subsidiary of Fior at that date) undertook a public exchange offer of one ordinary share of IBH for every three outstanding GDS in Venprecar (a 71.9%-owned subsidiary of Sivensa at that date). Upon completion of the exchange offer, Venprecar became a 98.4%-owned subsidiary of IBH. As a result of the exchange offer, Sivensa directly owns 49.7% of IBH's capital stock and Fior (a 60%-owned

subsidiary of Sivensa) owns 32.9% of IBH's capital stock.

In November 1997 Sivensa, the direct or indirect owner of 71.9% of outstanding Venprecar ordinary shares and Class "B" shares of Venprecar through its wholly owned subsidiary Siderúrgica del Caroní "Sidecar," S.A., transferred its Venprecar shares to IBH in exchange for: an additional amount of new IBH shares as compensation for certain costs and expenses incurred by Sivensa in respect of the exchange offer and Joint Venture formation with BHP-Billiton to build the Orinoco Iron plant. Share exchange was accomplished by Sivensa's contribution to IBH of all outstanding shares of SVS International Steel Holdings (SVS), a Cayman Islands corporation. Sidecar is a wholly owned subsidiary of SVS. With full ownership of SVS shares and direct ownership of Venprecar ordinary shares formerly owned by GDS holders, IBH became the majority shareholder of Venprecar.

The share exchange in which most of the minority shareholders of Venprecar exchanged their Venprecar shares (26.5% of U.S. total shares) for new shares of IBH was accounted for separately and treated under IFRS as a purchase transaction. The excess amount of the purchase price over the book value of net assets acquired that can be allocated to minority interest was US\$9.9 million and includes US\$2.7 million in related purchase costs. The excess amount was allocated to property, plant and equipment (based on an independent appraisal) and is amortized over the estimated useful lives of Venprecar's plant and equipment.

NOTE 10 - TAXES:

The estimated tax (expense) benefit comprises the following:

	<u>Years ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Current tax, net	(8,643)	(1,253)
Deferred income tax	<u>(8,444)</u>	<u> 3,693</u>
Total tax (expense) benefit	<u>(17,087)</u>	<u> 2,440</u>

Income tax -

For Venezuelan subsidiaries, the main differences between the amount of income taxes computed at the regular statutory tax rate of 34% and the effective income tax rates result mainly from inflation adjustments for Venezuelan tax purposes, intercompany transactions,

income from foreign sources and requirements that Venezuelan income taxes be based on the underlying bolivar accounts of each Venezuelan company on an individual basis as follows:

	<u>Years ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Net accounting income	17,270	5,057
Legal income tax rate (%)	<u>34%</u>	<u>34%</u>
Theoretical income tax expense	(5,872)	(1,719)
(Increase) decrease in theoretical income tax expense:		
Provisions and allowances no deductibles for tax purposes	(3,993)	(515)
Effect for fluctuation in cost base for tax purposes of fixed assets and inventories	(5,026)	2,377
Other, net (mainly effect for filling taxes based on results in bolivars for the subsidiary Venprecar)	<u>(2,196)</u>	<u>2,297</u>
Tax (expense) benefit	<u>(17,087)</u>	<u>2,440</u>

For Venezuelan subsidiaries, as from fiscal 1993, the Income Tax Law requires annual inflation adjustment resulting in an increase or decrease in taxable income. Under this Law, the new values resulting from inflation adjustments are to be depreciated over the remaining useful lives of the fixed assets.

The Cayman Islands levy no taxes on income, dividends or capital gains.

During the year ended September 30, 2004, the subsidiary Venprecar computed taxable income of approximately Bs 48,500 million, which was offset with business assets tax credits and investment tax credits of approximately Bs 116 million and Bs 59 million, respectively.

The Venezuelan Income Tax Law provides for tax losses and investment tax credits to be carried forward over the following three fiscal years to offset taxable income and tax expense, respectively. Deferred income tax assets relating to these tax loss carryforwards and investment tax credits have been reduced by the portion of those assets that are likely not to be realized.

The components of deferred income tax assets (liabilities) are as follows:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
	(Thousands of U.S. dollars)	
Exchange difference taxable when collected	(19,301)	(15,740)
Difference on tax base of fixed assets	(13,747)	(10,118)
Difference on tax base of inventories	201	1,598
Allowances and provisions not deductible until paid	1,872	1,391
Other, net	<u>22</u>	<u>360</u>
Deferred income tax liability	<u>(30,953)</u>	<u>(22,509)</u>

In October 1999 the Income Tax Law Reform introduced substantial amendments to the Venezuelan income tax system, such as the replacement of territorial income taxation by worldwide income taxation, transfer pricing and international fiscal transparency regulations, and a proportional tax on dividends. These amendments became effective on January 1, 2001, with the exception of transfer pricing. A new Law Reform in December 2001 introduced amendments to the proportional tax on dividends, transfer pricing and inflation adjustments and ratified investment tax credits.

Business assets tax -

Business assets tax was enacted as a complementary tax to Venezuelan income tax and is calculated on the simple average of the taxpayer's tangible and intangible assets in Venezuela involved in the production of income from commercial or industrial activities. The tax rate applicable to the tax base is 1% a year and it is reduced according to the percentage of export sales to total sales. In August 2004 the Venezuelan government eliminated this tax.

Value added tax -

In May 1999 the Venezuelan government enacted the Value Added Tax Law. This tax is based on a tax credit system and applies to the different stages of production and sales. It is payable based on the value added at each stage. The VAT rate is set annually in the Venezuelan Budget Law, which until August 2002 was 14.5% and 16% as from September 2002. This Law also incorporated, as from September 2002, an additional tax rate of 10% on goods and services considered luxury items. The Law sets out a special tax rate (0%) for exporters, granting them the right to recover tax credits from the purchase or import of goods and services based on the ratio of export sales to total sales.

At September 30, 2004, accounts receivable include tax credits of approximately US\$11.4 million (US\$6.5 million in 2003) in respect of value added tax (see Note 3), of which US\$5.5 million (US\$5.2 million in 2003) is in respect of recoverable credits arising from export activities.

Bank debit tax -

In May 1999 the Venezuelan government, through a Decree-Law, enacted the bank debit tax, which mainly levied debits or withdrawals made on current and savings accounts, custody deposits, any other type of demand deposit, liquid assets funds, trust funds and other financial market funds or financial instruments transacted by individuals or corporations with Venezuelan banks and financial institutions. The bank debit tax amounted to 0.50% and was in effect until May 2000. In March 2002 the Venezuelan government reenacted this tax with a new rate of 0.75% applicable to the aforementioned bank operations.

This rate was further increased to 1% as from September 1, 2002, decreased to 0.75% as from July 1, 2003 and decreased again to 0.50% as from January 2004. For the year ended September 30, 2003, IBH and its subsidiary incurred bank debit tax expenses of approximately US\$491,000 (US\$395,000 in 2003).

NOTE 11 - CAPITAL STOCK AND DIVIDENDS:

Authorized capital stock consists of 20,115,000 common shares, with a par value of US\$0.01 each, of which 19,897,467 are subscribed and fully paid.

Under IBH's bylaws, dividends may be paid from profits, or subject to certain legal restrictions, from the share premium account. However, as a result of the Joint Venture with BHP-Billiton (see Note 7), IBH will pay dividends up to a 50% maximum limit of its profits. As a holding company, IBH will mainly rely on dividends from its subsidiaries and affiliates for payment of dividends to its shareholders. The loan agreement mentioned in Note 4 sets out certain restrictions for the payment of dividends.

Withdrawal of IBH shares from the Nasdaq Small Cap Market was requested as agreed at the Regular Shareholders' Meeting held on January 27, 2003. Withdrawal took effect as from February 18, 2003. The Company's shares are still being traded on the Caracas Stock Exchange.

NOTE 12 - ROYALTIES:

Fior (predecessor of IBH) and VAI entered into a contract to market the Finmet process (iron-ore direct reduction process) giving Fior and VAI exclusive promotion and marketing rights with respect to the Finmet process and its improvements in certain countries. Under this contract, Fior (now Brifer) is entitled to receive from VAI a minimum amount of US\$6 per metric ton on the nominal design capacity of any new Finmet plant built within VAI jurisdiction. Fior, or a subsidiary of Fior, will receive 50% of this royalty once assembly of electromechanical installations begins. The remaining 50% shall be paid on the date of the provisional acceptance of the plant. As of 2002 between 75% and 85% of royalties will be payable 30 days following signature of the contract, and the remaining amount will be payable following provisional acceptance of the plant. In May 1997 Fior assigned some of its rights and obligations under this contract to Brifer (see Note 1); Finmet process patents and rights are jointly owned by Brifer and VAI.

In 1996 the Australian company BHP-Billiton began assembly of the electromechanical installations of a plant in Port Hedland, Australia, with a designed annual capacity of 2 million metric tons, representing total royalties of US\$12 million for Fior. Brifer (a wholly owned subsidiary of Fior until September 1997) earned US\$6 million in 1996 in income from royalties paid on this process. In 1999 plant capacity was determined to be higher than originally estimated; therefore, Brifer recognized US\$1 million in additional income from royalties during 1999. The remaining US\$6 million was payable to Brifer (50% owned by IBH) and recognized as income upon provisional acceptance of the plant. Income has not yet been recorded since this payment is also being negotiated between IBH and BHP-Billiton (see Note 15).

Under the Joint Venture agreement with BHP-Billiton described in Note 7, 50% of Brifer shares were sold to BHP-Billiton in September 1997.

NOTE 13 - FOREIGN EXCHANGE SYSTEM:

On February 13, 2002, the Venezuelan government and the Central Bank of Venezuela (BCV) introduced a floating exchange rate system, eliminating the maximum and minimum exchange rate bands which had been in effect up to that date. Under this new scheme, BCV will transact foreign currency sales and purchases with currency dealers by way of auction starting February 18, 2002.

On January 21, 2003, the Venezuelan government announced the closure of the foreign exchange market. On February 5, 2003, the Ministry of Finance and BCV began to publish the legal instruments regulating the exchange control regime, one of which establishes initial official exchange rates of Bs 1,596/US\$1 (purchase) and Bs 1,600/US\$1 (sale). Also on February 5, 2003, the government created the Commission for the Administration of Foreign Currency (CADIVI) with the task of establishing the detailed rules and regulations and generally administering the exchange control regime.

On February 6, 2004, the Ministry of Finance and BCV established new official exchange rates, as from that date, of Bs 1,915.20/US\$1 (purchase) and Bs 1,920/US\$1 (sale).

The first of these legal instruments requires the sale of all incoming currency to BCV and temporarily suspends all purchases and sales in local currency of securities issued by the Venezuelan government in foreign currency. BCV will centralize all currency purchases and sales in the country.

CADIVI has subsequently issued resolutions on different aspects and requirements in connection with the administration of the exchange control regime, such as user registration, guidelines for imports and exporters, and registration of private-sector external debt at January 22, 2003.

The subsidiary Venprecar complied with requirements from CADIVI for user registration. Until September 30, 2004, the subsidiary Venprecar has received approximately US\$3 million from CADIVI. At that same date, US\$0.6 million has been approved by and is pending receipt.

The affiliate Orinoco Iron complied with CADIVI requirements to register its debt in foreign currency at January 22, 2003, which amounted to US\$728 million. Of this amount, registration of US\$268 million has already been approved and the remaining amount is still pending approval.

As described in Notes 7 and 14, the subsidiary Venprecar guaranteed a long-term loan in foreign currency received by the related company Orinoco Iron, which has been considered by creditor banks as overdue since Orinoco Iron has been unable to meet payment conditions and certain covenants set out in this loan agreement. During 2004 Orinoco Iron's creditor banks began executing certain guarantees, including Venprecar's cash balances in U.S. dollars and accounts receivable denominated in U.S. dollars (see Notes 7 and 14).

During 2004, the subsidiary Venprecar contracted new debts in foreign currency of US\$18.4

million at September 30, 2004. Venprecar has not requested registration of these debts with CADIVI for purposes of purchasing foreign currency at the official exchange rate. However, these debts may be settled in bolivars at the creditor's choice (see Note 8).

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

As described in Note 7-b, IBH and its subsidiary Venprecar have guaranteed a portion of the long-term loan received by the affiliate Orinoco Iron (senior debt) which is in default since 2001. At September 30, 2004, the net portion guaranteed by IBH and Venprecar amounts to US\$290 million (US\$364 million at September 30, 2003). During 2004 creditor banks began executing certain guarantees set out in the loan agreement and, at September 30, 2004, cash balances of US\$23.2 million and accounts receivable of US\$68.2 million (of which US\$8.7 million and US\$32.2 million, respectively, relate to the subsidiary Venprecar) have been executed. These executions were treated by Venprecar as accounts receivable from Orinoco Iron (see Notes 3 and 4). In September 2004 Orinoco Iron assumed Venprecar debts of US\$15.5 million and Bs 42,795 million (equivalent to US\$22.3 million), offsetting most of Venprecar's accounts receivable from Orinoco Iron as a result of the aforementioned executions. IBH and Venprecar management estimate that Venprecar will have to make additional future payments amounting to approximately US\$220 million to honor this guarantee to Orinoco Iron's creditor banks. Therefore, at September 30, 2004, management set aside a provision for contingencies, at present value, in respect of the guarantee of approximately US\$190 million (US\$85 million in the short-term); its offsetting entry is a reimbursable account receivable from Orinoco Iron (see Notes 4 and 7).

To date, management of IBH and its subsidiaries are not aware of any litigations, additional tax assessments, civil or mercantile claims that could have a material adverse effect on the financial position of IBH and its subsidiaries, except for an arbitration request filed against the affiliate Orinoco Iron by the owners of the MV-YTHAN vessel that sank in February 2004 with its Finmet cargo. In addition, the vessel's owners filed a petition for an attachment on Orinoco Iron's assets in the U.S. and England to guarantee an outcome to the arbitration process. Orinoco Iron appealed preventive measures agreed to by the Royal London Court and a ruling in September 2004 was in favor of Orinoco Iron. In September 2004 an Ohio Court (U.S.) ruled to release the attachment against Orinoco Iron issued in June 2004. The vessel's owners appealed the above decision in September 2004, which was denied by the competent court. To date, no information is available on any rulings in connection with other attachments in the U.S.

Venprecar, RDI and Orinoco Iron are subject to Venezuelan environmental laws and regulations. These companies have not received any claims from Venezuelan environmental and health regulatory authorities on environmental matters and are not aware of any claims or conditions that could be expected to result in claims in respect of environmental violations that

could, in the opinion of management, have a material adverse effect on IBH's consolidated financial position or IBH's consolidated results of operations.

NOTE 15 - SUBSEQUENT EVENTS:

Settlement with BHP-Billiton

On November 5, 2004, BHP-Billiton, owner of 50% of the capital stock of the affiliate Orinoco Iron (see Note 7-a), agreed to terminate the Joint Venture and assigned: (1) 2% of its shares in Orinoco Iron to IBH (representing 1% of this company's capital stock); and (2) the remainder of its shares, as well as a loan to Orinoco Iron of approximately US\$382 million were transferred to certain financial creditors of Orinoco Iron. The outstanding amount of this subordinated financial debt is the same. The net amount and conditions of the outstanding privileged financial debt at that date (senior debt) of US\$290 million with Orinoco Iron's creditor banks, currently overdue, also remain the same; however, restructuring negotiations are underway.

BHP-Billiton also assigned all of its shares in RDI, International Briquette Marketing Services (IBMS) and Brifer to IBH. IBH now directly or indirectly owns all of the capital stock of these companies. As part of this agreement, Orinoco Iron undertook to pay BHP-Billiton a settlement amounting to US\$30 million and waived collection of an outstanding royalty that BHP-Billiton owed Brifer (see Note 12).

Consequently, as of November 5, 2004, IBH owns 51% of Orinoco Iron's capital stock. IBH has taken over common shares and management control of Orinoco Iron. Under applicable accounting standards, although IBH has set aside provisions for the total amount of its investment in Orinoco Iron (see Note 7-a), it should consolidate the latter's results for accounting purposes. As a result of the aforementioned transactions: (i) Orinoco Iron will pay BHP-Billiton the aforementioned amount of US\$30 million; (ii) an amount equivalent to 50% of Orinoco Iron's overdue debt, originated under financing terms contracted in 1997, will be eventually capitalized or neutralized in the future, provided certain conditions are met, so as not to affect the current composition of Orinoco Iron's capital stock or IBH's current economic and political entitlements as shareholder of Orinoco Iron, and (iii) additional rights have been conferred, including certain political rights upon certain shareholders of Orinoco Iron other than IBH.

Only for information purposes, below is pro-forma (unaudited) consolidated financial information of IBH for the year ended September 30, 2004, prepared assuming that the agreement with BHP-Billiton and creditor banks had been signed at the beginning of the year ended September 30, 2004 and Orinoco Iron had been consolidated as from October 2003:

	<u>Year ended</u> <u>September 30, 2004</u>
<u>Pro-forma (unaudited) financial information</u>	(Thousands of U.S. dollars)
Pro-forma consolidated balance sheet information at the end of the year:	
Current assets (liabilities), net - negative working capital	(619,881)
Property, plant and equipment, net	1,048,207
Total assets	1,223,841
Debt with banks	814,583
Total liabilities	1,166,844
Minority interests	(41,278)
Shareholders' equity	98,277
Pro-forma consolidated statement of income information:	
Net sales	250,610
Gross profit	6,727
Operating income	(12,138)
Financial cost, net	(77,032)
Other income, net	3,480
Net loss	(43,462)