

INTERNATIONAL BRIQUETTES HOLDING

AND ITS SUBSIDIARIES

(A majority-owned subsidiary of Siderúrgica Venezolana
“Sivensa,” S.A.)

REPORT OF INDEPENDENT AUDITORS AND

CONSOLIDATED FINANCIAL STATEMENTS

IN U.S. DOLLARS

SEPTEMBER 30, 2003 AND 2002

REPORT OF INDEPENDENT AUDITORS

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

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, 2003 and 2002, and the results of their operations and cash flows for each of the three fiscal years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements is the responsibility of IBH management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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.

As described in Note 7, IBH and its subsidiary Venezolana de Prerreducidos Caroní "Venprecar" have provided a security package for a portion of a long-term loan received by the affiliate Orinoco Iron. At September 30, 2003, the portion secured by IBH and Venprecar amounts to US\$364 million (US\$351 million at September 30, 2002). In 2003 and 2002, 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. Orinoco Iron and IBH are currently negotiating with creditor banks to restructure the outstanding loan

A los Accionistas y la Junta Directiva

balance. To date, we are unable to foresee the outcome of this matter and its possible effect, if any, on the accompanying consolidated financial statements.

As described in Notes 1 and 7, 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 Broken Hill Proprietary (BHP) (currently 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. It also set aside a provision for accounts receivable from these affiliates. These factors, the need for additional funding, and the current status of the long-term 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 a significant reduction of Orinoco Iron's debt. The accompanying consolidated financial statements, as well as those used by IBH to recognize its equity in the results of Joint Venture affiliates, 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.

CPC - 21291

November, 25, 2003

Caracas - Venezuela

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

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

CONSOLIDATED BALANCE SHEET

(Thousands of U.S. dollars)

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	10,116	7,257
Cash in guaranty	715	-
Accounts receivable (Notes 3 and 4)	22,712	9,527
Inventories (Note 5)	3,821	5,209
Prepaid expenses and other current assets	107	95
Total current assets	37,471	22,088
Property, plant and equipment, net (Notes 6 and 7)	92,271	93,306
Spare parts and other assets (Note 5)	1,923	1,838
Total assets	<u>131,665</u>	<u>117,232</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Accounts payable -		
Suppliers	6,745	2,048
Related companies (Note 4)	27,125	21,532
Profit sharing, vacation and other personnel accruals	1,019	749
Taxes	-	166
Other current liabilities	230	197
Total current liabilities	35,119	24,692
Accrual for employee termination benefits, net of advances to employees of US\$3,275 (US\$2,540 in 2002)	823	608
Total liabilities	35,942	25,300
Commitments and contingencies (Notes 7 and 13)		
Minority interests	3,200	2,981
Shareholders' equity (Note 10)	92,523	88,951
Total liabilities, minority interests and shareholders' equity	<u>131,665</u>	<u>117,232</u>

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

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(Thousands of U.S. dollars, except share and per share amounts)

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales:			
Exports (Note 3)	53,857	49,662	57,455
Domestic (Note 4)	13,148	4,541	3,673
Sales of subproducts	<u>3,084</u>	<u>705</u>	<u>-</u>
	70,089	54,908	61,128
Cost of sales (Note 4)	(58,016)	(65,581)	(72,304)
Gross profit (loss)	12,073	(10,673)	(11,176)
General and administrative expenses (Note 4)	(3,406)	(4,271)	(5,680)
Other income, net	<u>54</u>	<u>12</u>	<u>192</u>
Operating loss	<u>8,721</u>	<u>(14,932)</u>	<u>(16,664)</u>
Interest income (Notes 4 and 7)	806	299	4,192
Interest expense (Notes 4 and 7)	(4,131)	(4,202)	(3,226)
Equity in results of affiliates (Note 7)	-	(27,546)	(59,390)
Provision for loss in investment in affiliates (Note 7)	-	(26,686)	-
Provision for accounts receivable from affiliates (Notes 4 and 7)	(1,516)	(8,302)	-
Exchange gain (loss), net (Note 2-a)	<u>(89)</u>	<u>12,557</u>	<u>707</u>
	<u>(4,930)</u>	<u>(53,880)</u>	<u>(57,717)</u>
Income (loss) before taxes and minority interests	3,791	(68,812)	(74,381)
Taxes (Note 9)	<u>-</u>	<u>(174)</u>	<u>(168)</u>
Income (loss) before minority interests	3,791	(68,986)	(74,549)
Minority interests	<u>(219)</u>	<u>(52)</u>	<u>149</u>
Net income (loss)	<u>3,572</u>	<u>(69,038)</u>	<u>(74,400)</u>
Net income (loss) per share	<u>0.180</u>	<u>(3.469)</u>	<u>(3.739)</u>
Weighted average number of shares outstanding	<u>19,987,467</u>	<u>19,897,467</u>	<u>19,897,467</u>

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

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2003, 2002 AND 2001

(Thousands of U.S. dollars)

	<u>Capital stock</u>	<u>Share premium</u>	<u>Retained earnings</u>		<u>Total</u>
			<u>Legal reserve</u>	<u>Unappropriated (deficit)</u>	
Balances at September 30, 2000	201	228,735	6,093	(2,640)	232,389
Net loss for 2000	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,400)</u>	<u>(74,400)</u>
Balances at September 30, 2001	201	228,735	6,093	(77,040)	157,989
Net loss for 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,038)</u>	<u>(69,038)</u>
Balances at September 30, 2002	201	228,735	6,093	(146,078)	88,951
Net income for 2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,572</u>	<u>3,572</u>
Balances at September 30, 2003	<u>201</u>	<u>228,735</u>	<u>6,093</u>	<u>(142,506)</u>	<u>92,523</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 of U.S. dollars)

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	3,572	(69,038)	(74,400)
Adjustments to reconcile net gain (loss) to net cash provided by (used in) operating activities -			
Minority interests	219	52	(149)
Equity in results of affiliates	-	27,546	59,390
Provision for loss in investment in affiliates	-	26,686	-
Provision for accounts receivable from affiliates	1,516	8,302	-
Depreciation	9,679	10,670	9,869
Exchange loss (gain)	89	(12,557)	(707)
Accrued interest due	-	-	(3,048)
Allowance for doubtful accounts receivable and inventories	1,226	760	551
Net changes in operating accounts -			
Cash in guaranty	(715)	-	-
Accounts receivable	(3,077)	(733)	233
Related companies, net	(12,759)	9,004	(1,255)
Inventories	1,208	2,238	4,806
Prepaid expenses and other assets	(12)	1,824	2,303
Accounts payable	10,289	(1,930)	(954)
Employee termination benefits, net	484	(344)	110
Accrued liabilities, other liabilities and employee benefits and other	(170)	(663)	(466)
Net cash provided by (used in) operating activities	<u>11,549</u>	<u>1,817</u>	<u>(3,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment, net	(8,613)	(46)	(10)
Investment purchases	<u>-</u>	<u>-</u>	<u>(2,000)</u>
Net cash used in investing activities	<u>(8,613)</u>	<u>(46)</u>	<u>(2,010)</u>
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	<u>(77)</u>	<u>(117)</u>	<u>(16)</u>
CASH AND CASH EQUIVALENTS:			
Increase (decrease) for the year	2,859	1,654	(5,743)
Balance at the beginning of the year	<u>7,257</u>	<u>5,603</u>	<u>11,346</u>
Balance at the end of the year	<u>10,116</u>	<u>7,257</u>	<u>5,603</u>
SUPPLEMENTARY INFORMATION:			
Taxes paid in cash	<u>494</u>	<u>-</u>	<u>423</u>

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

INTERNATIONAL BRIQUETTES HOLDING
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003, 2002 AND 2001

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 8).

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 Operaciones RDI assumed most of the liabilities in connection with the Fior plant. Fior subsequently transferred all outstanding shares of Operaciones 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 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).

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 8). Upon completion of the exchange offer, Venprecar became a 98.4%-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.

Going concern -

As described in Note 7, low international metal prices during 2002 and 2001 and delays in start-up and production buildup 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 Operaciones RDI, which are part of a Joint Venture between IBH and Broken Hill Proprietary (BHP) (currently BHP-Billiton). In March 2001 BHP 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. Due to increased costs, lower-than-planned production rates, and depressed prices on international HBI markets, actual revenues and cash flows have been substantially below amounts originally planned. 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 and creditor banks are also evaluating options for potential incorporation of new Orinoco Iron shareholders.

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). 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.

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:

- Continuance of negotiations with Orinoco Iron senior lenders for the restructuring of the outstanding debt.
- Finalize negotiations with BHP on terms and conditions for debt currently owed by Orinoco Iron to BHP.

- 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.
- Start-up of all the production trains to increase production, which will allow reduction of production cost per ton and, therefore, increase cash flows.

The Company is currently negotiating with CVG Ferrominera and CVG Edelca, iron ore and electricity suppliers, respectively, the payment terms of outstanding debts. No assurance can be given that CVG Ferrominera and/or CVG Edelca will refinance to Orinoco Iron the outstanding debts.

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 -

After the reorganization of Fior, but before the exchange offer, IBH became a wholly-owned subsidiary of Fior (see Note 1) and the successor to the assets, liabilities and operations that Fior previously had; IBH is for accounting purposes the successor to Fior. Following reorganization, Fior shareholders have maintained the same economic position as before. This transaction has been accounted for as a business combination of companies under common control in a manner similar to a pooling of interests. The financial statements of IBH for the years preceding its legal incorporation included assets, liabilities, shareholders' equity and results of operations of Fior and IBH (in historical amounts) as if the aforementioned reorganization had taken place at the beginning of the first year reported in the consolidated financial statements.

After the exchange offer, IBH became a majority-owned subsidiary of Sivensa (see Notes 1 and 8). The transaction whereby Sivensa contributed its 71.9% interest in Venprecar was accounted for as a business combination of companies under common control and, therefore, accounted for under accounting principles generally accepted in the United States of America (U.S. GAAP) in a manner similar to a pooling of interests. The Company's historical financial statements through November 1997 were restated giving retroactive effect to the transfer of Sivensa's 71.9% interest in Venprecar. The remaining 28.1% of Venprecar not owned by Sivensa was accounted for under Minority interests in IBH's restated financial statements. The transaction whereby the minority interest exchanged its shares for new shares of IBH was accounted for under U.S. GAAP as a purchase transaction.

IBH presents its financial statements in accordance with U.S. GAAP and the U.S. dollar is its reporting currency. IBH's main operations and assets are located in Venezuela, which has a highly inflationary economy. Since the Venezuelan entity has significant sales and costs in U.S. dollars, the U.S. dollar is its functional currency (see Note 12). The translation of the Venezuelan bolivar (Bs) financial statements into U.S. dollars has been conducted in

accordance with Statement of Financial Accounting Standards (SFAS) No. 52 (SFAS 52) “Foreign Currency Translation.” Pursuant to SFAS 52, (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 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 statement of operations (see Note 12). IBH and its subsidiaries have the following monetary balances in bolivars at the dates shown:

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
	(Thousands of bolivars)	
<u>Assets:</u>		
Cash and cash equivalents	10,474,415	119,590
Accounts receivable	17,405,871	3,505,380
Other monetary assets	<u>265,232</u>	<u>137,910</u>
Total monetary assets	<u>28,145,518</u>	<u>3,762,880</u>
<u>Liabilities:</u>		
Accounts payable	(52,314,802)	(33,868,920)
Other monetary liabilities	<u>(3,314,297)</u>	<u>(2,542,218)</u>
Total monetary liabilities	<u>(55,629,099)</u>	<u>(36,411,138)</u>
Total net monetary liabilities in bolivars	<u>(27,483,581)</u>	<u>(32,648,258)</u>
Total net monetary liabilities equivalent in U.S. dollars	<u>(US\$17,177)</u>	<u>(US\$22,149)</u>

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

	<u>September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Exchange rate per U.S. dollar at the end of the year (Bs/US\$1) (see Note 12)	1,600	1,474	743
Average exchange rate per U.S. dollar for the year (Bs/US\$1)	1,567	1,043	713

IBH does not engage in hedging activities.

b) Consolidation principles -

The consolidated financial statements include the accounts of IBH and its wholly-owned subsidiaries: Old IBH, Siderúrgica del Caroní “Sidecar,” C.A. and SVS International Steel Holdings, and its majority-owned subsidiary Venezolana de Prerreducidos Caroní “Venprecar,” C.A. (see Note 8). All significant intercompany transactions and balances have been eliminated in consolidation.

c) 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. Cost of spare parts and supplies are determined using the first-in, first-out (FIFO) method.

d) Investments -

Investments in 20% and 50%-owned affiliates are accounted for under the equity method (see Note 7). All intercompany transactions with affiliates have been proportionally eliminated in the statement of operations. The Company accounts for impairment of investments whenever it considers the decrease as not temporary.

e) Property, plant and equipment -

Property, plant and equipment is recorded at cost (see Notes 1 and 2-a). Additions and improvements are capitalized, whereas expenditures for maintenance and minor repairs, which do not extend the useful lives of the assets, are expensed. Depreciation of machinery and equipment is calculated using the unit-of-production method based on future estimated production capacity of assets. Other fixed assets are depreciated using the straight-line method over their estimated useful lives.

f) Deferred income tax -

IBH accounts for income taxes in accordance with SFAS No. 109 (SFAS 109) “Accounting for Income Taxes.” SFAS 109 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 SFAS 109, 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. If it is more likely than not that some portion or all of the deferred income tax asset will not be realized, an appropriate valuation allowance is recorded.

g) Accrual for employee termination benefits and profit sharing -

IBH and its subsidiaries accrue 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 equal to a minimum of 45 days of salary per year (up to a maximum of 90 days, depending on employee seniority).

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, 2003, 2002 and 2001, 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.

h) Sales -

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

i) Cash and cash equivalents -

IBH considers as cash equivalents all highly liquid short-term investments maturing within three months.

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

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

Financial instruments that are exposed to a concentration of credit risk consist primarily of cash equivalents and accounts receivable. IBH's cash is placed with a diversified group of financial institutions and third-party trade accounts receivable balances are concentrated in four clients, and IBH routinely assesses the financial strength of its customers. There is a high concentration of accounts receivable from related companies (see Note 4).

The Company exports most of its annual production to foreign countries, primarily the United States of America and, as a result, most of the Company's sales are denominated in U.S. dollars, while a part of the Company's costs and expenses are denominated in bolivars. As a result, variations between inflation and the bolivar devaluation may affect the operating margin (see Note 2-a).

The main raw materials and utilities required 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 -

SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” establishes accounting and reporting standards for derivative instruments 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 utilize derivative instruments and, consequently, this statement has not had an impact on the results of its operations or its financial position.

o) Accounting for impairment of long-lived assets -

SFAS No. 144 (SFAS 144) “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” requires that assets to be disposed of be reported at the lower of carrying amount and fair value less cost of sale (see Note 14). The Company reviews for impairment its long-lived assets to be held or used, whenever events indicate that the carrying value of an asset may not be recoverable. If it is not expected that an asset will be recovered through future cash flows, then the asset is written down to fair value, which is generally determined from estimated discounted future net cash flows.

Due to the status of the Venprecar’s plant in 2002 (see Note 6) and operating losses incurred in 2002 and 2001, management estimated in 2003 and 2002 future undiscounted cash flows, which were higher than the plant’s book value. In conformity with SFAS 144, management considers that at September 30, 2003 and 2002 there is no impairment to the plant’s book value.

p) Segment reporting -

SFAS No. 131 “Disclosures about Segments of an Enterprise and Related Information” requires that a business enterprise reports financial and descriptive information about its reportable operating segments. Generally, presentation of segment financial information is required on the same or similar basis as used internally for evaluating segment performance and deciding how to allocate resources to segments. Management considers that IBH has only one operating segment and operates in only one country.

q) Comprehensive income -

SFAS No. 130 “Reporting Comprehensive Income” establishes guidelines for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income represents changes in the Company’s shareholders’ equity for the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity for the period, except those resulting from investments by owners and distributions to owners. For all periods presented, the Company did not record changes in shareholders’ equity from transactions and other events and circumstances from non-owner sources and, consequently, comprehensive income (loss) and accumulated income (loss) were equal to net results and retained earnings (deficit), respectively.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable comprise the following:

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
	(Thousands of U.S. dollars)	
Customers	10,688	4,635
Related companies (Note 4)	3,299	1,268
Import duty drawbacks	2,043	1,482
Value added tax, net (Note 9)	6,591	1,823
Advances to suppliers (Note 6)	1,949	1,754
Other accounts receivable	185	47
Allowance for doubtful accounts	(2,043)	(1,482)
	<u>22,712</u>	<u>9,527</u>

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>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Balance at the beginning of the year	(1,482)	(1,874)	(1,869)
Allowance for the year	(1,046)	(760)	(142)
Exchange effect	<u>485</u>	<u>1,152</u>	<u>137</u>
Balance at the end of the year	<u>(2,043)</u>	<u>(1,482)</u>	<u>(1,874)</u>

Total export sales were as follows:

<u>Destination</u>	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
United States of America	28,310	33,540	32,824
Spain	11,234	14,897	16,157
China	7,443	-	-
The Arab Emirates	4,586	-	-
Belgium	951	-	-
Italy	-	-	3,158
Mexico	-	-	3,089
France	-	1,225	2,227
Peru	<u>1,333</u>	<u>-</u>	<u>-</u>
	<u>53,857</u>	<u>49,662</u>	<u>57,455</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>2003</u>	<u>2002</u>
	(Thousands of U.S. dollars)	
Accounts receivable:		
Orinoco Iron, C.A. (affiliated company, Note 7)	2,897	-
Siderúrgica del Turbio "Sidetur," S.A.	232	744
Rutedis, Ltd.	119	407
Siderúrgica del Orinoco (SIDOR), C.A.	-	74
Operaciones RDI, C.A. (affiliated company, Note 7)	4	-
Other	<u>47</u>	<u>43</u>
	<u>3,299</u>	<u>1,268</u>
Long-term accounts receivable:		
Orinoco Iron, C.A. (affiliated company, Note 7)	9,037	7,580
Operaciones RDI, C.A. (affiliated company, Note 7)	<u>781</u>	<u>722</u>
	9,818	8,302
Provision (Note 7)	<u>(9,818)</u>	<u>(8,302)</u>
	<u>-</u>	<u>-</u>

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
	(Thousands of U.S. dollars)	
Accounts payable:		
CVG Ferrominera del Orinoco, C.A. (indirect shareholder)	26,269	21,095
Siderúrgica Venezolana "Sivensa," S.A. (shareholder)	505	358
Steel Division Procurement	347	10
Other	<u>4</u>	<u>69</u>
	<u>27,125</u>	<u>21,532</u>

Significant transactions with related companies comprise the following:

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Sale of HBI	13,148	4,541	3,415
Purchases of iron ore	26,100	29,843	32,041
Cost of electricity, gas and water	2,256	2,288	7,406
Purchases of spare parts and supplies	942	568	2,286
General and administrative expenses	610	84	1,153
Interest income (expense):			
From Joint Venture affiliates (Note 7)	-	-	3,048
From other related companies	(3,874)	(4,039)	(1,968)

The iron ore 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. FMO has been providing extended terms of credit; this account payable is bearing interest on past due amounts. The subsidiary Venprecar is currently negotiating with FMO the commercial terms of payment of outstanding debts (see Note 1).

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.

Until 2001 Tesocorp Administradora, a subsidiary of Sivensa, managed excess funds of IBH and its subsidiaries. Funds transferred by IBH and its subsidiaries were recorded as funds on deposit with related companies, mainly denominated in bolivars, and bore interest at prevailing market rates.

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.

Until 2001 Sivensa provided management services to the Company and its subsidiaries.

In September 2003 the Company entered into an option purchase agreement with the related company Orinoco Iron, C.A. of approximately US\$2.9 million, for the purchase of Tax Reimbursement Certificates (CERTs). Under this agreement, the parties undertake to formalize the sale of CERTs in 30 days; otherwise, Orinoco Iron agrees to pay late interest calculated on the basis of the weighted average lending rate at month-end closing of the country's six main banks as published by the Banco Central de Venezuela (BCV). At November 25, 2003 this sale has not been formalized.

Accounts with other related companies are interest-free.

NOTE 5 - INVENTORIES:

Inventories comprise the following:

	<u>September 30.</u>	
	<u>2003</u>	<u>2002</u>
	(Thousands of U.S. dollars)	
Finished products (briquettes)	237	879
Iron ore and raw materials	1,384	1,940
Supplies and spare parts	4,177	4,766
Materials in transit	302	45
Provision for slow-moving inventories	<u>(710)</u>	<u>(1,132)</u>
	5,390	6,498
Less - spare parts classified as long-term	<u>(1,569)</u>	<u>(1,289)</u>
	<u>3,821</u>	<u>5,209</u>

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

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Balance at the beginning of the year	(1,132)	(1,132)	(723)
Provision for the year	(180)	-	(409)
Write-offs	<u>602</u>	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>(710)</u>	<u>(1,132)</u>	<u>(1,132)</u>

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment comprises the following:

	<u>Estimated useful lives</u>	<u>September 30,</u>	
		<u>2003</u>	<u>2002</u>
		(Thousands of U.S. dollars)	
Building and building improvements	20 years	52,477	52,477
Machinery and equipment	16 million production units	147,642	146,031
Other machinery and equipment	7 to 20 years	931	931
Vehicles	3 years	1,809	1,773
Office furniture and fixtures	3 years	447	443
Accumulated depreciation		(111,289)	(108,640)
		92,017	93,015
Land		70	70
Construction in progress		<u>184</u>	<u>221</u>
		<u>92,271</u>	<u>93,306</u>

Depreciation expense for the years ended September 30, 2003, 2002 and 2001 was US\$9.7 million, US\$10.7 million and US\$9.8 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.

NOTE 7 - FINMET PROJECT AND JOINT VENTURE COMPANIES:

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, The Broken Hill Proprietary Company Limited (BHP) (currently 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 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 11), and iv) International Briquettes Marketing Services (IBMS), which provides briquette marketing services.

In September 1997, under a Joint Venture agreement, BHP subscribed capital stock increases in Operaciones RDI and Orinoco Iron and bought 50% of Brifer's shares from IBH. This gave BHP a 50% participation in these three 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. This cost basis difference will be recognized when the long-term commitments are released.

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 Operaciones RDI. Repayment of these long-term loans was conditioned upon Orinoco Iron and Operaciones 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.

Below is a summary of this exchange of assets, the effects of the Joint Venture formation on the financial statements and other changes in the investment cost basis at September 30, 2003:

	(Thousands of U.S. dollars)
IBH investment base prior to the formation of the Joint Venture:	
Equity (100% participation)	13,112
Notes payable to IBH	61,921
Effects upon formation of the Joint Venture:	
Receivable from BHP in excess of book value of Brifer shares sold	<u>(28,740)</u>
IBH net investment base in the Joint Venture companies (50% participation)	<u>46,293</u>
Participations in long-term loans acquired by IBH	131,242
Notes and loans paid to IBH by the Joint Venture companies	(119,494)
Accrued interest on long-term loans, net	18,629
Adjustment of present value of notes payable to IBH	<u>816</u>
	<u>31,193</u>
Capital stock increases:	
Orinoco Iron (capitalization of loans)	53,072
Operaciones RDI (cash contributions)	10,550
Brifer	3,000
Orinoco Iron (cash contributions)	<u>2,000</u>
	<u>68,622</u>
Equity on results during:	
1998 (net of US\$3.9 million in interest charged to Joint Venture companies)	(307)
1999 (net of US\$2.7 million in interest charged to Joint Venture companies)	(6,721)
2000 (net of US\$2.7 million in interest charged to Joint Venture companies)	(25,458)
2001 (net of US\$3.8 million in interest charged to Joint Venture companies)	(59,390)
2002	<u>(27,546)</u>
	<u>(119,422)</u>
IBH net investment base in the Joint Venture companies (50% participation) at September 30, 2003 and 2002	26,686
Provision for loss in value of investment in affiliates	<u>(26,686)</u>
	<u>-</u>

The results of operations of IBH include the following income (expenses) from these Joint Venture companies:

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Equity in losses of affiliates, net	-	(27,546)	(59,390)
Provision for loss in value of investment in affiliates	-	(26,686)	-
Provision for accounts receivable (Note 4)	(1,516)	(8,302)	-
Interest income from loans granted, net (Note 4)	<u>-</u>	<u>-</u>	<u>3,048</u>
	<u>(1,516)</u>	<u>(62,534)</u>	<u>(56,342)</u>

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). Furthermore, IBH set aside provisions for accounts receivable from these affiliates (see Note 4).

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

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Combined balance sheet data at the end of the year:			
Current assets (liabilities), net	(780,506)	(746,364)	(730,167)
Property, plant and equipment, net	908,581	923,771	945,481
Total assets	964,329	983,941	983,184
Financial debt	363,993	350,697	327,666
Debt with BHP	363,993	350,697	327,158
Total liabilities	849,049	800,240	761,435
Shareholders' equity	115,279	183,701	221,748
Combined statement of operations data:			
Net sales	68,737	63,232	50,854
Gross loss	(5,635)	(24,436)	(42,788)
Operating loss	(10,900)	(36,184)	(55,641)
Financing cost, net	(36,106)	(27,300)	(71,892)
Net loss	(48,126)	(56,213)	(126,485)
Capital investments	466	269	31,676

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 Operaciones RDI (as guarantor); (2) a pledge on sale, construction and supply contracts and insurance policies of Orinoco Iron and Operaciones RDI; (3) a pledge by IBH of its share ownership in Orinoco Iron, Operaciones RDI, SVS International Steel Holdings and Venezolana de Prerreducidos Caroní "Venprecar," C.A.; (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 Operaciones RDI.

Pursuant to support agreements, IBH and BHP 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 Operaciones 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.

During 2003, 2002 and 2001, Orinoco Iron has been unable to meet payment conditions and certain covenants set out in this loan agreement. In May 2001 BHP paid creditor banks of Orinoco Iron US\$314 million in respect of its percentage (50%) of the secured debt. Orinoco Iron and IBH are currently negotiating with creditor banks to restructure the outstanding loan balance, which amounts to US\$364 million at September 30, 2003 (US\$351 million at September 30, 2002) and relates to the portion guaranteed by IBH and Venprecar. IBH has not recorded this contingent liability because it considers that Orinoco Iron might be able to repay its debt if the strategic plan explained in Note 1 is executed.

During 2003 Bank and BHP interest was calculated at between 7,5% and 4,38% (8,8% and 5,1% in 2002), including an additional late interest rate of 2% beginning May 2001.

Going concern - Orinoco Iron and Operaciones 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. 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. Due to these situations, Orinoco Iron has been unable to meet its obligations and is negotiating with creditor banks, main suppliers and BHP to restructure its debts.

On March 29, 2001, BHP 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 press release stated that BHP's decision was based on a review which concluded that, in the context of changed operating and market conditions, BHP does not expect the Orinoco Iron project to meet BHP'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 is currently meeting with BHP and creditor banks to reach agreements as to the obligations and preexisting agreements in respect of this Association. IBH, BHP and creditor banks are also evaluating options to incorporate new Orinoco Iron shareholders and negotiating an important reduction of Orinoco Iron's debt.

Although no legally binding agreement has been reached, BHP 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.

Operaciones 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 Operaciones 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 Operaciones RDI is still considering alternatives to address this matter and is still negotiating with Orinoco Iron the terms and conditions that will regulate future leases on land and equipment owned by Operaciones RDI currently in use by Orinoco Iron, as well as the sale to Orinoco Iron of certain equipment owned by Operaciones RDI. At September 30, 2003, Operaciones RDI have total assets of some US\$8.4 million and deficit of some US\$1.8 million.

NOTE 8 - 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 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 International), a Cayman Islands corporation. Sidecar is a wholly-owned subsidiary of SVS. With full ownership of SVS International 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 U.S. GAAP 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 will be amortized over the estimated useful lives of Venprecar's plant and equipment.

Until August 2002 Venprecar's shares were publicly traded and the Company was regulated by the Venezuelan Securities and Exchange Commission (CNV). On that date, Venprecar made the necessary arrangements to withdraw its shares from the Venezuelan National Securities Registry held by the CNV, as approved at the Shareholders' Meeting held on May 15, 2002.

NOTE 9 - TAXES:

The estimated tax (expense) benefit comprises the following:

	<u>Years ended September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)		
Current tax, net	(1,253)	(185)	(174)
Deferred income tax	<u>1,253</u>	<u>11</u>	<u>6</u>
Total tax expense	<u>-</u>	<u>(174)</u>	<u>(168)</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, dividends from subsidiaries, 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 September 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Statutory income tax rate (%)	(34.0)	34.0	34.0
Increase (decrease) in tax rate resulting from:			
Remeasurement into U.S. dollars for accounting purposes and effect of taxes assessed in bolivars	(41.5)	(24.8)	(9.0)
Inflation adjustment for tax purposes	34.6	0.1	10.1
Equity in results of affiliates	-	(13.6)	(27.2)
Change in provision	19.6	5.2	(0.6)
Other, net	<u>21.3</u>	<u>(1.2)</u>	<u>(7.5)</u>
Effective income tax rate (%)	<u>-</u>	<u>(0.3)</u>	<u>(0.2)</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. In accordance with SFAS No. 109, no deferred income tax asset was recorded for the future benefits of inflation adjustments.

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

During the year ended September 30, 2003, the subsidiary Venprecar computed taxable income of approximately Bs 2,005 million, which was offset with business assets tax credits and investment tax credits of approximately Bs 719 million and Bs 1,336 million, respectively. At September 30, 2003, the subsidiary Venprecar has investment tax credits of approximately Bs 134 million, which may be offset with future taxes payable until the fiscal year ending 2006. Utilization of investment tax credits will depend on the subsidiary's future taxable income.

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 a valuation allowance representing the portion of those assets that are likely not to be realized. Annual changes in the valuation allowance were due mainly to a change in the amount of deferred income tax assets to which it relates.

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

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
	(Thousands of U.S. dollars)	
Investment tax credits	84	8
Tax loss carryforwards	-	5,909
Business assets tax	-	487
Uncollected income from drawbacks	(695)	(184)
Allowances and provisions not deductible until paid	1,375	364
Other, net	<u>-</u>	<u>(166)</u>
	764	6,418
Valuation allowance	<u>(764)</u>	<u>(6,418)</u>
Deferred income tax assets, included in other assets	<u>-</u>	<u>-</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. This tax is calculated together with income tax and the greater of the two is the tax liability. The subsidiary Venprecar, computed business assets tax for 2003 equivalent to approximately US\$286,000 (US\$174,000 in 2002) which resulted lower than the amount computed for income tax for that year.

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, 2003, accounts receivable include tax credits of approximately

US\$6,591,000 (US\$1,823,000 in 2002) in respect of value added tax (see Note 3), of which US\$5,258,000 (US\$1,434,000 in 2002) 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 and decreased again to 0,75% as from July 1, 2003. For the year ended September 30, 2003, IBH and its subsidiary incurred bank debit tax expenses of approximately US\$395,000 (US\$101,000 in 2002).

NOTE 10 - SHAREHOLDERS' EQUITY:

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 (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. The Company's shares are still being traded on the Caracas Stock Exchange.

NOTE 11 - 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 began assembly of the electromechanical installations of a plant in Port Hedland, Australia, with a designed annual capacity of 2,000,000 metric tons, representing total royalties of US\$12,000,000 for Fior. Brifer (a wholly-owned subsidiary of Fior until September 1997) earned US\$6,000,000 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\$1,000,000 in additional income from royalties during 1999. The remaining US\$6,000,000 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 (see Note 7).

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

NOTE 12 - FOREIGN EXCHANGE SYSTEM:

In July 1994 the Venezuelan government established an exchange control system which included a single exchange rate. In April 1996 the free convertibility of the bolivar was reestablished in Venezuela and, subsequently, all controls and restrictions on exchange operations were lifted.

In July 1996 the Venezuelan government announced the establishment of a trading band for the bolivar. For 1997 the Venezuelan government established an initial central parity of Bs 472/US\$1, effective on January 2, 1997, and a crawling band of 7.5% above and below the central parity. Between July 8, 1996 and August 4, 1997, the central parity increased 1.32% each month. Between August 4, 1997 and January 13, 1998, the central parity increased 1.16% each month. On January 13, 1998, Banco Central de Venezuela (BCV) modified the rate of increase of the central parity to 1.28% per month.

On February 13, 2002, the Venezuelan government and BCV introduced a new 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.

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, 2003, the subsidiary Venprecar has received approximately US\$27,000 from CADIVI. At that same date, US\$880,000 has been approved by and is pending receipt and US\$7,000 is pending approval from CADIVI.

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.

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

As described in Note 7, IBH and its subsidiary Venprecar have guaranteed a portion of the long-term loan received by the affiliate Orinoco Iron, which has currently defaulted on payments. At September 30, 2003, the portion guaranteed by IBH and Venprecar amounts to US\$364 million (US\$351 million at September 30, 2002).

Venprecar, Operaciones 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 14 - RECENTLY ISSUED ACCOUNTING STANDARDS:

SFAS No. 142 (SFAS 142) supersedes APB No. 17 "Intangible Assets." SFAS 142 primarily addresses accounting for goodwill and intangible assets subsequent to their acquisition and its provisions will be effective for fiscal years beginning after December 15, 2001. The most significant changes made by SFAS 142 are that: (1) goodwill and indefinite-lived intangible assets will no longer be amortized; (2) goodwill will be tested for impairment at least annually; (3) intangible assets deemed to have indefinite lives will be tested for impairment at least annually and; (4) the amortization period of intangible assets with finite lives will no longer be limited to 40 years. The adoption of this statement did not have an impact on the results of its operations or its financial position.

SFAS No. 143 (SFAS 143) “Accounting for Obligations Associated with the Retirement of Long-Lived Assets” establishes accounting standards for the recognition and measurement of a tangible long-lived asset retirement obligation and its associated asset retirement cost. SFAS 143 is effective for fiscal years beginning after June 30, 2002. The Company is evaluating the possible effect, if any, of future adoption of this Statement.

In April 2002 was issued SFAS No. 145 “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections.” The most significant provision of this Statement is the rescission of FASB Statement No. 4 “Reporting Gains and Losses from Extinguishment of Debt,” which required that gains and losses from extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. The provisions of this Statement related to the rescission of Statement No. 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion No. 30 for classification as an extraordinary item shall be reclassified. The Company does not have gain or losses on extinguishment of debt.

In June 2002 was issued SFAS No. 146 (SFAS 146) “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS 146 addresses significant issues relating to the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities, and nullifies the guidance in Emerging Issues Task Force Issue No. 94-3 (EITF 94-3) “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

In December 2002 was issued SFAS No. 148 (SFAS 148) “Accounting for Stock-Based Compensation - Transition and Disclosure,” which amended SFAS No. 123 (SFAS 123) “Accounting for Stock-Based Compensation.” SFAS 148 is effective for years ending after December 15, 2002 and provides three methods for transition to the fair value method of accounting for stock options for those companies that elect to use the fair value method under SFAS 123. The Company does not expect that the adoption of this Statement will not have an impact on the results of its operations or financial position.

In April 2003 was issued SFAS 149 Amendments to SFAS No. 133 (SFAS 133) on “Derivative Instruments and Hedging Activities” and is applicable for contracts entered into or modified after June 30, 2003. The requirements of SFAS 133, as amended by SFAS 149 requires all derivative instruments to be recognized as either assets or liabilities on the balance sheet, measured at fair values. The statement permits special hedge accounting for fair value, cash flows and foreign currency hedges providing specific criteria are met. Certain aspects of the required hedge criteria do not allow portfolio hedging. The Company does not expect that the adoption of this Statement will not have an impact on the results of its operations or financial position.

In May 2003 was issued Statement of Financial Accounting Standard No. 150 (SFAS 150) “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS 150 improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in the statements of financial position. SFAS 150 is applicable for all financial instruments entered into or modified after May 31, 2003 and is otherwise applicable for our fiscal year ending November 30, 2004. The Company is in the process of evaluating the effect, if any, that the adoption of this Statement may have on the financial statements.

In November 2002 was issued FASB Interpretation No. 45 (FIN 45) “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” which requires a company to record as a liability the fair value of certain guarantees initiated by the Company. The offsetting entry is dependent on the nature of the guarantee, with an asset generally being recorded, such as the consideration received for providing a letter of credit or prepaid rent for a residual value guarantee in an operating lease. The liability recorded will typically be reduced by a credit to the results of operations as the guarantee lapses, which generally will occur on a systematic basis over the term of the guarantee or at settlement of the guarantee. The initial measurement and recognition provisions of FIN 45 are effective for applicable guarantees written or modified after December 31, 2002 with the disclosure requirements applicable to us for the year ended September 30, 2003. The Company is in the process of evaluating the effect, if any, that the adoption of this Statement may have on the financial statements.

In January 2003 was issued FIN 46 “Consolidation of Variable Interest Entities”, which is applicable immediately to all variable interest entities (VIEs) created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. For VIEs created prior to February 1, 2003 it applies to the Company for the reporting period beginning December 1, 2003. FIN 45 clarifies the application of Accounting Research Bulletin No. 51 “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. These types of entities are referred to as VIEs. The Company is in the process of evaluating the effect, if any, that the adoption of this Statement may have on the financial statements.