

**REPORT TO BE PRESENTED BY THE BOARD OF DIRECTORS OF SIDERURGICA
VENEZOLANA "SIVENSA" S.A. TO THE EXTRAORDINARY SHAREHOLDERS
MEETING TO BE HELD ON OCTOBER 19, 2007**

Shareholders:

As you know, on January 1, 2008 the monetary conversion established by the Decree-Law N° 5.229, published in the Official Gazette N° 38.638 on March 6, 2007, shall become into effect. According to Article 1° of the above mentioned Decree-Law, the monetary unit shall be re-expressed in the equivalent of the present One Thousand Bolivares and shall be designated as "Bolívar Fuerte" (Strong Bolivar) (Bs. F).

At present, the shares of the Company have a par value of Twenty Bolívares (Bs. 20,00) each. As of January 1, 2008, this par value shall be Bs.F. 0,02. As a consequence, the Board of Directors has considered it convenient to recommend the shareholders to modify, before the monetary conversion comes into effect, the par value in order to increase it to the amount of Two Thousand Bolívares (Bs. 2.000,00) per share in order that as of the above mentioned date their individual value shall be Two Strong Bolivares (Bs. F.2,00) thus contributing to facilitate the transactions in the stock market. In order to achieve this, it is necessary to increase the subscribed and paid-in capital of the Company through the issuing of new shares with a par value of Twenty Bolívares (Bs. 20,00) each, to be distributed among the shareholders according to the procedure defined hereinafter and then, proceed to the substitution and exchange of all the outstanding shares for new ordinary shares with a par value of Twenty Bolívares (Bs. 20,00) each.

This capital increase shall be carried out by debiting the item "Social Capital Updating" according to the Consolidated Financial Statements of the Company at September 30, 2006 approved by the Annual Shareholders Meeting held on January 26, 2007, being that the specific amount of the increase shall be the one resulting necessary for the issuing of new ordinary shares, non convertible to the bearer and with a value of Twenty Bolívares (Bs. 20,00) each, in a number that shall allow its distribution among the shareholders registered on the closing of the fifth (5°) working day following the publication of the notification issued through the press, in two (2) national daily newspapers and prior the obtaining of the corresponding authorization from the Comisión Nacional de Valores

(Securities Exchange Commission) to carry out the Public Offer of the Shares (the "Transaction with Benefit Limit Date"), as follows:

- (i) Two (2) new shares shall be delivered for each Ninety Eight (98) shares held by each shareholder; and
- (ii) Once the operation described in (i) above is completed, and just in case it is necessary, a variable number of shares (between 3 and 99) shall be delivered to each shareholder in a way that the total number of shares held by the corresponding shareholder be a multiple of One Hundred (100).

After the above operations have been completed, the substitution and exchange of all outstanding shares (including those issued in regards to the capital increase previously mentioned) shall be carried out for new shares with a par value of Two Thousand Bolívares (Bs. 2.000,00) each, in a way that each One Hundred (100) shares with a par value of Twenty Bolívares (Bs. 20,00) shall be substituted and exchanged for one (1) share with a par value of Two Thousand Bolívares (Bs. 2.000,00). For such a purpose, the Company shall require the Comisión Nacional de Valores to order the suspension of the listing of the share during the three (3) marketing days following the Transaction with Benefit Limit Date.

In case the Shareholders Meeting decides to approve the capital increase and the issuing, distribution, substitution and exchange of the shares referred above, it should authorize the Board of Directors in order (i) to carry out all the necessary and convenient actions in order to execute the above mentioned operations; (ii) to carry out the corresponding modifications to Article Fourth of the Certificate of Incorporation and By-Laws of the Company related to the social capital and the shares; and (iii) to restate the Certificate of Incorporation and By-Laws of the Company into one text, incorporating such modifications in order to carry out its registration and publication.

Caracas, October 3, 2007

The Board of Directors