

SIDERURGICA VENEZOLANA "SIVENSA", S.A.  
AND ITS SUBSIDIARIES

REPORT OF INDEPENDENT ACCOUNTANTS  
AND CONSOLIDATED FINANCIAL STATEMENTS  
IN U.S. DOLLARS IN CONFORMITY  
WITH INTERNATIONAL ACCOUNTING STANDARDS (IAS)  
SEPTEMBER 30, 2002 AND 2001

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of  
Siderúrgica Venezolana “Sivensa”, S.A.

1) We have audited the consolidated balance sheets of Siderúrgica Venezolana “Sivensa”, S.A. (Sivensa) and its subsidiaries at September 30, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for each of the three years ended September 30, 2002, prepared in conformity with International Accounting Standards (IAS). The preparation of these financial statements and their notes is the responsibility of Sivensa’s management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements include the accounts of the 50.002%-owned subsidiary, VICSON, which show total consolidated assets in 2002 of approximately US\$79.3 million (US\$97.1 million in 2001) and consolidated net income in 2002 of approximately US\$0.9 million (net income of US\$2.5 million in 2001 and US\$0.3 million in 2000). The financial statements of this subsidiary were audited by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary, is based solely on the report of the other independent accountants.

2) We conducted our audits in accordance with international auditing standards, except as described in the third paragraph. Those standards require that we plan and perform our audits 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 and the report of the other independent accountants provide a reasonable basis for our opinion.

3) As described in Note 2-e, Sivensa and its subsidiaries present buildings, machinery and equipment at revalued amounts as determined by independent appraisers. International accounting standards require that revalued amounts be updated on a regular basis. Updates should be performed annually when changing conditions could significantly affect the revalued amounts. Sivensa and most of its subsidiaries do not have recent appraisals.

**To the Shareholders and Board of Directors**

Revalued amounts shown in the accompanying financial statements could differ from current values resulting from new recently dated appraisals.

4) As described in Note 9, at September 30, 2001, Sivensa had been unable to meet some payment conditions and covenants established in a long-term loan agreement with several banks, which at September 30, 2001 showed a balance of US\$194 million and was reported as a long-term liability in the accompanying financial statements at that date. Due to this situation, creditor banks may have considered the total balance due and payable; under these circumstances, the total balance of this loan should have been reported as short-term to comply with international accounting standards. As described in Note 9, in May 2002 Sivensa and its creditor banks reached agreements for the long-term restructuring of this debt.

5) In our opinion, based on our audits and the report of the other independent accountants, except for the possible effects, if any, of the matter described in the third paragraph, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Siderúrgica Venezolana “Sivensa”, S.A. and its subsidiaries at September 30, 2002 and 2001, and the results of their operations and cash flows for the three years ended September 30, 2002, in conformity with International Accounting Standards (IAS).

6) As described in Note 8, Consorcio Siderurgia Amazonia and its subsidiary, Siderúrgica del Orinoco (SIDOR), did not comply with some financial limits set out in several loan agreements, and SIDOR failed to make certain payments upon maturity. Therefore, creditor banks may consider the total balance as due and payable. Amazonia and its subsidiary have incurred recurrent losses. Amazonia’s shares, including those owned by Sivensa, have been pledged to guarantee a loan received by Amazonia. Additionally, Sivensa has granted certain guarantees for approximately US\$15 million in connection with SIDOR’s privatization and guarantees for approximately US\$109 million on a loan received by SIDOR. At September 30, 2002, the net book value of Sivensa’s investment amounts to US\$12 million and represents its 13.25% equity in Amazonia. SIDOR is currently negotiating with its creditors to restructure these debts and/or capitalize a portion thereof. At present, we are unable to anticipate the outcome of this matter and its possible effect, if any, on the accompanying consolidated financial statements.

7) As described in Note 7, the subsidiaries, International Briquettes Holding (IBH) and Venezolana de Prerreducidos Caroní “Venprecar”, have guaranteed a portion of a long-term

**To the Shareholders and Board of Directors**

loan received by the affiliate, Orinoco Iron. At September 30, 2002, the portion guaranteed by IBH and Venprecar amounts to US\$351 million. During 2002 and 2001, Orinoco Iron has been unable to meet payment conditions and some covenants set out in this loan agreement; therefore, the total balance is considered by creditor banks as due and payable. Orinoco Iron and IBH are currently negotiating with creditor banks to restructure this debt. We are presently unable to anticipate the outcome of this matter and its possible effect, if any, on the accompanying consolidated financial statements.

8) As described in Note 1, steel industry prices worldwide and Venezuela's economic recession have adversely affected the results of operations and financial position of Sivensa and its subsidiaries and affiliates. These factors, as well as the status of guarantees described in the sixth and seventh paragraphs, raise uncertainty as to the ability of Sivensa and its subsidiaries to continue as a going concern. Management of IBH and its subsidiaries and affiliates are currently negotiating with creditor banks and assessing alternatives to improve their profitability and financial position. Sivensa's management is aware that Amazonia and SIDOR are also negotiating with their creditors. The accompanying consolidated financial statements have been prepared on the basis of a going concern and do not include adjustments that may arise from resolution of these uncertainties.

ESPIÑEIRA, SHELDON Y ASOCIADOS



Carlos G. González

CPC 21291

Caracas, Venezuela  
December 10, 2002

SIDERURGICA VENEZOLANA “SIVENSA”, S.A.  
AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(Thousands of U.S. dollars)

	September 30,	
	2002	2001
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	34,307	24,867
Accounts receivable -		
Customers and other (Note 3)	32,253	38,243
Related companies (Notes 7 and 17)	2,121	5,532
Advances to suppliers	2,631	1,536
Inventories (Note 4)	34,765	46,028
Prepaid expenses, deferred income tax and other current assets (Note 12)	2,007	5,948
Total current assets	108,084	122,154
Revalued property, plant and equipment, net (Note 5)	342,625	376,719
Investments (Note 6) -		
In shares and land	17,770	50,170
In affiliates accounted for under the equity method	-	54,232
Accounts with related companies (Note 17)	1,299	4,138
Deferred income tax (Note 12)	777	2,630
Spare parts and other long-term assets (Notes 4 and 9)	20,931	18,627
Total assets	491,486	628,670
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Bank loans (Note 9)	8,334	12,332
Current portion of long-term loans (Notes 9 and 11)	23,023	-
Accounts payable -		
Suppliers	12,948	20,772
Related companies (Note 17)	23,803	22,899
Profit sharing, vacation and other personnel accruals	6,361	12,220
Taxes (Note 12)	2,160	5,070
Interest and bank commissions payable	667	5,978
Dividends payable	89	177
Other current liabilities	8,269	9,037
Total current liabilities	85,654	88,485
Long-term loans (Note 9)	232,191	-
Debts being restructured (Notes 9 and 10)	-	241,850
Accrual for employee termination benefits, net of advances and loans to employees	5,632	9,215
Other liabilities	3,215	5,213
Total liabilities	326,692	344,763
Minority interests in subsidiaries	84,478	110,986
Shareholders' equity, see accompanying statement (Note 13)	80,316	172,921
Total liabilities, minority interests and shareholders' equity	491,486	628,670

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

SIDERURGICA VENEZOLANA “SIVENSA”, S.A.  
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

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

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net sales:			
Exports	102,671	112,239	121,674
Domestic	<u>170,939</u>	<u>221,262</u>	<u>193,687</u>
	273,610	333,501	315,361
Cost of sales	<u>(244,029)</u>	<u>(296,193)</u>	<u>(277,345)</u>
Gross profit	29,581	37,308	38,016
General and administrative expenses	<u>( 25,967)</u>	<u>( 36,197)</u>	<u>( 38,291)</u>
Operating income (loss)	<u> 3,614</u>	<u> 1,111</u>	<u>( 275)</u>
Interest and other financial expenses (Notes 9 and 10)	<u>( 27,790)</u>	<u>( 48,588)</u>	<u>( 42,008)</u>
Interest income (Note 7)	941	3,500	11,903
Net exchange gain (Note 2-a)	<u>13,944</u>	<u> 402</u>	<u> 693</u>
	<u>( 12,905)</u>	<u>( 44,686)</u>	<u>( 29,412)</u>
Equity in results of affiliates (Note 6)	<u>( 27,546)</u>	<u>( 59,390)</u>	<u>( 51,319)</u>
Provision for investments in shares (Note 6)	<u>( 56,759)</u>	-	-
Provision for accounts receivable from affiliates (Note 7)	<u>( 8,302)</u>	-	-
Other income (expense), net (Notes 6 and 11)	<u>( 907)</u>	<u>( 1,023)</u>	<u> 3,020</u>
	<u>( 93,514)</u>	<u>( 60,413)</u>	<u>( 48,299)</u>
Loss before taxes and minority interests	(102,805)	(103,988)	( 77,986)
Taxes (Note 12)	<u>( 7,051)</u>	<u>( 14,689)</u>	<u>( 1,283)</u>
Loss before minority interests	(109,856)	(118,677)	( 79,269)
Minority interests in subsidiaries	<u> 20,453</u>	<u> 21,433</u>	<u> 4,813</u>
Net loss from continued operations	<u>( 89,403)</u>	<u>( 97,244)</u>	<u>( 74,456)</u>
Net loss from discontinued operations (Notes 1 and 2-b)	<u> -</u>	<u>( 7,617)</u>	<u>( 29,023)</u>
Net loss	<u>( 89,403)</u>	<u>(104,861)</u>	<u>(103,479)</u>
Net loss per share (in US\$):			
From continued operations	(0.026)	(0.033)	(0.025)
From discontinued operations	<u> -</u>	<u>(0.002)</u>	<u>(0.010)</u>
	<u>(0.026)</u>	<u>(0.035)</u>	<u>(0.035)</u>
Weighted average of outstanding shares (in thousands)	<u>3,485,890</u>	<u>2,963,007</u>	<u>2,963,007</u>

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

SIDERURGICA VENEZOLANA “SIVENSA”, S.A.  
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

(Thousands of U.S. dollars)

	Share			Unappropriated retained earnings		Treasury shares and shares held by subsidiaries	Total
	Capital stock	premium (discount)	Revaluation of fixed assets	Legal reserve	(Deficit)		
Balances at September 30, 1999	281,676	47,762	128,814	44,428	( 87,034)	(30,215)	385,431
Net loss for 2000	-	-	-	-	(103,479)	-	(103,479)
Change in revaluation	-	-	( 6,985)	-	5,763	-	( 1,222)
Purchase and sale of shares held by a subsidiary	—	—	—	—	—	( 95)	( 95)
Balances at September 30, 2000	281,676	47,762	121,829	44,428	(184,750)	(30,310)	280,635
Net loss for 2001	-	-	-	-	(104,861)	-	(104,861)
Change in revaluation	-	-	( 6,041)	-	3,197	-	( 2,844)
Stock dividends	4,574	( 9,279)	-	-	( 24,162)	28,867	-
Purchase and sale of shares held by a subsidiary	—	( 9)	—	—	—	—	( 9)
Balances at September 30, 2001	286,250	38,474	115,788	44,428	(310,576)	( 1,443)	172,921
Net loss for 2002	-	-	-	-	( 89,403)	-	( 89,403)
Change in revaluation	-	-	( 7,787)	-	3,480	-	( 4,307)
Capital stock increase	12,283	(11,178)	-	-	-	-	1,105
Increase in legal reserve	—	—	—	52	( 52)	—	—
Balances at September 30, 2002	<u>298,533</u>	<u>27,296</u>	<u>108,001</u>	<u>44,480</u>	<u>(396,551)</u>	<u>( 1,443)</u>	<u>80,316</u>

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

SIDERURGICA VENEZOLANA “SIVENSA”, S.A.  
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CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of U.S. dollars)

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	( 89,403)	(104,861)	(103,479)
Adjustments to reconcile net loss to net cash provided by operating activities -			
Minority interests in subsidiaries	( 20,453)	( 21,433)	( 4,813)
Loss on dilution in Amazonia	-	-	1,640
Equity in results of affiliates	27,546	59,390	51,319
Provision for investments in shares	56,759	-	-
Provision for accounts receivable from affiliate	8,302	-	-
Depreciation and amortization	30,019	30,165	40,906
Exchange loss	( 13,944)	( 402)	( 2,523)
Accrued interest due	-	( 3,048)	( 9,986)
Deferred income tax	2,780	11,298	77
Interest accrued on long-term loans	21,336	-	-
Provision for slow-moving inventory	388	5,010	-
Allowance for doubtful accounts	3,076	1,617	5,517
Provision to decrease market value of investments and other assets	1,571	-	-
Loss from discontinued operations	-	7,617	29,023
Net changes in operating accounts -			
Trade accounts receivable	( 14,532)	( 9,055)	10,367
Other accounts receivable	5,225	( 3,030)	( 3,745)
Inventories	10,875	3,866	8,764
Advances to suppliers, deferred income tax and other assets	( 573)	9,816	( 7,466)
Prepaid expenses and current deferred income tax	1,161	632	( 336)
Employee termination benefits	1,958	1,205	1,769
Accounts payable, accrued expenses and other liabilities	( 7,549)	29,690	(10,498)
Net cash provided by operating activities	<u>24,542</u>	<u>18,477</u>	<u>6,536</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale of investments	-	21,000	26,753
Investment purchases	-	( 2,000)	( 9,800)
Additions to property, plant and equipment	( 4,511)	( 7,999)	( 33,526)
Loans receivable collected from affiliates	-	-	25,287
Acquisition of participations in long-term loans	-	-	( 25,287)
Net cash (used in) provided by investing activities	<u>( 4,511)</u>	<u>11,001</u>	<u>(16,573)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Short-term loans received	-	4,820	52,106
Short-term loans paid	( 3,748)	-	(169,259)
Long-term loans received	-	-	273,310
Repayment of long-term loans	( 7,971)	( 19,000)	(205,671)
Advance received from future sale of accounts receivable	-	-	47,830
Commercial paper	-	-	(10,254)
Net cash used in financing activities	<u>(11,719)</u>	<u>(14,180)</u>	<u>(11,938)</u>
EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,128</u>	<u>( 306)</u>	<u>( 770)</u>
<b>CASH AND CASH EQUIVALENTS:</b>			
Increase (decrease) for the year	9,440	14,992	( 22,745)
Balance at the beginning of the year of subsidiaries sold (Note 2-b)	-	( 3,041)	( 5,741)
Balance at the beginning of the year	<u>24,867</u>	<u>12,916</u>	<u>41,402</u>
Balance at the end of the year	<u>34,307</u>	<u>24,867</u>	<u>12,916</u>
<b>SUPPLEMENTARY INFORMATION:</b>			
Cash paid during the year for -			
Interest	4,958	6,464	38,913
Taxes	4,167	4,318	5,426
<b>SUPPLEMENTARY INFORMATION ON NON-CASH ACTIVITIES:</b>			
Capital stock increase	1,105	-	-
Capitalization of accounts receivable to increase capital stock of affiliate (Note 18)	-	-	40,472
Stock dividends (Note 13)	-	33,441	-

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

SIDERURGICA VENEZOLANA “SIVENSA”, S.A.  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002, 2001 AND 2000

NOTE 1 - OPERATIONS:

Sivensa is a Venezuelan company established in 1948. Sivensa and its subsidiaries (see Note 2-b) manufacture and sell steel products, reduced iron in the form of briquettes and wire products (see Note 16). Until May 2001 it also manufactured and sold new and spare parts for automobiles. Its plants are located in Venezuela, except those of the subsidiary, Proalco, which are located in Colombia.

Despite a recovery of worldwide steel industry prices in 2002, low prices and Venezuela's economic recession have adversely affected the results of operations and financial position of Sivensa and its subsidiaries and affiliates. Management of Sivensa and its subsidiaries are assessing alternatives to improve their profitability and financial position. Orinoco Iron's management and shareholders are currently assessing the possibility of obtaining additional funding and a significant reduction of Orinoco Iron's debt (see Note 7).

Discontinued operations - Auto parts segment

During the year ended September 30, 2000, Sivensa sold four of its partially-owned automotive subsidiaries for US\$17.3 million: Componentes Venezolanos de Dirección, S.A. "Covendisá" (60% owned); Gabriel de Venezuela, C.A. (58% owned) and its main subsidiary, Carvica, C.A.; Hayes Wheels de Venezuela, C.A. (formerly Ruedas de Venezuela, C.A. "Rudeveca") (51% owned), and Metalúrgica Carabobo, S.A. "Metalcar" (51% owned). At September 30, 2000, the sale of these subsidiaries did not represent the disposition of a business segment.

In addition, in May 2001 Sivensa sold its share in the subsidiary, C.A. Danaven (51% owned) and its subsidiary, Danaven Rubber Products, C.A., as well as its investment in the affiliate, Industrias de Ejes y Transmisiones S.A. "Transejes" (49% owned) to Dana Corporation for US\$21,000,000 (see Note 6). This subsidiary comprised the Company's automotive sector at that date. The sale price was the equity value at September 30, 2000.

Management believes that the sale of Danaven and its subsidiary Danaven Rubber Products, C.A. in 2001, along with the sale of the other automotive sector subsidiaries in 2000, constitute disposition of the automotive business segment. The effects on the results of these transactions are included in Net loss from discontinued operations, net of taxes and minority interests.

Below is a summary of the financial information of the five subsidiaries sold (automotive sector) until the date they were sold:

	<u>Data until date of sale</u>	
	<u>Years ended September 30,</u>	
	<u>2001</u>	<u>2000</u>
Balance sheet data (at the date of the sale):		
Current assets (liabilities), net	( 35,938)	2,531
Property, plant and equipment, net	114,913	28,052
Total assets	188,124	49,611
Total liabilities	164,927	19,781
Shareholders' equity	22,581	32,492
Minority interests in equity of these subsidiaries	11,065	13,223
Statement of operations data:		
Net sales	101,332	216,671
Gross income (loss)	90	( 24,933)
Operating loss	( 11,912)	( 51,199)
Net loss	( 23,677)	( 48,371)
Minority interests in net income of these subsidiaries	11,633	21,016
Income (loss) from sale of subsidiary	<u>4,427</u>	<u>( 1,668)</u>
Net loss from discontinued operations	<u>( 7,617)</u>	<u>( 29,023)</u>

**NOTE 2 - BASES OF PRESENTATION AND ACCOUNTING PRINCIPLES:**

The Company is regulated by the Venezuelan Securities and Exchange Commission (CNV) and, therefore, must present its financial statements in bolivars (Bs), in accordance with accounting principles generally accepted in Venezuela and issue consolidated financial statements and pay dividends on this basis. This is the accounting base used in Venezuela for all statutory and legal purposes.

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

For financial reporting purposes, Sivensa has elected to present its financial statements in accordance with International Accounting Standards (IAS) and in U.S. dollars because this information is relevant and useful for its shareholders and creditor banks. In view of the fact that Sivensa has significant sales, costs, expenses and debts denominated in U.S. dollars, the Company considers the U.S. dollar its measuring currency.

The accompanying consolidated financial statements include certain adjustments to the financial statements expressed in historical bolivars for presentation in conformity with International Accounting Standards (IAS). The financial statements in historical bolivars were remeasured into U.S. dollars in accordance with International Accounting Standard No. 21 (IAS-21) and its Interpretation No. 19 (SIC-19) as applicable to an entity whose measuring and reporting currency are the same. Pursuant to IAS-21 and SIC-19, (i) nonmonetary assets and

capital accounts are remeasured at historical exchange rates, (ii) monetary assets and liabilities are remeasured at year-end exchange rates, and (iii) revenues and expenses are remeasured using average exchange rates for the period, except for items related to nonmonetary assets and liabilities (cost of sales, depreciation and amortization of intangibles), which are remeasured using historical exchange rates. The translation adjustment is included in the results for the year. Balances in historical bolivars have been translated into U.S. dollars as follows:

<u>Accounts</u>	<u>Exchange rate</u>
Balance general:	
Current assets, except inventories and prepaid expenses	Year-end
Liabilities	Year-end
Inventories	Historical
Property, plant and equipment	Historical
Deferred charges, except deferred income tax	Historical
Shareholders' equity	Historical
Statement of operations:	
Net sales	Monthly average
Cost of sales	Historical
Depreciation and amortization	Historical
Materials and supplies used in operations	Monthly average
General and administrative expenses	Monthly average
Interest and other income (expense)	Monthly average

Exchange gains and losses arise mainly from the effect of exchange rate fluctuations on net monetary items denominated in bolivars and are included in the results for the year. Sivensa and its subsidiaries had the following monetary balances in bolivars at the dates indicated:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
	(In millions)	
Assets:		
Cash and cash equivalents	Bs 3,255	Bs 4,221
Accounts receivable and other monetary assets	<u>24,413</u>	<u>23,329</u>
Total monetary assets	<u>27,668</u>	<u>27,550</u>
Liabilities:		
Bank loans and long-term loans	1,050	74
Accounts payable to suppliers and other liabilities	<u>30,365</u>	<u>42,892</u>
Total monetary liabilities	<u>31,415</u>	<u>42,966</u>
Total net monetary liabilities in bolivars	<u>Bs( 3,747)</u>	<u>Bs(15,416)</u>
Total net monetary liabilities, equivalent in U.S. dollars	<u>(US\$2.54)</u>	<u>(US\$20.75)</u>

Sivensa and its subsidiaries do not engage in hedging activities on their balances and transactions in bolivars.

The year-end exchange rate, the average exchange rates for each year and increases in the Consumer Price Index (CPI), published by Banco Central de Venezuela (BCV), were as follows:

	<u>Years ended</u> <u>September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Exchange rate per U.S. dollar at the end of the year (Bs/US\$1) (Note 14)	1,474	743	691
Average exchange rate per U.S. dollar for the year (Bs/US\$1)	1,043	713	665
Increase in the Consumer Price Index (CPI) for the year (%)	28	12	16

**b) Consolidation principles -**

The consolidated financial statements include the accounts of Sivensa and all of its more than 50%-owned subsidiaries. The subsidiaries with the most significant operations included in consolidation are as follows:

- Wholly-owned: Siderúrgica del Turbio, S.A. “Sidetur” and its subsidiaries and Tornillos Carabobo, C.A. “Torcar”.
- Partially-owned: Vicson, S.A. (50.002%) and its main subsidiary, Productora de Alambres Colombianos, S.A. “Proalco”; Smith Brocas, C.A. (51.0%); Fior de Venezuela, S.A. (60.0%); International Briquettes Holding (68.7%) and its main subsidiary, Venezolana de Prerreducidos Caroní “Venprecar”, C.A. (see Note 7).

As described in Note 1, during 2001 and 2000, Sivensa sold its automotive sector subsidiaries, which was considered the disposition of a business sector. Therefore, the 2000 and 1999 financial statements were restructured to present the results of these subsidiaries as discontinued operations.

During the year ended September 30, 2000, Sivensa sold its 51% share in the partially-owned subsidiary Cameron Venezolana, S.A. “Cameron” for US\$4.4 million. The sale generated consolidated income of approximately US\$3.3 million, which was recorded in Other net income (expense) in 2000 (see Note 11). Below is a summary of the financial information for the subsidiary sold:

	<u>Period ended at</u> <u>date of sale</u> <u>in 2000</u>
Balance sheet data at the end of the period:	
Current assets (liabilities), net	( 3,256)
Property, plant and equipment, net	4,612
Total assets	13,208
Total liabilities	11,852
Shareholders’ equity	1,356
Minority interests in equity of this subsidiary	692

	Period ended at date of sale <u>in 2000</u>
Statement of operations data:	
Net sales	2,283
Gross income	1,632
Operating income	375
Net income	287
Minority interests in net income of this subsidiary	146

International Briquettes Holding (IBH) undertook a public exchange offer of one ordinary share of IBH for every three outstanding GDS in Venprecar (initially a 72%-owned subsidiary of Sivensa). The exchange was completed on November 19, 1997. Upon completion of the exchange offer, Venprecar became a 98.4%-owned subsidiary of IBH. The exchange of Venprecar shares owned by Sivensa was accounted for as a business combination of companies under common control. The exchange of Venprecar shares owned by minority shareholders was accounted for as a purchase transaction. The excess amount of the purchase price over the book value of the acquired assets that can be allocated to minority interest was US\$9.9 million, which includes US\$2.7 million in related purchase costs. This amount was allocated to property, plant and equipment (based on an independent appraisal) and will be amortized over the estimated useful lives of the Venprecar plant and equipment.

All significant intercompany transactions and balances are eliminated in consolidation. Minority interests represent third-party shares in equity and net income or loss of subsidiaries that are not wholly owned.

**c) Inventories -**

Inventories are valued at the lower of cost and net realizable value. Costs of finished products, products in process and raw materials are determined by the average cost method. Costs of spare parts and supplies are determined using the first-in, first-out (FIFO) method. Strategic spare parts are presented as long-term assets.

**d) Investments -**

Investments in 20% to 50%-owned affiliates are accounted for under the equity method (see Note 6). Investments in companies where equity is under 20%, which are considered available for sale and whose fair values are not known, are recorded at cost. Decreases in value considered other than temporary are included in the statement of operations for the year.

Land and other real property available for sale are stated at the lower of cost and net realizable value.

**e) Property, plant and equipment -**

Buildings, machinery and equipment is recorded at revalued amounts as determined by independent appraisers in 1997 and 2002. Revalued amounts represent depreciated replacement values of assets. The difference between historical costs of assets and revalued

amounts is included directly in an equity account. Land and other fixed assets are recorded at cost. Additions, renewals and improvements are capitalized, whereas maintenance and minor repairs, which do not improve or extend the useful lives of the assets, are included in results. Sivensa capitalizes interest in specific projects to fixed asset costs when construction takes considerable time or entails major expenditures.

Depreciation is calculated based on the straight-line method, over the estimated useful lives of the assets, except for machinery and equipment of Venprecar and the Casima plant, which are calculated based on the units-of-production method. The estimated useful life used for revalued assets is that determined by the appraisals.

**f) Debt issue costs -**

Debt issue costs are recorded in Other assets and amortized over the term of the debt (see Note 9).

**g) Accrual for employee termination benefits and profit sharing -**

Sivensa 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 and the prevailing collective labor agreement. 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 2002, 2001 and 2000, Sivensa accrued and paid a profit sharing bonus based on 120 days' salary.

Sivensa and its subsidiaries do not have a pension plan or other post-retirement benefit programs.

**h) Basic and diluted net loss per share -**

Net loss per share has been determined by dividing the net loss for the year by the weighted average number of issued shares, less treasury shares and shares held by subsidiaries. Net loss per share is retroactively adjusted by stock dividends. Basic and diluted net loss per share is the same for all periods presented as the Company did not have potentially dilutive instruments, except for stock options indicated in Note 13, which are not significant.

**i) Sales -**

Sales are recorded as revenue when risk and title to goods sold is transferred.

**j) Deferred income tax -**

Sivensa 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 tax loss carryforwards. Additionally, under IAS-12, the effect on deferred income 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.

**k) Cash flows -**

Sivensa and its subsidiaries consider as cash equivalents all highly liquid short-term investments maturing within three months of acquisition.

**l) Use of estimates in the preparation of financial statements -**

The preparation of financial statements in conformity with international accounting 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 losses for the reporting period. Actual results may differ from those estimates.

**m) Fair value of financial instruments -**

The carrying value of cash and cash equivalents, trade accounts receivable and accounts payable approximates their fair market value due to the short-term maturities of these instruments. Since most of the Company's loans, commercial paper and other financial obligations have variable market-sensitive interest rates, management considers their carrying amounts to approximate fair market value, except for an interest-free long-term loan of approximately US\$125 million whose fair value is estimated at US\$95 million (see Note 9).

**n) Concentration of credit and foreign exchange risk -**

Financial instruments that are exposed to a concentration of credit risk consist primarily of cash equivalents and trade accounts receivable. Sivensa's cash is placed with a diversified group of financial institutions and trade accounts receivable are spread among a broad customer base; Sivensa and its subsidiaries routinely assess the financial position of their customers. There has been concentration of accounts receivable from related parties at certain times (see Note 17).

Sivensa exported 38%, 34% and 39% in 2002, 2001 and 2000, respectively, of its annual sales primarily to the United States of America and, as a result, a significant part of the Company's sales is denominated in U.S. dollars, while a part of its costs and expenses is denominated in bolivars (see Note 2-a). As a result, variations between inflation and devaluation of the bolivar may affect operating margins.

**o) Accounting for derivative instruments and hedging activities -**

IAS-39 “Accounting for Financial Instruments” 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 has not identified any derivative instruments.

**p) Accounting for impairment of long-lived assets -**

IAS-36 “Accounting for the Impairment of Long-Lived Assets” requires that the Company review 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 value in use of an asset is considered to be lower than its book value, then the asset is written down to fair value, which is generally determined from estimated discounted future net cash flows.

**q) Segment reporting -**

IAS-14 “Disclosures about Segments of an Enterprise” requires a business enterprise to report financial and descriptive information about its operating segments. Generally, presentation of segment financial information as primary is required on the same or similar basis as used internally for evaluating segment risk and performance and deciding how to allocate resources to segments. Management considers that Sivensa operates in business segments described in Note 16 and basically in one country.

**NOTE 3 - ACCOUNTS RECEIVABLE:**

Accounts receivable comprise the following:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)	
Customers (Note 9)	33,529	35,561
Value added tax (Note 12)	2,018	2,341
Import duty drawbacks	4,558	7,657
Insurance claim	-	488
Other accounts receivable	1,625	4,749
Allowance for doubtful accounts	(9,477)	(12,553)
	<u>32,253</u>	<u>38,243</u>

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

NOTE 4 - INVENTORIES:

Inventories comprise the following:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)	
Finished products	8,362	13,131
Products in process	5,019	7,657
Raw materials (Note 17)	8,137	8,159
Spare parts and supplies	23,267	29,134
Materials in transit	1,240	596
Provision for slow-moving inventories	( 3,510)	( 3,898)
	42,515	54,779
Less: Spare parts reported as long-term	( 7,750)	( 8,751)
	<u>34,765</u>	<u>46,028</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment comprises the following:

	Estimated useful <u>lives</u>	<u>September 30,</u>			
		<u>2002</u>		<u>2001</u>	
		<u>Cost</u>	<u>Revaluation</u>	<u>Total</u>	<u>Total</u>
		(Thousands of U.S. dollars)			
Buildings and building improvements	10 to 40 years	57,297	11,202	68,499	78,104
Machinery and equipment	7 to 20 years and units of production	513,603	34,268	547,871	549,647
Tools	5 to 10 years	3,428	-	3,428	3,428
Automotive equipment	5 to 10 years	9,349	115	9,464	10,119
Furniture and fixtures	3 to 5 years	<u>12,707</u>	<u>1,364</u>	<u>14,071</u>	<u>16,855</u>
		596,384	46,949	643,333	658,153
Accumulated depreciation		(407,189)	<u>90,397</u>	(316,792)	(298,269)
		189,195	137,346	326,541	359,884
Land and improvements		10,526	-	10,526	10,469
Work and improvements in progress, machinery in transit and others		<u>5,558</u>	<u>-</u>	<u>5,558</u>	<u>6,366</u>
		<u>205,279</u>	<u>137,346</u>	<u>342,625</u>	<u>376,719</u>

Depreciation expense for the years ended September 30, 2002, 2001 and 2000 was US\$26.9 million, US\$27.7 million and US\$30 million, respectively, which was charged mainly to cost of sales.

According to reviews by management of the subsidiary Venprecar, major repairs are required to the fuel-gas reformer and heat recovery system to reestablish production capacity of the Venprecar plant. The cost of repairs and equipment replacement estimated by management is approximately US\$11 million. During 2002 the subsidiary Venprecar made payments in advance of approximately US\$1.2 million to purchase materials required to perform repairs scheduled to begin in the second quarter of fiscal 2003.

NOTE 6 - INVESTMENTS:

Investments classified as long-term comprise the following:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)	
Land and other real property available for sale recorded at cost	5,148	6,243
Unlisted shares recorded at cost (Note 2-d):		
Conсорcio Siderurgia Amazonia, Ltd., 13.25% of capital stock (Note 8)	42,073	42,073
Provision for investment in Consорcio Siderurgia Amazonia, Ltd. (Note 8)	(30,073)	-
Other	<u>622</u>	<u>1,854</u>
	<u>17,770</u>	<u>50,170</u>
Investments in shares of affiliates accounted for under the equity method:		
Joint Venture with BHP (investment in shares and long-term loans), 50% of capital stock (Note 7)	26,686	54,232
Provision for investment in affiliates (Note 7)	<u>(26,686)</u>	<u>-</u>
	<u>-</u>	<u>54,232</u>

Equity in losses of affiliates comprises the following:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Conсорcio Siderurgia Amazonia, Ltd. (Note 8)	-	-	(25,861)
Companies in Joint Venture with BHP (Note 7)	<u>(27,546)</u>	<u>(59,390)</u>	<u>(25,458)</u>
	<u>(27,546)</u>	<u>(59,390)</u>	<u>(51,319)</u>

In March 2000 Consорcio Siderurgia Amazonia, Ltd. increased its capital stock. Since Sivensa did not participate in the subscription of these new shares, its participation in the capital stock of Consорcio Siderurgia Amazonia, Ltd. was diluted from 20% to 13.25% (see Note 8). The Company recognized the effect of this dilution as a loss in the statement of operations for the period. The net effect of this dilution amounted to US\$1.6 million, which is included in Other income (expense), net for the year ended September 30, 2000 (see Note 11). As from March 2000, Sivensa ceased to record equity in the results of Amazonia and, consequently, shows its investment at book value at March 31, 2000 (see Note 8).

In 2000 Amazonia issued debt convertible into shares; however, Sivensa did not participate in this issue. If this debt were converted into shares, Sivensa's equity in Amazonia would be diluted to 10.5%.

At September 30, 2002, long-term accounts receivable from Amazonia include approximately US\$1.1 million (see Note 17).

NOTE 7 - JOINT VENTURE WITH BHP:

Fior de Venezuela, S.A., a 60%-owned subsidiary, started developing a project for the construction of a new plant for 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 15). In September 1997 project costs were US\$66.1 million, which consisted mainly of expenditures for land, basic and detail engineering and technical services. In September 1997 International Briquettes Holding (IBH) (initially a wholly-owned subsidiary of Fior, see Note 2-b) contributed substantially all of Fior's net assets (including project costs) to form 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.

IBH and BHP each has a 50% ownership interest in the Joint Venture (Joint Venture with BHP), which consists of three companies: 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 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 15), 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, which gave BHP a 50% participation in these companies. BHP also bought 50% of Brifer's shares from IBH for approximately US\$30 million (present value of US\$28.7 million) which was paid by BHP in 1999 and 1997. 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.

IBH acquired, without recourse, participations in long-term loans granted by a bank to Orinoco Iron and Operaciones RDI. The bank continued to manage the loans. 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.

Long-term loans, whose repayment was conditioned upon the affiliates Orinoco Iron and Operaciones RDI complying with commitments to financial creditors and maintaining certain ratios of indebtedness and cash flows, were considered as permanent financing to support the Joint Venture and presented as part of IBH's investment cost basis in these two companies.

The Joint Venture formation reduced Sivensa's equity in the net assets and operations formerly owned by Fior and created in IBH a 50% interest in the Joint Venture companies. Below is a summary of combined financial information for the Joint Venture companies, which are accounted for under the equity method:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Combined balance sheet data at the end of the year:			
Current assets (liabilities), net	(746,364)	(730,167)	( 5,510)
Property, plant and equipment, net	923,771	945,481	926,932
Total assets	983,941	983,184	987,522
Financial debt	350,697	327,666	714,158
Debt with BHP	350,697	327,158	-
Total liabilities	800,240	761,435	890,843
Shareholders' equity	183,701	221,748	96,679
Combined statement of operations data:			
Net sales	63,232	50,854	38,190
Gross loss	( 24,436)	( 42,788)	( 20,971)
Operating loss	( 36,184)	( 55,641)	( 33,662)
Financing cost, net	( 27,300)	( 71,892)	( 15,509)
Net loss	( 56,213)	(126,485)	( 56,361)
Capital investments	269	31,676	209,943

Sivensa's statement of operations includes the following income (expense) from the Joint Venture companies:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Equity in losses of affiliates, net	(27,546)	(59,390)	(25,458)
Provision for loss in value of investment in affiliates	(26,686)	-	-
Provision for accounts receivable (Note 17)	( 8,302)	-	-
Interest income from loans granted, net (Note 17)	-	<u>3,048</u>	<u>9,986</u>
	<u>(62,534)</u>	<u>(56,342)</u>	<u>(15,472)</u>

During 2002 the subsidiary IBH set aside a provision for loss in value of investment in Joint Venture companies equivalent to total book balance 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 long-term accounts receivable from these affiliates (see Note 17).

### Financing for Orinoco Iron plant construction

In order to finance the construction of the Orinoco Iron plant, Orinoco Iron received US\$613 million in long-term loans (senior debt) pursuant to several credit facilities. The credit facilities entail financial covenants that restrict Orinoco Iron's ability to distribute dividends to shareholders if certain ratios of indebtedness and cash flows are not met.

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 used for export collections, 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 plant; (2) guarantee that future cash flows from Operaciones RDI, prior to completion of the Orinoco Iron plant, will be available for the project; (3) commit to provide their respective share of a credit facility up to US\$90 million to cover costs in excess of the original estimate, and (4) guarantee payment of their share of senior debt, if necessary before completion of the plant.

During 2002 and 2001, the affiliate 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\$351 million at September 30, 2002 (US\$327 million at September 30, 2001) and relates to the portion guaranteed by IBH and Venprecar. The subsidiaries IBH and Venprecar have not recorded this contingent liability because they consider that Orinoco Iron might be able to repay its debt if the strategic plan explained below is executed.

### Going concern - Orinoco Iron and Operaciones RDI

In August 2000 the Orinoco Iron plant began partial commercial operations; however, certain equipment failures have delayed production build-up and increased construction and plant start-up costs. As a result of increased costs, lower-than-planned production rates and depressed metal prices on international markets, actual revenues and cash flows have been substantially below amounts originally planned. Additional funding will be required in order for Orinoco Iron to continue operations, place the remaining production units into operation,

settle accounts payable to suppliers and increase working capital. Additional funds required will depend in part on the commercial and business strategy to be followed by Orinoco Iron in the future, but are estimated by IBH at over US\$24 million. IBH is conducting negotiations with some suppliers in this respect.

On March 29, 2001, BHP issued a press release announcing that it would write off its 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 requirements initially established in the project financing contract. IBH is currently meeting with BHP to reach agreements as to the obligations and preexisting agreements in respect of this Joint Venture. IBH and BHP 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 a significant reduction of its receivables from Orinoco Iron.

The affiliate Operaciones RDI (50% owned by the subsidiary IBH) has incurred operating losses during 2001, 2000 and 1999. In March 2001 Operaciones RDI 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. Results of Operaciones RDI indicate that continuity of its operations depends on a significant increase in briquette prices on international markets. Management of Operaciones RDI is considering alternatives to address this matter and is currently 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.

#### Strategic plan of IBH and its subsidiaries and affiliates

Low briquette prices and delays in start-up of the Orinoco Iron plant have adversely affected the results of operations and financial position of IBH and its subsidiaries and affiliates. During the last quarter of fiscal 2002, briquette prices have improved on an international scale and this could provide better scenarios for the coming fiscal year. Management of IBH, the subsidiary

Venprecar, and the affiliate Orinoco Iron have prepared a medium-term business plan and are taking action to resolve current operational and financial matters mentioned below:

- Evaluation of possible options to obtain additional working capital required by Orinoco Iron, including discussions with the main suppliers and financial institutions and the possible

inclusion of new shareholders. Management believes that once these matters are resolved Orinoco Iron will be able to complete start-up of its plant and increase production, thus reducing its costs per ton and increasing its cash flows.

- Continuance of negotiations with creditor banks to restructure Orinoco Iron's financial debt.
- Finalize negotiations with BHP on terms and conditions for debt currently owed by Orinoco Iron to BHP.
- Allocate a portion of cash flows of the subsidiary Venprecar to fund capital expenditures required to replace catalytic tubes in the gas reformer (see Note 5). Management of IBH and Venprecar expect the replacement of these tubes to increase plant capacity, reduce Venprecar operating costs per ton, and thus increase its cash flows.

Orinoco Iron has deferred payment of its raw materials and utilities and thereby obtained the required cash flows to finance its operations. Orinoco Iron is currently negotiating with CVG Ferrominera and CVG Edelca, iron ore and electricity suppliers, respectively, the commercial terms of future delivery of raw materials and utilities and payment of outstanding debts. No assurance can be given that CVG Ferrominera and/or CVG Edelca will continue to allow Orinoco Iron to defer payments.

Given the current situation, it is IBH's priority to maintain operations of Orinoco Iron and Venprecar and, therefore, IBH has been using all of its financial resources for this purpose. Operaciones RDI is not currently operating. Since Venprecar has guaranteed Orinoco Iron's debt, continuity of its operations is dependent on a solution being found to Orinoco Iron's financial situation.

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

#### NOTE 8 - PARTICIPATION IN THE AMAZONIA CONSORTIUM:

On December 18, 1997, a consortium of Latin American companies, including Sivensa, won the right to acquire a 70% share in CVG Siderúrgica del Orinoco, C.A. (SIDOR), the largest steel producer in Venezuela. This right was exercised on January 27, 1998. Consorcio Siderurgia Amazonia, Ltd. is 13.25%-owned by Sivensa, 38%-owned by Grupo Techint (which includes Siderar from Argentina, Tamsa from Mexico and Techint Engineering Company from Panama), 38%-owned by Hylsamex from Mexico and 11%-owned by Usiminas from Brazil (see Note 6).

Amazonia is a company incorporated under the laws of the Cayman Islands. Pursuant to an agreement among the consortium partners, management is controlled by an 11-member Board of Directors in which Sivensa holds one seat (two seats up to March 2000).

The main steel products that SIDOR produces include billets, slabs, wire rods, rebars, hot rolled, cold rolled and coated sheets and coils. SIDOR's production facilities include one pellet production plant, four briquette plants, a flat product complex and a long product complex.

Amazonia paid a net purchase price of US\$1,200 million for the 70% share in SIDOR at the January 27, 1998 closing date. Within 150 days of closing, a purchase price reduction of US\$150 million was established based on the difference between the audited balance sheet at closing and the balance sheet at June 30, 1997. Amazonia funded the purchase price through a combination of a US\$500 million loan and proportionate equity contributions of US\$702 million made by the consortium partners. Sivensa's equity contribution was US\$140 million. All of Amazonia's shares have been pledged in favor of this loan.

#### Guarantees and commitments of Sivensa

In addition to the obligations described above, Amazonia and the consortium partners have agreed to certain obligations in connection with SIDOR's privatization. Pursuant to the terms of a purchase-sale agreement signed by the Venezuelan government and Amazonia (the Purchase Agreement), the consortium partners have jointly agreed to guarantee the following SIDOR debts: (a) past due interest at December 18, 1997; (b) interest of external restructured debt until December 17, 1999; (c) all obligations related to the external restructured debt since December 18, 1999, and (d) all obligations related to the external non-restructured debt and the debt with Banco Central de Venezuela since the closing date. At September 30, 2002, these SIDOR debts total approximately US\$713 million (approximately US\$662 million in 2001); the portion secured by Sivensa amounts to approximately US\$109 million.

The Purchase Agreement also requires that: (a) during the five-year period following closing, SIDOR maintain a level of production of finished steel products equal to at least 2.4 million tons; (b) during the five-year period following closing, SIDOR meet Venezuela's domestic demand for finished and unfinished steel products which it currently produces; (c) within three years of closing, SIDOR make capital investments of US\$300 million, plus additional investments required by SIDOR related to environmental improvements for its plants, and (d) for a period of five years, the initial partners retain ownership of at least 51% of SIDOR's shares, and one of the initial pre-qualified steel-maker partners maintain at least 10% of Amazonia's shares. The consortium partners agreed to provide a US\$150 million "performance bond" (to guarantee the obligations under (a), (c) and (d) above) of which Sivensa's proportional obligation is US\$30 million. At September 30, 2002, Sivensa's proportional obligation is US\$15 million (US\$25 million at September 30, 2001). The performance bond and guarantee arrangements will both terminate five years after as from January 1998.

### Going concern - Amazonia

In 2002 and 2001, SIDOR was unable to meet certain covenants set out in the long-term loan restructuring agreement. In November 2001 SIDOR announced that it could not meet payments of certain financial obligations and has begun to negotiate with its main creditors. In addition, Amazonia did not comply with interest payments in December 2001 and June 2002. Under these agreements, due to noncompliance, these debts may be considered due and payable. Additionally, the worldwide steel industry crisis and other factors have adversely affected the results of operations of Amazonia and its subsidiary SIDOR.

Negotiations with creditor banks and the Venezuelan government include the possibility of capitalizing its receivables against SIDOR, which could indirectly dilute Sivensa's participation.

During 2002 Sivensa decided to set aside a provision of US\$30 million for loss in value of its investment in Amazonia due to recurrent losses incurred by Amazonia and its subsidiary SIDOR.

### NOTE 9 - BANK LOANS AND LONG-TERM LOANS:

#### **Long-term debt -**

In March 1998 Sivensa obtained a loan of approximately US\$200 million. At September 30, 1999, Sivensa was unable to comply with certain covenants set out in this loan agreement. In July 2000 Sivensa and its subsidiary Sidetur reached agreements with their creditor banks to restructure short and long-term loans of Sivensa and Sidetur of approximately US\$246 million, under a US\$198 million Secured Loan Facility and a US\$48 million Receivables Facility (see Note 10).

As previously reported, at September 30, 2001, Sivensa was unable to pay the short-term portion of capital and interest and to comply with some covenants set out in the loan agreement. At that date, the total balance of this loan amounted to US\$194 million, which is reported as long-term under Debts being restructured. This amount included US\$14.6 million in interest pending payment at that date. In December 2001 creditor banks and Sivensa's management agreed on the terms of debt restructuring and the advance mentioned in Note 10, which were approved by Sivensa's Board of Directors on December 14, 2001. At that date, documents in respect of these agreements were being compiled and were subsequently approved by shareholders at a Special Shareholders' Meeting held on January 25, 2002.

In May 2002 the Company and its subsidiary Sidetur reached agreements with their creditor banks to restructure financial debt of approximately US\$255 million at that date, thereby resolving the matter of noncompliance at September 30, 2001.

The main terms and conditions of the new loan agreement are summarized below:

- a) The restructured debt will be repaid in two Tranches: Tranche “A” for US\$130 million and Tranche “B” for US\$125 million. Tranche “A” is repayable in quarterly installments as from the third quarter of fiscal 2003, and the closing balance will be repaid in the last quarter of fiscal 2007 or before that date using cash flow surplus. Tranche “B” is repayable on September 30, 2007. The interest rate for Tranche “A” will be LIBOR plus 3.5%, payable on a quarterly basis, and Tranche “B” will bear no interest before maturity.
- b) Sale of certain assets. All funds obtained from the sale of certain assets up to US\$22 million will be applied to the payment maturing the last quarter of fiscal 2003 (mandatory payment of the sale of assets), and surplus funds over US\$22 million will be applied in inverse order of maturity. The mandatory payment of the sale of assets not received during the last quarter of fiscal 2003 will be added to the installment of principal which matures in the second quarter of fiscal 2005 should the Company issue common shares of Sivensa for an amount that will allow it to deliver 20% of the Company’s shares to creditors after dilution (including 15% of the initial shares) and transfer assets to a trust fund on behalf of creditors, if required by the majority of creditors. In addition, if Sivensa pays an amount greater than or equal to US\$16 million in the last quarter of fiscal 2003, creditors will receive a pro-rata portion of the shares for certain assets proportionate to the amount of the mandatory payment on the sale of assets not received.
- c) Debt conversion at maturity date: mandatory and optional. Mandatory conversion set out the following conditions: that noncompliance has neither occurred nor continues, that the amount of the debt be less than or equal to US\$166 million and the aggregate amount of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) in the last 6 years be greater than or equal to US\$170 million, in order to require creditors to convert debt into Sivensa’s common shares. Mandatory conversion will be for US\$1,750,000 for every 1% of the outstanding common shares (after dilution). The amount of debt to be converted is that portion exceeding the higher of US\$100 million and 3.5 times the EBITDA measurement (same three-year average). Optional conversion will occur if any of the conditions for mandatory conversion is not met, in which case, creditors will individually have the option to convert debt and this conversion will be based on the average EBITDA generated by the Company over the last three years, within a range from US\$1,750,000 to US\$900,000 for every 1% of the outstanding shares (after dilution). In any case, creditors will never hold more than 80% of Sivensa’s total shares. The amount of debt to be converted is that portion exceeding 3.5 times the EBITDA measurement.
- d) Conversion in the event of default occurs 90 days after noncompliance with a scheduled payment over US\$5 million. In this case, creditors may elect to convert the balance of the debt into Sivensa common shares. The conversion price will be determined by dividing the balance of the debt to be converted by the average price of a Sivensa share (the average

price for a Sivensa share quoted on the Caracas Stock Exchange in the last three months before any determining date). Creditors will not hold more than 80% of Sivensa's total common shares.

- e) As part of the restructuring agreement, Sivensa issued common shares to banks representing 15% of its outstanding shares. Creditors were issued a "Golden Share" of Sivensa and its subsidiary Sidetur granting them special voting rights regarding certain agreed-upon matters (subject to CNV rules) and the right to appoint one Director and Alternate to the Board of Directors of Sivensa and its subsidiary Sidetur with special rights as set out in the bylaws. A Golden Share converts automatically into a common share, and directors holding a Golden Share become common directors once the loan has been fully repaid (in cash or through share conversion) and creditors become holders of Sivensa's common shares representing less than 5% of Sivensa's total subscribed and paid-in shares (see Note 13).
- f) Obligations with respect to the restructured debt are guaranteed by the shares of the subsidiaries, Sidetur, Vicson, Torcar, Smith Brocas, Valvuvensa, Sidetur Holding Company, Sanchon Unico, Inverside, Simalla e Inversora; Sidetur's local and export accounts receivable; a chattel and conventional mortgage on Sidetur's current and future unmortgaged assets, and the shares of Consorcio Siderurgia Amazonia and IBH as agreed.
- g) As part of the pledge structure of Sidetur's shares, shares held by Sivensa in Sidetur are transferred to Compañía Tenedora de Acciones de Compañías Siderúrgicas "TECOSIDE" S.A., incorporated in Venezuela and formerly wholly-owned by Sivensa. Sivensa gave a pledge in favor of creditors on its shares in TECOSIDE which, in turn, gave a pledge in favor of creditors on Sidetur's shares. In addition, TECOSIDE issued Platinum Shares in favor of its creditors, representing 49% of its capital stock. These shares will grant their holders the same rights and characteristics as Sivensa's Golden Share and will be convertible into common shares representing 51% of TECOSIDE's common shares in the event of noncompliance with the loan agreement. Prior to conversion into common shares, Platinum Shares will hold no economic rights in respect of dividends and liquidation. If Platinum Shares are not converted into common shares, they will be returned to Sivensa for mandatory conversion of loans. TECOSIDE will only be allowed to hold shares in Sidetur and may not incur debt.

Debt maturities at September 30, 2002 are shown below:

	Thousands of <u>US\$</u>
2003	23,023
2004	10,256
2005	11,305
2006	12,357
2007	<u>198,273</u>
Total	255,214
Current portion	( <u>23,023</u> )
Long-term portion	<u>232,191</u>

During 2002 approximately US\$6 million in expenses directly related to the second debt restructuring (US\$4.4 million in 2001) were deferred. At September 30, 2002, the net balance of deferred expenses amounts to US\$10.1 million and is included in Other long-term assets (see Note 2-f). During 2001 approximately US\$9.3 million was charged to results for the period in respect of expenses directly related to the first debt restructuring.

**Short-term loans -**

At September 30, 2002, bank loans mature between one and twelve months. At that same date, loans denominated in U.S. dollars total US\$8.3 million and bear interest at annual rates between 5% and 7.72%.

**NOTE 10 - ADVANCE RECEIVED FOR THE FUTURE SALE OF ACCOUNTS**

**RECEIVABLE:**

In August 2000 Sidetur entered into an agreement (Receivables Facility) for the sale of invoices on future export sales of steel products. As a result of this agreement, Sidetur received an advance of US\$47.8 million, which is payable through future billings.

At September 30, 2001, the balance of the advance was US\$47.8 million and was recorded as long-term under Debts being restructured since this advance would be considered part of the debt restructuring process mentioned in Note 9.

NOTE 11 - OTHER INCOME (EXPENSE), NET:

Other income (expense), net comprises the following:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Gain on sale of fixed assets	78	221	483
Provision for decline in market value of investments and other assets	(1,571)	-	( 771)
Provision for contingencies and other	( 82)	( 456)	( 268)
Gain on sale of subsidiary (Note 2-b)	-	-	3,341
Loss on dilution in Consorcio Siderurgia Amazonia, Ltd. (Note 6)	-	-	(1,640)
Other, net	<u>668</u>	<u>( 788)</u>	<u>1,875</u>
	<u>( 907)</u>	<u>(1,023)</u>	<u>3,020</u>

NOTE 12 - TAXES:

The estimated tax expense comprises the following:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Income tax	( 126)	( 2,091)	( 491)
Business assets tax	(1,524)	( 1,346)	(4,109)
Deferred income tax	<u>(5,401)</u>	<u>(11,252)</u>	<u>3,317</u>
Total tax expense	<u>(7,051)</u>	<u>(14,689)</u>	<u>(1,283)</u>

**Income tax -**

Under the Venezuelan Income Tax Law, Sivensa and its subsidiaries do not consolidate their results for tax purposes and, accordingly, they file separate tax returns (in bolivars). As a result, certain subsidiaries may have different tax treatments depending on the nature of their activities.

The differences between the amount of income tax computed at the statutory income tax rates of 34% and the effective income tax rates for the years reported result mainly from inflation adjustment for tax purposes, dividends from subsidiaries, equity in results of affiliates, intercompany transactions, income from foreign sources and the requirement that taxes be based

on the underlying bolivar accounts of each Venezuelan company on an individual basis as summarized below:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Statutory income tax rate	34.0	34.0	34.0
Decrease in statutory tax rate resulting from:			
Translation into U.S. dollars for accounting purposes and effect of taxes assessed in bolivars	(30.5)	(35.8)	(35.4)
Equity in results of subsidiaries	( 9.1)	(23.2)	(14.6)
Provision for investment	(19.2)	-	-
Inflation adjustment for tax purposes	19.1	7.6	15.7
Change in valuation allowance for deferred income tax assets	( 1.9)	( 4.4)	( 6.9)
Business assets tax	( 0.5)	( 1.5)	( 2.4)
Other, net	<u>1.2</u>	<u>6.4</u>	<u>5.4</u>
Effective income tax rate (%)	<u>( 6.9)</u>	<u>(16.9)</u>	<u>( 4.2)</u>

As from 1993, the Income Tax Law requires annual inflation adjustment resulting in an increase or decrease in taxable income. Sivensa and each of its Venezuelan subsidiaries made the initial adjustment in fiscal 1993, thereby giving rise to the payment of a registration tax in the Revalued Assets Registry of 3% of a special revaluation of depreciable fixed assets (as defined). Moreover, the Law sets forth that the new values resulting from the revaluation are to be depreciated over the remaining useful lives of the fixed assets.

The Income Tax Law allows tax losses and investment tax credits to be carried forward for three years to reduce income tax payable. At September 30, 2002, Sivensa and its subsidiaries have tax loss carryforwards amounting to Bs 137,671 million (equivalent to US\$93 million), of which Bs 119,742 million and Bs 17,929 million may be used to offset taxable income until the end of fiscal 2003 and 2004, respectively. At September 30, 2002, some subsidiaries also have investment tax credits of Bs 90 million (equivalent to US\$61,000), of which Bs 76 million and Bs 14 million may be applied against income tax liabilities until fiscal 2003 and 2004, respectively. Utilization of these tax loss carryforwards and investment tax credits is dependent upon realization of future taxable income in the appropriate company. 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.

The components of deferred income tax assets, net are as follows:

	<u>September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Investment tax credits	61	8,574	17,248
Tax loss carryforwards	31,750	28,805	52,999
Business assets tax credits	2,980	7,320	10,774
Difference between book value and tax base of cost of fixed assets	(25,859)	20,921	26,617
Provision for investment	19,298	-	-
Uncollected income from drawbacks	( 1,550)	( 2,603)	( 2,675)
Allowances and provisions not deductible until paid	7,238	5,593	7,974
Other, net	<u>181</u>	<u>304</u>	<u>( 144)</u>
	34,099	68,914	112,793
Valuation allowance	<u>(32,814)</u>	<u>(62,524)</u>	<u>( 86,760)</u>
Net deferred income tax assets	<u>1,285</u>	<u>6,390</u>	<u>26,033</u>
Included in:			
Prepaid expenses and deferred income tax (current portion)	508	3,760	3,116
Deferred income tax (long-term portion)	<u>777</u>	<u>2,630</u>	<u>22,917</u>
	<u>1,285</u>	<u>6,390</u>	<u>26,033</u>

In October 1999 the Income Tax Reform Law 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 for the Venezuelan subsidiaries in 2001, with the exception of tax on dividends and worldwide income taxation which became effective in 2002. In December 2001 a new Reform Law introduced amendments to the proportional tax on dividends, transfer pricing and inflation adjustments, among other things.

#### **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 used in the production of income derived from commercial or industrial activities. The tax rate applicable to the tax base is 1% a year, which 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.

Sivensa and some of its subsidiaries paid business assets tax in fiscal 2002, 2001 and 2000, whereas other subsidiaries paid income tax. Business assets tax for fiscal 2002 amounted to US\$1,524,000 (US\$1,346,000 in 2001 and US\$4,109,000 in 2000). Payment of this tax may be applied as a tax credit against any income tax liability incurred in the following three fiscal years.

**Value added tax (VAT) -**

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, 2002, Sivensa and its subsidiaries recorded tax credits of approximately Bs 2,974 million, equivalent to US\$2,018,000 (Bs 1,739 million equivalent to US\$2,341,000 at September 30, 2001 and Bs 4,964 million equivalent to US\$7,184,000 at September 30, 2000) in respect of value added tax and luxury and wholesale tax (see Note 3), of which Bs 2,114 million equivalent to US\$1,434,000 (Bs 779 million equivalent to US\$1,049,000 at September 30, 2001 and Bs 1,021 million equivalent to US\$1,477,000 at September 30, 2000) are 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 other 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, effective until March 2003, with a new rate of 0.75% applicable to the aforementioned bank operations over Bs 473,600. This rate was further increased to 1% as from September 1, 2002. For the years ended September 30, 2002 and 2000, Sivensa and its subsidiaries incurred bank debit tax expenses of approximately Bs 1,490 million and Bs 603 million, respectively (equivalent to approximately US\$921,000 and US\$907,000, respectively).

**NOTE 13 - SHAREHOLDERS' EQUITY:****Capital stock and dividends -**

At September 30, 2002, Sivensa's subscribed and paid-in capital stock is represented by 3,529,754,911 common shares and one Golden Share of Bs 20 each. The Company's authorized capital stock is Bs 141,190 million.

At September 30, 2001, Sivensa's subscribed and paid-in capital stock was represented by 3,006,871,334 common shares of Bs 20 each. The Company's authorized capital stock was Bs 80,000 million.

At a Special Shareholders' Meeting held on January 25, 2002, the shareholders approved a resolution to increase the Company's capital stock by Bs 10,457 million by issuing 522,883,577 common shares and a Golden Share of Bs 20 each to be subscribed by creditor financial institutions through capitalization of accounts receivable from debt restructuring commissions and to increase the Company's authorized capital from Bs 80,000 million to Bs 141,190 million (see Note 9).

The following matters, among others, were also approved at the aforementioned Special Shareholders' Meeting:

- a) The statutory system henceforth applicable to the Golden Share and future capitalization of financial debt, both mandatory and optional, by creditor financial institutions under the terms and conditions of the restructuring through capital stock increases by the Board of Directors and/or Shareholders' Meeting through issuance of new common shares to be subscribed by the financial institutions (see Note 9).
- b) Temporary suspension of system for declaration and payment of cash dividends of Sivensa.
- c) Approval of reorganization of subsidiaries and investment of the Company in these subsidiaries.
- d) Authorization of all guarantees that must be granted for financial debt restructuring.
- e) Approval of the amendment to the incorporation document and bylaws in order to adjust them to the debt restructuring requirements.

Under the Company's bylaws, each share grants its holder the right to cast one vote at shareholders' meetings in connection with all matters related to their role as shareholders in conformity with the provisions of the Code of Commerce, the Capital Markets Law and any other applicable legal provision or regulation, except for special voting rights granted to the Golden Share. These special rights are in respect of matters requiring only the presence and approval of the holder of the Golden Share and matters that cannot be approved if objected by the holder of the Golden Share. These rights also relate to capitalization of financial debt by shareholders' meetings as set out in the restructuring agreement.

In addition, under the Company's bylaws, the Golden Share has the following characteristics:

- a) The Golden Share will fully convert into a common share when obligations under the debt restructuring agreement of Sivensa and Sidetur have been fully repaid (through cash payments or share conversions) and creditor banks have become holders of Sivensa's common shares representing less than 5% of Sivensa's total subscribed and paid-in shares.
- b) The Golden Share belongs to creditor banks. This share is nontransferable, may not be privately traded, registered or traded on the stock exchange.
- c) The holder of a Golden Share is entitled to appoint, remove and replace one of the eight principal directors and also appoint an alternate Company director to act as his/her personal alternate to the principal director appointed by the Golden Shareholder.

- d) The holder of a Golden Share may, at any time, request that the Board of Directors call a meeting of the shareholders.
- e) Any director (principal or alternate) appointed by the holder of a Golden Share may individually call a meeting of the Board of Directors.

At September 30, 2000, the subscribed and paid-in capital stock of Sivensa was represented by 2,674,496,988 Classes "A" common shares and 172,120,105 Class "B" common shares of Bs 20 each. While both classes of shares entitled their owners to one vote per share at shareholders' meetings, only Class "A" common shares gave voting rights to elect the Board of Directors. Classes "A" and "B" common shares entitled their owners to the same dividends and equal participation in proceeds from the Company's liquidation. Shareholders were entitled to subscribe increases in capital stock proportionate to the number of shares held.

At a Regular Shareholders' Meeting held on January 30, 2001, the shareholders approved a proposal of the Board of Directors of November 10, 2000 to convert all existing Class "B" shares into Class "A" shares, on a 1 for 1 basis. In addition, the shareholders authorized the Board of Directors to make the necessary arrangements with The Bank of New York to replace the denomination of the underlying asset of the American Depositary Receipts (ADRs) of Classes "A" and "B" shares for common shares and to modify the terms and conditions of these ADRs, according to the Board of Directors' decision.

At September 30, 2002 and 2001, 43,864,399 common shares in treasury are held by the subsidiary, C.A. Inversiones Siderúrgicas "Inverside."

At September 30, 2000, 2,775,000 common shares were in the treasury and 727,408,568 common shares were held by subsidiaries (including 670,531,396 Class "A" shares held by the subsidiary, Consolidated Industrial Investments and 43,864,399 Class "A" shares held by the subsidiary, C.A. Inversiones Siderúrgicas "Inverside").

At September 30, 2002, approximately 1,096,441,585 common shares (772,251,117 Class "A" common shares in 2001; 609,141,233 Class "A" common shares and 130,598,860 Class "B" common shares in 2000) are part of American Depositary Shares (ADS). Each ADS represents 98 common shares of Sivensa.

Sivensa pays dividends in bolivars (see Note 2-a). The Capital Markets Law requires companies with publicly traded shares to distribute among their shareholders at least 50% of their net profits (in bolivars) after income tax and appropriation to legal reserves. In addition, at least 25% of this dividend must be paid in cash. In conformity with the rules and instructions laid down by the Venezuelan Securities and Exchange Commission (CNV), dividend distribution and statutory equity do not include equity in results of subsidiaries.

In September 2001, based on requirements of creditor banks for debt restructuring indicated in Note 9, Sivensa made a request to CNV for exemption from the obligation to declare and pay minimum dividends for a six-year period as from the effective date of the second debt restructuring mentioned in Note 9. This request was approved by CNV on October 23, 2001 through Resolution No. MF-CNV-CJ-138 and approved at the Special Shareholders' Meeting of January 25, 2002.

**Stock option plan -**

Sivensa offers its executives an option plan to purchase shares. These options allow them to acquire, anytime over a four-year period from the date the options are granted, Sivensa shares at market price as of the fiscal year-end prior to the date the options were granted. Charges to results relating to this option plan are not material.

A summary of the changes in the outstanding options is shown below:

	Number of <u>shares</u>	Average exercise price <u>(Bs)</u>
<u>Options:</u>		
Outstanding at September 30, 1999	1,631,577	173.67
Granted	294,099	25.00
Expired	<u>( 651,315)</u>	159.59
Outstanding at September 30, 2000	1,274,361	152.32
Additional granted as a result of stock dividends	509,744	-
Expired	<u>( 960,645)</u>	179.07
Effect from sale of a subsidiary	<u>( 370,288)</u>	26.55
Outstanding at September 30, 2001	453,172	27.04
Expired	<u>( 219,791)</u>	36.80
Outstanding at September 30, 2002	<u>233,381</u>	17.86

The following table summarizes the information on the outstanding options at September 30, 2002:

<u>Number of outstanding options</u>	<u>Exercise price Bs</u>	<u>Expiration date</u>
233,381	17.86	September 30, 2003

**Legal reserve -**

The legal reserve is a requirement whereby Venezuelan companies must set aside 5% of their net income (in bolivars) until the reserve reaches the equivalent of at least 10% of their capital stock (in bolivars).

**NOTE 14 - FOREIGN EXCHANGE:**

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 as from 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 Banco Central de Venezuela (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 on February 18, 2002.

**NOTE 15 - ROYALTIES:**

In November 1992 the subsidiary Fior de Venezuela, S.A. entered into a cooperation contract with Voest-Alpine Industrieranlagenbau GmbH (VAI) to jointly develop basic engineering for the Finmet process (iron-ore direct reduction process). In addition, Fior and VAI entered into a contract to market the Finmet process, giving Fior and VAI exclusive promotional and marketing rights in certain countries with respect to this process and its improvements. Under this contract, Fior 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. Fior, or a subsidiary of Fior, will receive 50% of this royalty once assembly of electromechanical installations begins. The remaining 50% shall be paid 30 days after 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 the rights under this contract and the Finmet process patents and rights to Brifer.

In 1996 the Australian company The Broken Hill Proprietary Company Limited (BHP) began assembly of the electromechanical installations of a plant in Port Hedland, Australia with an estimated annual capacity of 2,000,000 metric tons. Since this plant will use the Finmet process it represents total potential royalties of US\$12,000,000. In 1996 Brifer earned US\$6,000,000 in income from royalties paid on this process. In 1999 plant capacity was determined to be higher than originally estimated; therefore, Brifer (50% owned by IBH) recognized US\$1,000,000 in additional income from royalties during 1999. The remaining US\$6,000,000 was payable to Brifer and should be recognized as income upon provisional acceptance of the plant. Income has not yet been recorded since this payment is also being negotiated by IBH and BHP (see Note 7).

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

#### NOTE 16 - BUSINESS SEGMENT REPORTING:

Sivensa's operations are divided into the following business segments. This data is considered primary information per segment (see Note 2-q):

##### **Briquettes (HBI) -**

The production chain starts with reduced iron briquettes made by plants owned by Venprecar and Operaciones RDI (the latter of which was formerly owned by Fior) (see Note 7). Most briquette production is exported and the remainder is used, along with scrap metal and other inputs, at some of Sidetur's steel mills.

##### **Steel -**

Sidetur's steel mills produce steel billets. Part of these semi-finished products is exported and the rest is converted into steel bars and other long-rolled products mainly for sale on local markets.

##### **Steel wire -**

Vicson produces wire and wire products used in construction, agriculture and manufacturing. Vicson's main products are barbed wire, mattress-coil wire, wire for beaded ends for tires, galvanized wire, nails, cyclone and chicken wire fencing.

##### **Auto parts -**

Automotive part plants owned by Danaven and Procesa manufacture original and spare parts for vehicle assembly plants. Original components include front and rear axles, hook joints, axle points and chassis. Replacement parts include filters, belts, hoses, gaskets, shock absorbers, springs and steel wheels. As explained in Notes 1 and 2-b, in 2001 this segment was discontinued.

Relevant data is provided below for each market segment:

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
<u>Total net sales:</u>			
Briquettes -			
Local market	4,832	3,673	17,220
Exports	<u>50,077</u>	<u>57,455</u>	<u>62,910</u>
	<u>54,909</u>	<u>61,128</u>	<u>80,130</u>
Steel -			
Local market	124,673	167,470	140,891
Exports	<u>18,332</u>	<u>22,501</u>	<u>30,223</u>
	<u>143,005</u>	<u>189,971</u>	<u>171,114</u>
Steel wire -			
Local market	38,237	47,491	42,464
Exports	<u>34,161</u>	<u>32,152</u>	<u>28,462</u>
	<u>72,398</u>	<u>79,643</u>	<u>70,926</u>
Other -			
Local market	4,241	6,520	7,733
Exports	<u>101</u>	<u>131</u>	<u>79</u>
	<u>4,342</u>	<u>6,651</u>	<u>7,812</u>
Intra-Sivensa eliminations	( 1,044)	( 3,892)	( 14,621)
	<u>273,610</u>	<u>333,501</u>	<u>315,361</u>
<u>Operating (loss) income:</u>			
Briquettes	( 13,627)	( 16,328)	( 55)
Steel	16,130	19,493	7,549
Steel wire	5,728	5,988	2,892
Other	( 420)	( 1,231)	( 2,796)
	7,811	7,922	7,590
Corporate	( 2,612)	( 7,313)	( 8,215)
Intra-Sivensa eliminations	( 1,585)	502	350
	<u>3,614</u>	<u>1,111</u>	<u>( 275)</u>
<u>Minority interests in results of subsidiaries:</u>			
Briquettes	20,681	22,571	5,416
Steel wire	( 466)	( 1,253)	( 151)
Other	<u>238</u>	<u>115</u>	<u>( 452)</u>
	<u>20,453</u>	<u>21,433</u>	<u>4,813</u>

	<u>Years ended September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
<u>Identifiable assets at the end of the year:</u>			
Briquettes	188,135	204,179	211,720
Equity investment in briquettes	-	54,273	109,013
Steel	212,769	215,801	228,744
Equity investment in steel	12,000	42,073	42,073
Auto parts (Notes 1 and 2-b)	-	-	209,370
Steel wire	79,290	97,136	88,767
Other	94,874	79,384	144,530
Corporate	<u>283,466</u>	<u>361,511</u>	<u>397,292</u>
	870,534	1,054,357	1,431,509
Intra-Sivensa eliminations	<u>(379,048)</u>	<u>( 425,687)</u>	<u>( 499,700)</u>
	<u>491,486</u>	<u>628,670</u>	<u>931,809</u>
<u>Geographic location of assets:</u>			
Venezuela	468,706	605,517	913,386
Colombia and the Caribbean	<u>22,780</u>	<u>23,153</u>	<u>18,423</u>
	<u>491,486</u>	<u>628,670</u>	<u>931,809</u>
<u>Export sales destination:</u>			
North America -			
Briquettes	33,540	32,824	39,384
Steel wire	3,308	3,884	4,193
Steel	<u>755</u>	<u>565</u>	<u>5,692</u>
	<u>37,603</u>	<u>37,273</u>	<u>49,269</u>
South America, Central America and Caribbean -			
Steel	17,577	21,936	24,531
Briquettes	127	3,089	2,059
Steel wire	30,853	28,268	24,269
Other	<u>101</u>	<u>131</u>	<u>79</u>
	<u>48,658</u>	<u>53,424</u>	<u>50,938</u>
Asia -			
Briquettes	<u>288</u>	<u>-</u>	<u>3,247</u>
Europe -			
Briquettes	<u>16,122</u>	<u>21,542</u>	<u>18,220</u>
	<u>102,671</u>	<u>112,239</u>	<u>121,674</u>
<u>Depreciation and amortization:</u>			
Briquettes	12,261	11,517	10,284
Steel	13,537	13,814	15,216
Steel wire	3,655	3,846	4,022
Other	553	911	1,529
Corporate	<u>181</u>	<u>245</u>	<u>348</u>
	30,187	30,333	31,399
Intra-Sivensa eliminations	<u>( 168)</u>	<u>( 168)</u>	<u>( 168)</u>
	<u>30,019</u>	<u>30,165</u>	<u>31,231</u>

NOTE 17 - ACCOUNTS AND TRANSACTIONS WITH RELATED COMPANIES:

Sivensa and its subsidiaries conduct business with some of their minority partners and other affiliates under various contractual agreements. Accounts with these related companies comprise the following:

	<u>September 30,</u>	
	<u>2002</u>	<u>2001</u>
	(Thousands of U.S. dollars)	
Accounts receivable:		
Orinoco Iron, C.A.	771	1,657
Operaciones RDI, C.A.	912	2,993
Other	<u>438</u>	<u>882</u>
	<u>2,121</u>	<u>5,532</u>
Long-term accounts receivable:		
CVG Ferrominera del Orinoco	161	3,000
Consorcio Siderurgia Amazonia, Ltd.	1,138	1,138
Orinoco Iron, C.A.	7,580	-
Operaciones RDI, C.A.	<u>722</u>	<u>-</u>
	9,601	4,138
Allowance for doubtful accounts (Note 7)	<u>( 8,302)</u>	<u>-</u>
	<u>1,299</u>	<u>4,138</u>
Accounts payable:		
CVG Ferrominera del Orinoco	21,095	19,817
Siderúrgica del Orinoco, C.A.	1,615	1,992
Smith Tools	1,079	1,079
Other	<u>14</u>	<u>11</u>
	<u>23,803</u>	<u>22,899</u>

Significant transactions with related companies comprise the following:

	<u>Years ended</u> <u>September 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Thousands of U.S. dollars)		
Sales	2,374	4,208	92,070
Purchases of spare parts and supplies	2,913	407	58,695
Purchases of iron ore and other raw materials	42,865	45,719	47,374
Royalty expenses	339	407	1,726
Interest income (Note 7)	-	1,080	9,986

The iron ore used by the subsidiary Venprecar to produce iron briquettes is purchased from CVG Ferrominera del Orinoco, C.A., a Venezuelan state-owned company and the only supplier of this mineral in Venezuela, under a contract entered into in 1988. Prices of iron ore are fixed annually by reference to prices prevailing on the international market. This contract is for 10 years and has an automatic renewal clause. It was renewed under the same terms and conditions for 20 years. There is no minimum commitment to purchase iron ore. CVG Ferrominera extended its terms of credit during 2002 and 2001. The account payable to CVG Ferrominera accrues interest on past due balances (see Note 1).

Venprecar is currently negotiating with CVG Ferrominera the commercial terms for future delivery of raw materials and agreements for repayment of outstanding debts.

Most foreign minority partners provide technological assistance or license proprietary technology in return for a royalty based upon a percentage of net sales of their respective Joint Venture.

In 2001 and 2000, the shareholders decided that participations of the subsidiary IBH in Orinoco Iron's loans be contributed to increase Orinoco Iron's capital stock (see Note 7).

During fiscal year 2000, Sivensa's net sales to Dana Corporation and its subsidiaries accounted for 14.2% of Sivensa's consolidated net sales. Net sales to Dana Corporation are included in discontinued operations (see Notes 1 and 2-b).

#### NOTE 18 - COMMITMENTS AND CONTINGENCIES:

##### **Litigation and other claims -**

A number of lawsuits and claims arising in the normal course of business are pending against Sivensa and its subsidiaries and their possible outcome cannot be quantified. In the opinion of management, based on the advice of the Company's legal counsel, these matters should not have a material adverse effect on the consolidated financial position or the consolidated results of operations of Sivensa and its subsidiaries.

##### **Environmental compliance and remediation -**

Sivensa and its subsidiaries 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 Sivensa and its subsidiaries' consolidated financial position or their consolidated results of operations.

NOTE 19 - SUBSEQUENT EVENTS:

On December 2, 2002, employers' and workers' organizations, together with political and civic organizations began a National Civic Work-stoppage, which continues, seriously affecting many of the country's economic activities, in particular the oil industry. It is not possible to predict when the stoppage will come to an end, or estimate its possible effects on the operations and results of the Company.