



ANNUAL REPORT 2005
Siderúrgica Venezolana “SIVENSA” S.A.

Authorized Capital	Bs. 141,190,196,480.00
Subscribed and Paid in Capital	Bs. 114,894,857,120.00

Siderúrgica Venezolana SIVENSA S.A. is a Venezuelan corporation comprising three business units: Sidetur, engaged mainly in the manufacture of steel products for the construction, manufacturing and infrastructure industry; International Briquettes Holding, IBH, whose Venprecar and Orinoco Iron plants produce reduced iron briquettes to be used as high-quality raw material in the siderurgical industry; and Vicson, which manufactures wire and wire products for the manufacturing, construction, agricultural and infrastructure sectors. Sivensa's partners are: Belgian company Bekaert Corporation in the Vicson division, and Venezuelan corporation CVG Ferrominera Orinoco in the IBH division. Sivensa's labor force at September 30, 2005 was of 3,270 workers.

PRINCIPAL DIRECTORS

OSCAR AUGUSTO MACHADO K.
HENRIQUE MACHADO ZULOAGA
REINALDO CERVINI
LUIS IGNACIO MENDOZA (H)
GUSTAVO J. VOLLMER
PEDRO AGUSTÍN PALMA CARRILLO
JOSÉ MARÍA FRAGACHÁN
CARLOS M. ÁÑEZ DI PRISCO
(Golden Share)

ALTERNATE DIRECTORS

ARMANDO LOYNAZ REVERÓN
MARÍA CORINA MACHADO
ARNOLD H. VOLKENBORN
CRISTÓBAL L. MENDOZA
BRUNO L. BORTESI
FRANCISCO JOSÉ MONALDI
NEIL J. MALLOY
RENNY LÓPEZ
(Golden Share)

AUDIT COMMITTEE

GUSTAVO JULIO VOLLMER
HENRIQUE MACHADO ZULOAGA
REINALDO CERVINI
JOSÉ MARÍA FRAGACHÁN
CRISTÓBAL MENDOZA

EXECUTIVE COMMITTEE

President

OSCAR AUGUSTO MACHADO K.

Corporate Legal Director

HÉCTOR J. PEÑA

Executive President of IBH

NEIL J. MALLOY

Director General of Sidetur

NICOLÁS IZQUIERDO

Director General of Vicson

ARMANDO RONDÓN

Corporate Finance Director

GUSTAVO MACHADO

Issued Shares

Common Shares	4,227,102,126
Common Shares in the form of ADRs	1,517,640,729
Total outstanding shares	5,744,742,855
Golden Share	1
Total shares issued	5,744,742,856

Relevant Aspects (thousands of US dollars)

	2005	2004
Net sales	879,932	498,463
Exports	555,709	235,920
Operating profit	183,903	103,078
Depreciation and amortization	55,294	28,744
Net Profit	129,158	47,547
Total Assets	1,682,665	882,036
Equity	778,665	208,475
Financial Debt	485,231*	270,757
Operating Cash Flow	157,039	8,695

* Includes the debt of Orinoco Iron C.A.

Liquidity index (times)	2.03	1.14
Total liabilities/Equity (times)	1.16	3.23
Number of employees*	3,270	3,210
Hours of training for personnel	96,453	78,734
Participants in Fundametal's programs	26,725	24,106

* Includes Vicson's operations in Colombia

To Our Shareholders:

We are pleased to present to our Shareholders the results obtained by Sivensa In the fiscal year ended September 30, 2005. Its operating ratios, as well as the profits obtained in this period, show that the measures adopted in recent years, such as the reorganization of the company, the identification of key areas for development and the search for financial options that would allow improving the debt terms, laid the conditions for a better business performance.

In 2005 we completed four processes of great significance for Sivensa, which brought notable changes in the balance sheet and the results of the company. These are: (i) the signing of the settlement agreement between IBH and BHP Billiton, (ii) the merger of subsidiaries Orinoco Iron C.A. and Venprecar, (iii) the Standstill Agreement between the creditor banks and the merged Venprecar, and (iv) the signing of Amendment No. 6 of the restructuring agreement regarding the debt of Sivensa and Sidetur, which topics we will explain hereinbelow:

a) SETTLEMENT AGREEMENT OF BHP BILLITON WITH IBH AND THE BANKS

On November 5, 2004, IBH, BHP Billiton and the creditor banks signed an agreement for the termination of the association of IBH and BHP Billiton in Orinoco Iron C.A., Operaciones RDI, Brifer and IBMS. Through this arrangement, BHP Billiton, holder up to that date of 50% of the capital stock of Orinoco Iron C.A., made the following assignments: (i) to IBH, 2% of its shares in Orinoco Iron C.A. (representing 1% of this company's capital stock) and all the shares it held in Operaciones RDI, IBMS and Brifer, and (ii) to certain financial creditors of Orinoco Iron C.A., the rest of its shares in Orinoco Iron C.A., as well as the credit it held against Orinoco Iron C.A. for US\$ 382 million.

Consequently, since November 5, 2004, as a result of having obtained a majority shareholding in Orinoco Iron C.A., and having assumed the control of the company's operations, IBH began to consolidate the results of Orinoco Iron C.A. in its financial statements.

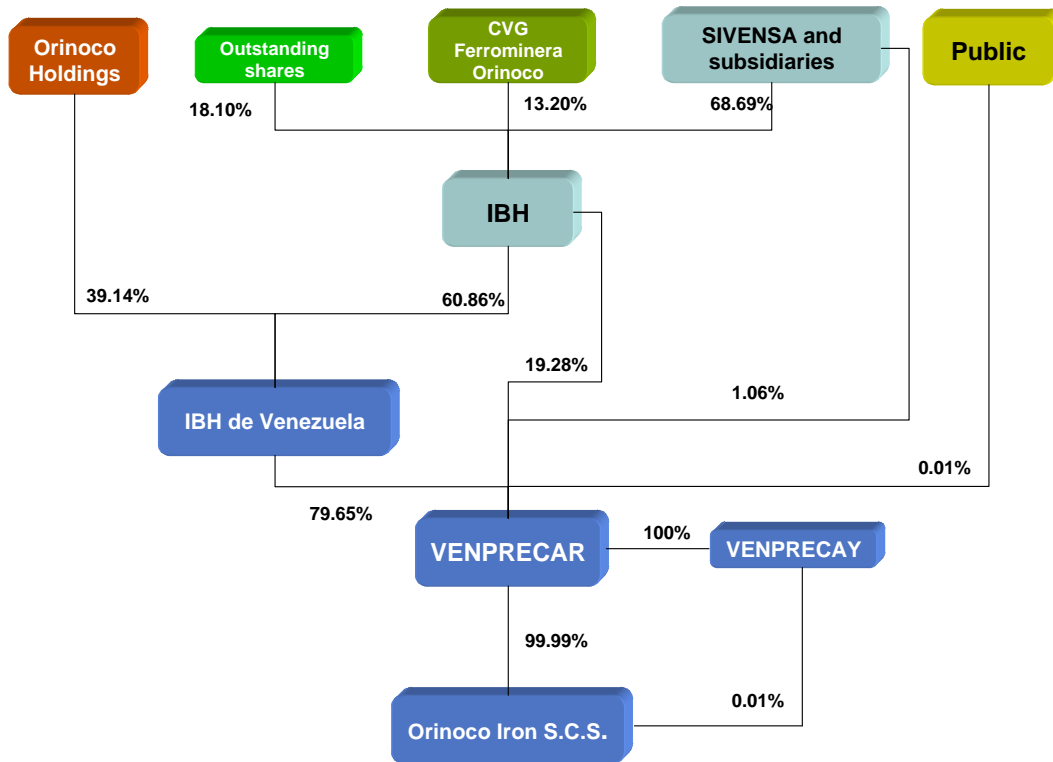
Additionally, as part of the agreement: (i) Orinoco Iron C.A. undertook to pay BHP Billiton a settlement amount of US\$ 30 million and it settled with BHP Billiton the remainder of the payment that was due as royalties to Brifer by reason of the use of the Finmet process at Port Hedland plant, owned by BHP Billiton; (ii) an approximate amount equivalent to 50% of the matured debt of Orinoco Iron C.A., arising from the financing agreements signed in 1997

would eventually be neutralized, subject to the satisfaction of certain conditions; and (iii) some political rights were granted to the creditor banks of Orinoco Iron C.A., represented by a golden share.

MERGER OF VENPRECAR AND ORINOCO IRON C.A.

The merger of subsidiaries Venprecar and Orinoco Iron C.A., agreed on May 24, 2005 at the special shareholders’ meetings of Venprecar and Orinoco Iron, C.A., and effective since August 29, 2005, allowed Venprecar to rationalize its organization structure to make it more efficient and consolidated undertakings and obligations in a sole entity. Through this merger, Venprecar absorbed all the assets and liabilities of Orinoco Iron, C.A.

Venprecar and its subsidiary Orinoco Iron, S.C.S. (limited partnership), are owned 67.75% by IBH. Following is the shareholding structure of Venprecar after the merger:



The capital of IBH de Venezuela, is made up of Class “A” shares that are owned by IBH; Class “B” shares, owned by Orinoco Holdings; and the golden share that, as part of the settlement of the association between IBH and BHP Billiton, had been granted to Orinoco Holdings, which latter company was initially organized indirectly by the creditor banks. In the agreement with the creditor banks, it is provided that IBH de Venezuela will transfer to

Corporación Venezolana de Guayana (“C.V.G.”), a number of its Class “B” shares of the company equal to 3% of the total shares of Venprecar issued and outstanding.

The total installed capacity of subsidiary Venprecar, after the merger, is of 3,015,000 metric tons per year, which makes it the largest producer of briquettes in the world and the largest producer for commercial sale.

As part of the process that ended in the merger, and pursuant to the agreement referred to in paragraph 1(ii) of this Report, on August 18, 2005, a contribution pending capitalization was made for US\$ 477 million, corresponding to long-term loans for US\$ 459.8 million, plus the remaining credit that BHP Billiton had against Orinoco Iron C.A. for US\$ 17.2 million, which had been assigned to the banks. The amount of this contribution pending capitalization was used solely to setoff the accrued losses of Orinoco Iron C.A, therefore reducing its net debt.

Furthermore, the Restricted Assets for US\$ 441.3 million were offset against US\$ 66 million in bank loans and US\$ 375.3 million of debt assigned by BHP to the creditor banks. The “*restricted assets*” were in a line item in the balance sheet of Orinoco Iron, which, up to the date of the merger, included the amounts of accounts receivable from Orinoco Iron C.A. and Venprecar that the banks had enforced as a response to the default by Orinoco Iron C.A. on the financing agreement.

STANDSTILL AGREEMENT

With the coming into effect of the merger of Venprecar and Orinoco Iron C.A., the financing institutions creditors of Venprecar (formerly of Orinoco Iron C.A.) approved a Standstill Agreement, subject to the satisfaction of certain terms. Through this agreement, the financial institutions continue having all the rights regarding the default on the initial guaranties for the financing, while at the same time they allow Venprecar to dispose of the resources needed for its normal performance, including the resources to make investments in fixed assets. The Standstill will be valid until a financial restructuring agreement is reached, as long as the conditions set forth therein are met.

Options

Among the terms and conditions contained in the Standstill Agreement, it is provided that the banks, from the funds received from exercising their rights, will set aside in escrow 20% of the excess cash flow of the company, following the making of the mandatory payments, to be used for the eventual repurchase by IBH and/or Venprecar, of 39.14% of the shares held by Orinoco Holdings in IBH de Venezuela, which include the golden share.

The mechanism agreed upon to carry out this transaction is a call option of IBH and/or Venprecar and, concurrently, a put option of Orinoco Holdings over the shares referred to in the preceding paragraph. The call option may be exercised at any moment, after the date on which the remaining principal balance of the Venprecar's debt is equal to or less than US\$ 187,267,420.20, and until October 1, 2014, if there is no event of default on the terms of the Standstill Agreement.

The put option, which binds IBH and/or Venprecar to purchase the shares described above, may be exercised since October 1, 2014, or before, if Venprecar's debt has been fully paid prior to maturity, or if an amount equivalent to the strike price is available in the escrow set for this purpose. This right expires on October 1, 2024

The strike price of both the call option and the put option, will be in the range of US\$ 34 million and US\$ 80 million. As of the date on which the right to exercise begins and during the following year, the strike price of the option shall be of US\$ 34 million. In the following three years, the prices shall be of US\$ 40 million, US\$ 60 million and US\$ 70 million, respectively. As of the fifth year until October 1, 2014 (2024, for the call option) the price shall remain at US\$ 80 million.

The call option and the put option may be exercised only once a year, for all or for one or more tenths of the shares subject to the option, at a price determined according to the year on which the option is exercised, as set forth above. Once the company has repurchased all the shares subject to the option, the golden share will become a common share and the political rights in Venprecar conferred to the holders of the golden share will cease.

Among other conditions contained in the Standstill agreement, there are the following:

- (i) To pay US\$ 180 million at the minimum LIBOR rate plus 4.5% payable on a quarterly basis. The balance at September 30, 2005, is of US\$ 132 million, and the minimum payments are set forth in detail below:

Years	(Thousands of Dollars)
2006	400
2007	6,300
2008	7,560
2009 onwards	149,000

- (ii) To pay US\$ 194 million on October 1, 2014, at an interest rate of 6%. Unpaid accrued interest may be capitalized annually. At September 30, 2005 the balance is of US\$ 181 million.

AMENDMENT NO. 6 TO THE FINANCING AGREEMENT OF SIDETUR AND SIVENSA

On March 31, Sivensa and Sidetur reached an agreement with the creditor banks to implement Amendment No. 6 of the refinancing agreement. Among other purposes, this amendment allowed extending the maturity of the debt and keeping within the portfolio of Sivensa's businesses, strategic assets whose sale was mandatory prior to the amendment.

As part of the process for Amendment No. 6 to become effective, on April 15 a Special Shareholders' Meeting was held, which approved a capital increase for up to Bs. 40,312,500,000.00. The funds raised would be used to pay the financial debt of Sivensa and Sidetur.

During the term from May 23 to June 15 the first phase of Share Subscription was carried out. The result was an amount in bolivars that amply exceeded the minimum amount set in Amendment No. 6, which required collecting a bolivar amount that would be equivalent, at the official rate of exchange, to at least 15 million United States Dollars. In view of the success in the first stage, it was not necessary to proceed with a second stage of the Share Subscription Plan. On June 30, 2005, the debt of Sivensa and Sidetur was repaid in an amount of US\$ 17,513,451.27.

The Board of Directors, acting by delegation of the Special Shareholders' Meeting held on April 15, 2005, increased the subscribed and paid in capital by Bs. 44,299,758,880, represented by 2,214,987,944 new common shares with a par value of Bs. 20.00 each, of which 1,882,696,012 shares were fully subscribed to and paid in at their par value by the company's shareholders who participate in the public offering, and 332,291,932 shares were fully subscribed to and paid in by means of a capitalization agreed in favor of the creditor banks of Sivensa and Sidetur.

As a result, the company's subscribed and paid-in capital increased to Bs. 114,894,857,120.00 represented by 5,744,742,856 shares with a par value of Bs. 20 each. Amendment N° 6 became effective in July 2005, upon completing the capital increase and payment to the Creditor Banks of Sidetur and Sivensa.

This amendment resulted in several benefits, among which: the extension of the maturity term from September 2007 to December 2009; the cancellation of the obligation to sell

certain assets and operating investments, including the shares of Vicson; the release of certain major restrictions for handling these transactions; and the favorable modification of the conditions under which the golden share would become a common share. In exchange therefor, as of April 1, 2005, US\$ 30 million of Tranche B (which does not bear interest) migrated to Tranche A (which bears interest). The migration of other US\$ 20 million to Tranche A by means of increases of US\$ 5 million every six months as of October 1, 2005 was approved. Also, the margin over LIBOR of Tranche A was increased from 3.5% to 4.5%, and the shareholding percentage of the bank remained unchanged.

Since the last debt restructuring, in May 2002, until September 30, 2005, US\$ 95.1 million have been repaid. The balance of the debt of Sivensa and Sidetur at that date was of US\$ 157.7 million.

NATIONAL ENVIRONMENT

During the fiscal year, Venezuela underwent a major growth in its economic activity. The Gross Domestic Product in the term October 2004-September 2005 grew by 9.8%, made up mainly by an increase in the non-oil sector¹.

The GDP in the construction sector, main destination for the products of Sidetur division, recorded an increase of 18.4%², in fiscal year 2005, as compared with the previous year, which reflects a greater activity in the private sector, as well as investments in public works, especially roads and electric infrastructure.

The inflation between September 2004 and September 2005 was of 15.96%, while the devaluation was of 11.98%, due to the change of the official exchange rate from Bs. 1,920 to Bs. 2,150 per dollar in March 2005³. Specialized sources estimate that for September there is an overvaluation of the currency, which could become worse or more intensified in the next few years⁴. If this trend continues, Sivensa, and other industries engaged in the manufacture of tradable goods, could see their results affected in the medium term, by losing competitiveness vis-à-vis other producers of countries whose currencies have not undergone the same overvaluation process.

INTERNATIONAL MARKET

The world's steel production increased by 14.6% going from 951 million metric tons in the term October 2003-September 2004 (fiscal year 2004), to 1,089 metric tons in the term

¹ Source: Banco Central de Venezuela (BCV)

² Source: BCV

³ Source: BCV

⁴ Source: Metroeconómica October 2005.

October 2004-September 2005⁵ (fiscal year 2005). This increase was due mainly to the increase of steel production in China and India, while the production in Europe and the United States remained similar to that of 2004. Currently, 31% of the world's steel production is from China, after of a decade of sustained and accelerated growth of its economy. Its domestic needs for steel will continue determining, to a great extent, the future behavior of the prices.

During the fiscal year, the international price of billets and rebars kept fluctuating at high levels, except for the fall noted between the months of April and June, after which they recovered again as consequence of the cuts in European production and a fall in the inventory levels. At the date of publication of this Report, the prices are volatile, with short-term cycles. Wire and its raw material, wire rod, had a similar behavior in the international market.

PRESENTATION OF FINANCIAL STATEMENTS (NIIF):

The results set forth in this Report pertain to supplementary financial statements according to International Financial Reporting Standards (IFRS), and are presented in United States dollars, which is deemed to be Sivensa's measurement currency.

BALANCE SHEET AND RESULTS FOR FISCAL YEAR

As explained at the beginning of this report, the settlement agreement between BHP Billiton and IBH, signed by these companies and the creditor banks on November 5, 2004, caused, among other effects, a majority shareholding of IBH in Orinoco Iron C.A. and, consequently, the consolidation of its results in the financial statements of IBH and Sivensa. For this reason, the balance sheet and the results attached hereto show figures for fiscal year 2005 that consolidate Orinoco Iron C.A., compared to the figures for fiscal year 2004, which do not consolidate it. This difference has a major impact on the Balance Sheet and the financial results, as shown below.

The Balance Sheet contains the item "*Property, Plant and Equipment, net*", which goes from US\$ 376.6 million in 2004 to US\$ 1,267.3 million in 2005. Also, in the long-term liabilities, the long-term financial debt goes from US\$ 236.2 million to US\$ 458.8 million; of this amount, US\$ 301.1 million pertain to IBH, US\$ 151.2 million to Sidetur and US\$ 6.5 million to Vicson.

Sivensa's equity went from US\$ 208.5 million at September 30, 2004, to US\$ 778.6 million at September 30, 2005. Said amount presented in the accounts of the Balance Sheet

⁵ Source: International Iron and Steel Institute at www.worldsteel.org. IISI's data for the production of raw steel report the production of raw steel of 62 countries, representing approximately 98% of the world's production.

comprises: a) US\$ 519.3 million pertaining to Sivensa's shareholders, and b) US\$ 259.3 million of minority shareholders' interests.

The equity of Sivensa's shareholders increased by US\$ 390.2 million, from US\$129.15 million in September 2004. Said increase is explained mainly by: (i) the capital increase for US\$ 17.5 million; (ii) the net profit for the fiscal year of US\$ 129.2 million; (iii) the unrealized profits in investments available for sale for US\$ 11.9 million; (iv) the net effect in the combination of subsidiaries and the call option for US\$ 245 million⁶, all that net of (vi) a negative movement in the asset revaluation account for US\$ 13.3 million.

The minority interest increased by US\$ 180 from US\$ 79.3 million in September 2004. This increase is explained mainly by: (i) a loss of US\$ 11.9 million for the minority interests in Orinoco Iron C.A. before the merger took place; (ii) the net effect of the combination of subsidiaries and the call option for US\$ 188.9 million and (iii) a positive movement in the asset revaluation account for US\$ 3 million.

The growth for US\$ 390.2 million in the shareholders' equity and the growth for US\$ 180 million in the minority interest account explains the total increase of US\$ 570 million that the company had for fiscal year 2005.

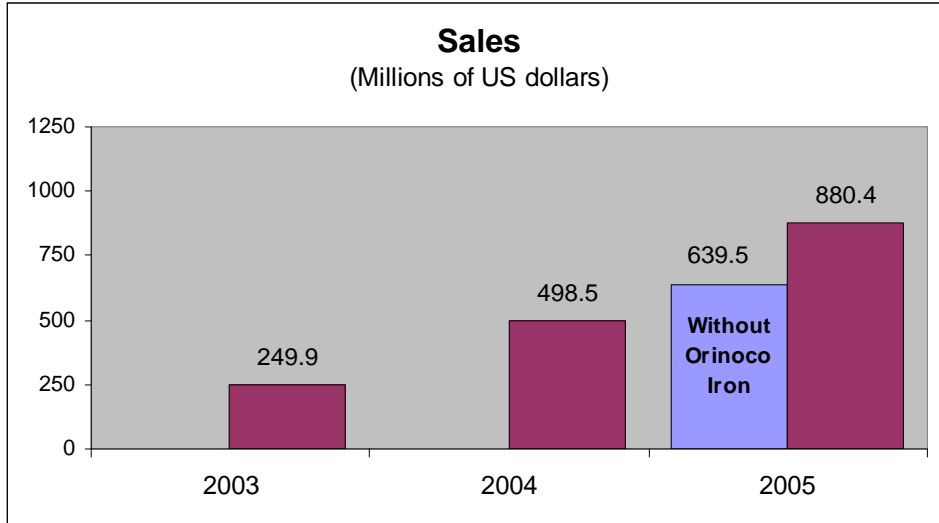
The increase in Sivensa's equity improves the debt-equity ratio, which goes from 1.70 times at September 30, 2004 to 0.60 times at September 30, 2005. The debt-total assets ratio also improves, by going from 0.40 times at the closing of fiscal year 2004, to 0.28 times at the closing of 2005.

SALES: The total sales of Sivensa during fiscal year 2005 reached US\$ 880 million, 76% higher than the sales for fiscal year 2004. Exports for 2005 represented 63.2% of the sales, while they were 47.3% of total sales for the preceding year. The contribution made by each division to the sales value in 2005 is as follows:

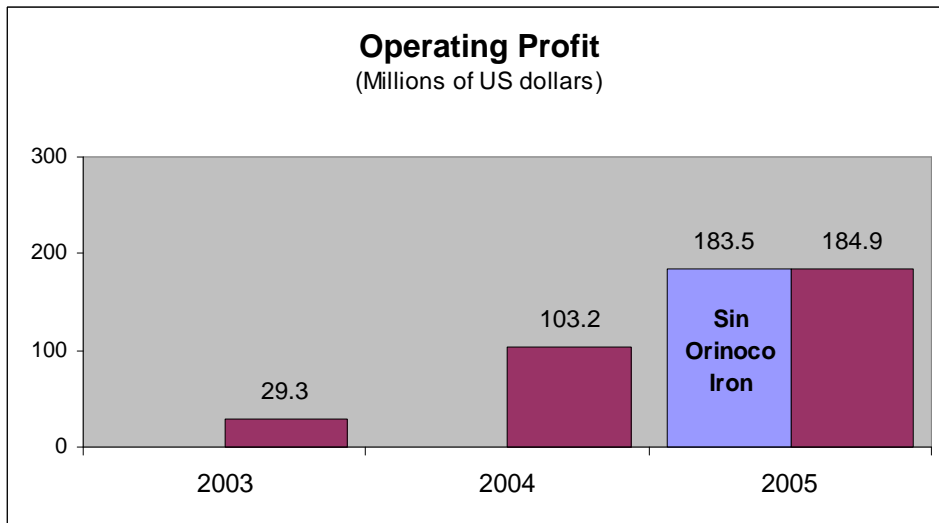
Sales (million dollars)

Briquettes	Steel	Wire	Other	Intercompany	Total
438.4	340.8	122.6	9.6	(31.5)	879.9

⁶ The management deems that the expectations as to the eventual exercise of the call option are reasonable and that the acknowledgment thereof in the financial statements at September 30, 2005 is in line with International Financial Reporting Standards. However, the management cannot guarantee the future results, because these depend on estimates that involve risks and other factors that may cause material variations in the actual results vis-à-vis the reasonable expectations.



OPERATING PROFITS: The profits in operations were for US\$ 183.9 million, as compared to US\$103.2 million in the preceding accounting term. This improvement is explained by the greater sales reported above, the operating improvements and the greater efficiency achieved in Sivensa's three divisions.



In the financial accounts, the line item "*Interest and other financing expenses*" increased from US\$ 10.8 million in fiscal year 2004, to US\$ 58 million in fiscal year 2005. This latter year includes US\$ 44.8 million in financial expenses of IBH, which as of November 2004, consolidates the results of Orinoco Iron C.A.. The financial expenses of Orinoco Iron C.A. include mainly US\$ 9 million of commercial interest with suppliers, and a financial interest expense of US\$30.8 million, based on the amount of the debt before the contribution pending capitalization of the credits of Orinoco Iron C.A. explained at the beginning of this

Report. As a result of the Standstill agreement with the creditor banks described above, the debt of the subsidiaries of IBH was reduced from US\$ 806 million in August 2005 to US\$ 313 million at September 30, 2005. In fiscal year 2006, the commercial interest with suppliers will be reduced as a result of the restructuring of the debt with Ferrominera Orinoco and Edelca.

On the other hand, the item "*Adjustment of the Value of Long-Term Loans with Financial Institution*", shows a value of US\$ 36.5 million in 2005, compared to US\$ 4.4 million in fiscal year 2004. This item reflects the total adjustment at August 18, 2005, of certain short-term liabilities of Venprecar and Orinoco Iron C.A. that were converted into long-term liabilities. When assigned to IBH de Venezuela, as an account receivable from Orinoco Iron S.C.S., said loan was eliminated as an effect of the consolidation of both companies.

The same section contains the item "*Adjustment for excess cost over the value of the participation in the affiliate*", for US\$ 21.2 million, which reflects the current value of the IBH's debt to BHP Billiton for US\$ 30 million, which was part of the settlement ending the association between these companies, and which is deemed to be paid between 2008 and 2009.

NET PROFITS: The net profits that may be attributed to the shareholders of Sivensa in this fiscal year was of US\$ 125.9 million, higher than the net profits for Sivensa's shareholders for US\$ 47.5 million, recorded in fiscal year 2004.

ANALYSIS PER BUSINESS SECTOR

Steel: Steel sales were for US\$ 340.8 million, representing an increase of 21.6% vis-à-vis fiscal year 2004, when sales were for US\$ 280.2 million. This growth was due mainly to the increase of Sidetur's exports.

Continuing with its technological update plan, Sidetur made investments in fixed assets, among which we highlight especially:

- Investments in the rolling mill furnace at the Barquisimeto plant, seeking to increase the plant's rolling capacity by 70%, upon completing the works for the expansion of the roughing mill.
- The final investment for the acquisition of the Perfilsa plant, now "Planta Lara", the incorporation of which has allowed expanding the range of Sidetur's merchant bar products.

- Modernization and expansion of the capacity by 33% of the rolling furnace at the Antimano plant, which has produced, among other benefits, the increase of the thermal efficiency and of metallic yield.

As a result of the continuous efforts made by Sidetur to adjust the new process quality standards, the division renewed its ISO 9001:2000 certifications and its Norven brands.

Wire: Vicson's consolidated sales of wire and wire products, which includes the operations of Proalco in Colombia, increased by 21.6%, going to US\$ 122.6 million, compared to the sales for US\$ 100.8 million recorded in the previous fiscal year.

Vicson continued advancing the project for updating and improving the Valencia plant. In the high carbon wire drawing sector, recovered equipment was incorporated and others were refurbished, which increased the installed capacity in high carbon wires, especially for mattresses, ducts, bead wire and cables. Also, since May 2005, a new method for Production Planning, known as "Sistema Pull" was started for the purpose of reducing inventories in process and improves the effectiveness in deliveries to the clients. The application of the new method has had very satisfactory results to this date, effectively improving Vicson's competitive edge.

On January 1, 2005, Vicson's information systems migrated to the new SAP information platform that incorporates the Finance, Costs, Fixed Assets, Budget, Logistics, Sales, Production, Quality Control and Maintenance modules. With the integration of these systems, 80% of the company's functions were put on line.

In reply to the suggestions made by clients and sellers, and with the technological support of Bekaert Corporation, Vicson's New Products Committee has promoted the innovation in products for the construction, agriculture, infrastructure and manufacturing market.

On the other hand, the company Proalco, located in Colombia, started an administrative reorganization process and of concentration of operations at its plant near Bogota, with a view to improving the performance indexes and reorienting the growth strategies in the Colombian market.

Vicson continued advancing in its environmental project, as part of the program for obtaining the ISO 14000 certification at its plants of Valencia and San Joaquin.

Briquettes: IBH's sales in fiscal year 2005 amounted to US\$ 438.1 million, compared to US\$ 110.9 million in the preceding fiscal year. The contribution made by Orinoco Iron C.A. in fiscal year 2005 was of US\$ 240.9 million. The increase in the price of briquettes and the volume of tons sold by the Venprecar plant, also explain the increase in the income for 2005, compared to that of 2004.

Venprecar.

The production of Venprecar's plant during this fiscal year was 765,000 MT, representing an increase of 3% compared with the production of 746,000 MT recorded in fiscal year 2004. This production level could have been higher if it were not affected by failures in the supply of pellets, which is the raw material for its direct reduction process. The company has had conversations with the supplier CVG Ferrominera Orinoco, to try to have the volume of pellets supplied adjust to the plant's needs. However, the announced solution, a new pellet plant to attend the needs of the Guayana region, will only be available in the long term.

In May 2005 there was a shutdown for overhaul, during which several very important operating improvements were introduced. Among these, one of the most important was the installation of a device to improve the flow of mineral in the reactor, which increased from approximately 12% to 30% the proportion of lump ore in the feed of the reactor without losing productivity or quality. Given that the lump ore is less costly than the pellets, the exchange in the load pattern meant a reduction in the production costs.

Also, during the shutdown, a better thermal balance of the reformer was achieved and a natural gas injection system was installed in the reactor. All these improvements have had a positive effect by materially reducing the interruptions due to channeling in the reactor, thus increasing the plant's operating availability and, consequently, its production capacity.

Orinoco Iron

The production of Orinoco Iron's plant during this fiscal year was of 1,279,439 MT, an increase of 52% compared with the production of 841,593 MT registered in fiscal year 2004. During fiscal year 2005, it substantially improved the stability of the trains' operations, which resulted in longer and more productive runs.

During this fiscal year, there was progress in the project for installation of screening and crushing system to control the granulometrics of the fines that are used as raw material by

Orinoco Iron, as well as the installation of the adjoining dust collection system. It is estimated that in February 2006, the integrated system will start operating, after the tests are conducted on the equipment. Another provisional screening and crushing system was used by the plant during the fiscal year, which helped improving the stability of operations and the input consumption indexes, especially those for gas.

In its effort to promote high quality standards, the Venprecar and Orinoco Iron plants achieved the renewal of the ISO-9001:2000 certifications, by Fondonorma. Furthermore, Sencamer renewed the accrediting of the laboratories at both plants.

AUDIT

Sivensa and its subsidiaries maintain internal auditing systems adjusted to the current standards and practices, having managed to create an awareness of the role of the internal audit in the efforts to reduce the risk and improve the efficiency of administrative processes, thus strengthening the transparency and trust in its administration.

In order to preserve the integrity of the internal information, the Audit Committee periodically meets and, with the help of the internal audit, prepares an auditing plan in order to assess the adequacy of the company's and its subsidiaries' internal control system. The internal auditing function reports to the Audit Committee.

In February 2005, the Venezuelan National Securities Commission (*Comisión Nacional de Valores*) adopted the principles of Corporate Government, which provide certain rules regarding audit committees for such companies in the private sector whose shares are subject to public offering. The Audit Committee of Sivensa adjusts to the standards set by the CNV.

COMMITMENT WITH SOCIAL DEVELOPMENT

Sivensa, as a siderurgical corporation with activities and presence in various regions of the country, maintains a close relationship of commitment and support to social development, with special emphasis on education and communities. The connection with the local needs and the promotion of a better standard of living have been part of the essential values of Sivensa and its divisions during the 57 years since it was founded. These efforts are basically developed through Fundametal, Centro de Conocimiento Aplicado, and the activities in the regions in which Sivensa carries out its operations:

FUNDAMETAL

In fiscal year 2005, FUNDAMETAL continued progressing with its objectives of providing value added services for the training, development and professional formation for the industry and services sectors of the country. Among the achievements in this activity, are the following:

- In July 2005, with the support of divisions IBH and Sidetur, the seat of Fundametal Guayana was inaugurated, with 8 classrooms, a language laboratory, a computer laboratory and a library. Jointly with the opening of the new headquarters, the Foundation signed an agreement with Universidad Nacional Experimental de Guayana, to offer the companies and the community the careers of Industrial Engineering, Computer Engineering, Administration and Accounting, under the mode of credits for experience.
- A Cooperation Agreement was signed with the European Commission, to endow the Professional Training shops at the Guayana set with the technical equipment for the development of training programs in Electricity, Electronics, Instrumentation and Pneumatics. The program seeks to facilitate the job insertion of young apprentices and the labor permanence of the region's workers.
- Conindustria and Fundametal signed a cooperation agreement to promote an offer of training services to work in industrial sectors, with emphasis on the Small and Medium Industries related to Conindustria.
- The Association of Metallurgic and Mining Industrialists (AIMM) awarded Fundametal the "Civic Prize", as an acknowledgment for its continued efforts in the forming of human resources required by the nation's metallurgical sector.
- To strengthen the national presence of the institution, activities were driven towards the East of the country and Maracaibo.
- During 2005, Fundametal trained a total of 26,725 participants, among young apprentices and workers of the companies that use its services. Among the special activities, there are:
 - 300 participants in the "Top Management Program on Logistics and Distribution", which event ended with the holding of the "III Simposio Internacional de Logística y Distribución".
 - 20 events (forums, seminars or symposiums) for professional updating were held, attended by 2,103 participants. Among these events we have: the "XV Jornada de Gestión Humana: Liderazgo Sustentable y

Compromiso Empresarial”, and the “*I Simposio de Higiene y Seguridad Industrial*”, with the participation of lecturers of international renown.

REACHING THE COMMUNITY

For more than eleven years, Sidetur has been sponsoring the “*Programa de Formación de Promotores Comunitarios para el desarrollo Local*”, (*Program for the Training of Community Promoters for Local Development*) jointly with the Escuela de Vecinos de Venezuela, with the participation of more than 4,000 community leaders in the cities of Caracas and Barquisimeto. This Division carries out assistance programs through its special contribution of construction materials for the communities located within its area of influence, and provides support to the San Martin YMCA, in Caracas, promoting the consolidation of spaces for thousands of sports-practicing children.

Also, since 1991, the Sidetur Division edits its magazine “*Sidetur en la Comunidad*”, a mass distribution publication that contains topics about health, family and prevention, in a simple language. This publication supports family and citizen values, encourages the habit of reading and provides useful advice to improve safety levels, prevent crime and accidents. Sidetur also has the Documentation and Information Center (*Centro de Documentación e Información, CID*) that is constantly updated in the area of siderurgy, for persons interested in the topic of steel.

In Guayana, the IBH Division has an assistance program for schools and refuge centers for homeless youths. It also promotes among its workers volunteer actions to help the needy in the area of Guayana and is responsible for maintaining the green areas of the city.

In turn, the Vicson Division has a constant presence among the children of the Children's Cafeteria “*Nuestra Señora de Fátima*”, located in the quarter of Ruiz Pineda in Valencia. Vicson's contribution is not only providing the expenses, but it involves its workers and executives in the activities of the Center. In the cultural sphere, for more than 28 years we have been sponsoring the “*Coral Vicson*”, which is part of the cultural heritage of Carabobo and helps disseminate the musical tradition of Venezuela.

Acknowledgment

Again we acknowledge the efforts of the workers of Sivensa, without whose commitment and enthusiasm it would not have been possible to exceed the goals set for fiscal year 2005. Our management has managed to adjust to the circumstances and face the challenges posed.

Thanks to those invaluable efforts, we begin year 2006 with reasonable grounds to trust there will be a more stable performance in our operations.

EVENT SUBSEQUENT TO THE CLOSING OF THE FISCAL YEAR: EXCHANGE OF AMAZONIA SHARES FOR THOSE OF TERNIUM

In November 2005, Sidetur changed 20,328,784 shares of Consorcio Siderurgia Amazonia LTD for 33.800.735 shares of the company Ternium, recently organized by Grupo Techint. The previous participation represented approximately 2% of Sidor, while the current one represents approximately 2.36% of the capital stock of Ternium. In turn, the latter company holds 56.1% of Siderar (Argentina), 86.4% of Hylsamex (México) and 55% of Sidor (Venezuela).

The Board of Directors
December 5, 2005

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