

**A REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF SIDERÚRGICA  
VENEZOLANA "SIVENSA" S.A. TO THE SHAREHOLDERS AT THEIR REGULAR  
MEETING TO BE HELD ON THE TWENTY-FOURTH (24) DAY OF NOVEMBER OF  
THE YEAR TWO THOUSAND NINE (2009)**

To our Shareholders:

Having ended out fiscal year on September 30, 2009, and in compliance with legal and statutory regulations, the Company is pleased to submit to the consideration of its Shareholders the present Report and Financial Statements, along with the Report of the Internal and External Auditors.

1 **DOMESTIC AND INTERNATIONAL ENVIRONMENT**

As a result of the financial crisis that began during the second semester of 2008, the global economy was impacted by a drastic restriction of credit, which, in turn, led to the deepest economic recession the international economy has experienced since the Great Depression of 1933. The sudden contraction of global demand and international trade gave way, among other things, to a substantial drop in raw material prices.

According to figures released by the Worldsteel association, during the 2009 fiscal year<sup>1</sup> raw steel production worldwide decreased by approximately 17.0% as compared to production during fiscal year 2008, going from 1.4 billion metric tons in 2008 to 1.1 billion metric tons in 2009.

As measured by Worldsteel monthly reports, worldwide production showed a sustained negative trend from October 2008 to May 2009, when some positive signs of production growth began to be noticeable. The recovery noted during the past few months would be based on replenishing inventories and an actual growth in demand in some Asian economies, primarily China.

Production and pricing of "metallics" (primarily iron ore, pig iron, reduced iron and scrap) worldwide during fiscal year 2009 have been similar to those of raw steel during the same period, with a sustained drop in both categories from October 2008 to May 2009 and a slight recovery during the last five months of the fiscal year.

During fiscal year 2009, the Venezuelan economy showed a deceleration of 0.3%<sup>2</sup> as compared to the 5.8% growth it had experienced during the 2008 fiscal year. During fiscal year 2009 the Gross Domestic Product (GDP) was fundamentally impacted by the result of the oil GNP, which

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<sup>1</sup> Fiscal year 2009 comprises the twelve-month period from October 1, 2008 to September 30, 2009. Fiscal year 2008 comprises the twelve-month period from October 1, 2007 to September 30, 2008. In this Report, we may refer indistinctly to these terms as period, fiscal year, fiscal period or economic year.

decreased by 4.6% as compared to the prior period. The non-oil GNP achieved a positive result of 1.5% during the period, mainly driven by the construction sector, which grew 3.9% during the year. Activity in the construction sector during the past two years has been linked to private projects, as well as to investments for public infrastructure development projects. Despite the fact that the declines in international markets and decreased internal activity have negatively impacted the domestic steel industry, growth in the construction sector has sustained the demand for steel products for that industry.

In addition to the effects of the lower oil prices, during the 2009 period the Venezuelan economy has also been affected by a significant level of inflation and the overvaluation of the exchange rate, as well as by delays in foreign currency purchase obligations. The accumulated inflation rate during this fiscal year was 28.90% and official exchange rates remained at Bs. US\$ 2.14 for purchases and Bs. /US\$ 2.15 for sales.

## 2 NATIONALIZATION OF VENPRECAR AND ORINOCO IRON SUBSIDIARIES

The most significant event during the fiscal year analyzed in this Report was the announcement of the nationalization of Venprecar and Orinoco Iron, together with the remainder of the private companies that are part of the briquetting sector in the country. The announcement was made by the President of the Republic on May 21, 2009 during an act that was broadcast on national television and widely publicized in other national communication media. On May 25th, Venprecar and Orinoco Iron were notified by the Ministry of Basic Industries and Mining regarding the organization and creation of a “Transitional Commission” for each of the companies. Subsequently, Decree 6.796 appeared in the July 14th issue of the Official Gazette mandating, among other things: a) the acquisition of Venprecar and Orinoco Iron assets, and b) the organization of 1) the “Transitional Commissions” that will immediately take control of operations in order to guarantee the transfer and continuity of company activities, and 2) a “Technical Commission” integrated by company and government representatives, in order to agree upon an appraisal, for which a period of 60 days has been established. This 60-day period may be extended by the parties by 60 additional days.

As a result of the actions taken by the Government in connection with the nationalization of Venprecar and Orinoco Iron, and based on applicable accounting standards, Management proceeded to consolidate the assets, liabilities and results of operations of said companies until June 30, 2009, the accounting closing date nearest the date of the Decree granting control of the companies’ operations to the Venezuelan Government. The book value of the investment on the date the companies ceased to be consolidated was presented as an investment available for

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2 Source: Metroeconómica y Ecoanalítica.

sale. The results of operations to that date and for all periods analyzed were reclassified and presented as a “Net Profit (Loss) from Discontinued Operations.”

### 3 SUBMISSION OF FINANCIAL STATEMENTS

Sivensa is submitting its consolidated financial statements based on Standards for Preparation of Financial Statements of Organizations under the Control of the National Securities Commission (CNV). Consolidated results reviewed in this Report are presented in bolivares, with figures adjusted for inflation at September 30, 2009, in accordance with the above mentioned standards.<sup>3</sup> The inflation rate reported by Banco Central de Venezuela for the Caracas metropolitan area, which was 28.9% for the period of twelve (12) months that ended on September 30, was applied as the adjustment factor. Sivensa’s consolidated results include the accounts of Sidetur and IBH for the year that ended on September 30, 2009, as well as the results of the companies that are undergoing the nationalization process for the nine-month period that ended on June 30, 2009.

### 4 RESULTS FOR FISCAL YEAR

- a. SALES: During fiscal year 2009 Sivensa sales totaled Bs. 1.6 billion, 14.8% lower than sales for fiscal year 2008, as adjusted for inflation during the economic year (sales in dollars totaled US\$ 667 million, a figure that is 10% higher than the sales of US\$ 606 million for the prior year). Domestic sales accounted for nearly 96% of total annual sales, compared to 97% for the prior fiscal year. The contribution made by each division to the total sales volume in 2009 is as follows:

Sales (Million of Constant Bolivares)

Sidetur	IBH	Intercompany	Total
1,566	58	(14)	1,610

- b. GROSS PROFIT: Gross profit for the fiscal year was Bs. 352 million, representing a 14.0% decrease at September 30, 2009 as compared to the gross profit of Bs. 409 million in constant currency for the prior year. The above notwithstanding, the gross margin remained practically constant at 21.9% during 2009, compared to 21.7% in 2008.
- c. PROFIT BEFORE FINANCING: Profit before financing was Bs. 413 million, compared to Bs. 262 million for the previous year. The Bs. 151 million increase is primarily explained by a net increase of Bs. 220 million in the Other Income item,

<sup>3</sup> Results in bolivares for fiscal years 2009 and 2008, to which this Report refers, were adjusted for inflation at September 30, 2009.

where noteworthy gains were obtained from treasury transactions, which increased by Bs. 214 million as compared to 2008.

- d. **FINANCIAL COST:** The company had a financial cost of Bs. 152 million compared to the financial benefit of Bs. 101 million recorded for the prior fiscal period. This negative variation of approximately Bs. 253 million is primarily explained by the decrease in the net monetary liability position of one of the IBH subsidiaries as a result of capital increases made with debts of Orinoco Iron and Venprecar at the close of the previous fiscal period and due to the fact that the companies involved in the process of nationalization are no longer consolidated.
- e. **MINORITY INTEREST PARTICIPATION IN SUBSIDIARIES:** This item reflects the 31.46% share of IBH minority shareholders in the results of said subsidiary's continuous operations. In 2009, that participation in the results of continuous operations is equivalent to a loss of Bs. 30 million as compared to the Bs. 22 million profit obtained by said shareholders in 2008.
- f. **TAXES:** In 2009, this item accounted for Bs. 60 million, compared to Bs. 36 million for 2008. The Bs. 24 million increase in tax liability as compared to the previous year is primarily explained by the Bs. 6 million increase in income taxes for the year, as well as by the Bs. 18 million decrease in deferred income taxes.
- g. **NET RESULTS OF DISCONTINUED OPERATIONS FOR THE YEAR:** As indicated above, this account reflects the results of companies undergoing a process of nationalization for the nine-month period that ended on June 30, 2009. This result represented a loss of Bs. 11 million as compared to the profit of Bs. 383 million recorded for this item during the twelve-month period in 2008. This change is primarily due to the operating results of the companies involved in the nationalization process, Venprecar and Orinoco Iron, whose business volume was significantly impacted by the general conditions in the market in an environment characterized by the effects of the international crisis described above.
- h. **NET PROFIT:** Sivensa's net profit in 2009 was Bs. 220 million, 68% lower than the figure achieved for fiscal year 2008, which was Bs. 676 million. This result was primarily impacted by the integrated financing cost for the year and by the net result of discontinued operations during the year.

## 5 ANALYSIS PER BUSINESS SECTOR

Steel: Steel product sales totaled Bs. 1.6 billion, an amount that is lower than the Bs. 1.8 billion in constant value at September 30, 2009, achieved for the prior year. The volume sold to the local market was similar to the volume achieved in 2008, reflecting the sustained activity in the public and private sectors of the construction industry. Production costs at Sidetur plants were impacted by increases in the cost of raw materials (metal scrap and wire rods), as well as in the costs of labor and other supplies and local services.

Sidetur continues to drive its investment program at its various operational centers in order to keep updated equipment, increase operational reliability, and fill the demand from the Venezuelan market.

Other business lines: During fiscal year 2009, and as a result of the accounting treatment that was agreed upon following the announcement of the nationalization of Venprecar and Orinoco Iron, the business lines represented by IBH are linked to procurement services and net income from commodity trading.

Based on this, IBH recorded sales for Bs. 58 million, a figure that is higher than the sales in constant currency at September 30, 2009 of Bs. 29.9 million recorded for fiscal year 2008. During fiscal year 2009, the procurement business dropped 26.4% due to the lower level of customer activity, which was a consequence of the global recession. However, the addition of the commodity trading business line largely offset this decrease, achieving a 94% increase in net sales.

During fiscal year 2009, the cost of IBH sales decreased in a proportion that is similar to the lower volume of the procurement business line. However, the gross profit during the same period increased by nearly 63 percentage points, going from -2% of sales during fiscal year 2008 to 61% of sales during fiscal year 2009. This gross margin increase was due to the introduction of the new commodity trading business line.

## 6 DIVIDENDS DISTRIBUTED

At the Annual Shareholders Meeting held on December 5, 2008, the shareholders approved the distribution of a cash dividend from undistributed profits for the fiscal year that ended on September 30, 2008 in the amount of three bolivares and eighty-three cents (Bs. 3.85) per share, which was paid on December 19, 2008.

## 7 CAPITAL AND NET EQUITY

Sivensa's net worth at September 30, 2009 is two thousand seven hundred ninety-nine million bolivares (Bs. 2.799 billion). The company's registered and legal capital is one hundred five point eight million bolivares (Bs.105.8 million) represented by 52,944,985 shares, of which 423,544 are treasury stock.

## 8 REPURCHASE PROGRAM (SECOND AND THIRD PHASES)

At the Special Shareholders Meeting held on December 5, 2008, the second phase of the Company's share repurchase program was approved. It was agreed that during this second phase, up to fifteen percent (15%) of the common shares representing the company's paid-in and subscribed capital would be acquired, including the percentage of treasury stock, and that the price per share will be adjusted to market conditions and will not exceed eighty bolivares (Bs. 80.00) per share. The period to carry out the second phase of the share repurchase program was in effect from January 29, 2009 to June 4, 2009.

At the Special Shareholders Meeting held on September 1st, 2009, the third phase of Company's share repurchase program was approved. It was agreed that during this third phase, up to fifteen percent (15%) of the common shares representing the Company's paid-in and subscribed capital would be acquired, including the percentage of treasury stock, and that the price per share will be adjusted to market conditions and will not exceed fifty bolivares (Bs. 50,00) per share. The period to carry out the third phase of the share repurchase program will be extended until February 28, 2010.

At November 6, 2009, Sivensa has acquired 420,609 shares (0.79% of the company's capital) with funds from profits at an average price of Bs. 22.85 per share, for a total of Bs. 9.6 million used for the repurchase program since its inception until the issuance date of this Report.

## 9 CORPORATE GOVERNANCE

The main purposes of Sivensa's corporate governance structure include facilitating oversight by the Company's Board of Directors and Management team as part of their role, in order to protect the interests of shareholders, employees, customers, creditors, and the community at large.

Sivensa's corporate governance structure consists of its Shareholders, followed by the Board of Directors, which delegates certain functions on the Audit, Compensation, Finance, and Planning committees. Pursuant to standards now in force and in accordance with best practices for corporate governance, the Sivensa Board of Directors has a majority of independent directors

who do not serve in any administrative position. Integrated by qualified professionals from different business sectors, the Board of Directors is primarily responsible for defining corporate strategies, as well as for overseeing and evaluating operational performance.

**Audit Committee:** In order to ensure transparency and continue to promote the highest level of trust in the company's management process, reduce operational risks and enhance the efficiency of administrative processes, the Audit Committee meets periodically and works closely with the Internal Audit Unit to prepare a plan that allows the company to assess whether the internal control system is performing adequately on behalf of the company and its subsidiaries.

**Compensation Committee:** This team is responsible for establishing the company's compensation and employee benefit policies and approving compensation packages for its executives and directors.

**Finance Committee:** This committee meets periodically to review major related transactions made by the group affecting its overall investment portfolio (liquidity, negotiable shares and business segments). The Committee also reviews the company's capital structure, that is to say, its liabilities in terms of types and terms of debt, in order to assess its financial obligations, as well as the company's capital level and dividend policies to determine equity.

**Planning Committee:** This committee assists the Board of Directors with its assessments of the environment and its impact on corporate plans, in order to recommend actions to adapt or update strategies.

Sivensa complies with all shareholder reporting regulations as required by the National Securities Commission, timely informing shareholders about all events that are relevant for the organization. In addition, the company makes quarterly and annual reports, news releases, communication and other information materials available to shareholders through its website, and has a dedicated Department ready to assist shareholders with their needs.

## 10 COMMITMENT TO SOCIAL DEVELOPMENT

During the fiscal year the company and its subsidiaries continued to advance a number of programs to promote the wellbeing of its employees and the community at large, which are based on the principles that govern Sivensa's actions in its sphere of influence. Main activities during the period include:

## Communities

- Sidetur contributed to enhance the security and wellbeing of the communities it supports. Through the “Steel with Added Value” program, during fiscal year 2009 Sidetur continued to advance its initiative to support with free or significantly discounted construction materials the projects at organized communities in the parishes of Carapita, Antímano and Caricuao.
- The training of 75 community leaders within the framework of the Sidetur-Escuela de Vecinos de Venezuela 2009 Agreement developed through the “Civic Leaders” program sponsored by Sidetur, was successfully completed. The objective of this program is to promote behavior changes within community areas by exercising civic and institutional values. For this reason, Sidetur promotes the creation of spaces to facilitate encounters among participants in order to enhance the quality of life in the participating communities.
- Sidetur promotes the development of values within the family environment. Its program, “Sidetur in the Family,” intended to promote values within the family unit, developed and ran the “Let Us Draw Steel Values” program with the participation of 1,476 children of company workers, who had an ideal opportunity to demonstrate their creative abilities by representing the values that have defined our company’s track record for over sixty years producing Venezuelan steel. Similarly, within this context, the program “Youth Building Values” was developed with the participation of 100 children of company workers, who reviewed the relevance of knowing the principles that define them as individuals, within their family group, and in their interactions with the environment.
- Considering the fact that proper training and health care drive community development, since 2006 IBH has been advancing the “Health, Education and Development” program in indigenous communities located in remote and hard to reach areas of Bolívar State. During this fiscal year, in the community of Urimán in the Great Savannah, IBH successfully completed the building of dormitories for the students of the Farming School, where 260 children are studying under the direction of the sisters of El Divino Maestro Congregation. Additionally, the Agricultural Program also kicked off in Urimán, where approximately 2000 youths of the Pemón ethnic group are being trained on crop growing, irrigation and worm cultivation techniques in order to raise hogs and chickens in the future. Orinoco Iron and Venprecar also provided medical and computer equipment for ambulatory clinics.
- Within its policies to benefit employees and their families, and in cooperation with Misión Barrio Adentro, IBH conducted several vaccination drives that included bivalent, pentavalent, yellow fever, hepatitis, influenza and toxoid immunizations, as well as a drive to administer complete eye examinations.

- IBH also contributes efforts to promote the integration of individuals with disabilities into the community. At the Orinoco Iron plant, and within the framework of the Fair for the Disabled, children, youths and adults afflicted with Down syndrome or visual, hearing and motor disabilities.

### Education and Sports

- Sidetur supports the development of activities in the areas of education, sports, science and health care in different regions throughout the country. "Support with Social Value" continued to support the Mallitos Small League Baseball School Civil Association in Valencia, which offers a space to practice this sport. This program has been in place for over 22 years, helping develop regional sports talents. A good example is Eduardo López, who took his first steps with the Siduritos team and recently signed a contract with the San Francisco Giants.
- Within the context of this program, Sidetur also provided financial support to celebrate Children's Day in the parish of Antímano. These concrete actions benefited approximately 700 children in the parish of Antímano.
- IBH awarded scholarships to children at Escuela Bolivariana Gran Sabana (pre-school and elementary school) and Escuela Rafael Vegas de Fe y Alegría (pre-school to ninth grade), both located at the Core 8 Development in Puerto Ordaz. Similarly, IBH made contributions to social support and development institutions such as En Voz Alta Autism Foundation, the Children's Choir Foundation of Guayana and the "Ingenieritos" Small League Baseball School.

### Fundamental

- Fundamental apprentices dedicated 27,000 hours to community service benefiting children and senior citizens who receive care at different institutions in Caracas and Valencia. The planning and coordination efforts of instructors at the Fundamental Center for Applied Knowledge allowed apprentices from different training programs to devote a considerable number of hours to social work, proving that promoting people's wellbeing is a fundamental value for our companies. Activities included fundraisers for toy, clothing and paint donations, developing recreational activities, and works to improve and restore physical areas through repairs and painting of facilities. The institutions that benefited in Caracas included Hospital J.M. de los Ríos, Centro de Bienestar Integral Las Acacias, Fundación Hogar María Páez, Asilo La Providencia, Fundación Buen Samaritano, Casa Hogar Madre Emilia, Casa Hogar Fundhamo and INAM, among others, and, in Valencia, Instituto de Educación Especial Libertador (which cares for children afflicted with Down Syndrome),

Jardín de Infancia de “Bosqueserino”, Unidad Educativa Jardín Levante, Escuela Arturo Uslar Pietri, and Grupo Escolar Simón Rodríguez.

11 UNSECURED OBLIGATIONS AND DEBT

Since May 2006, Sidetur restructured its external debt due in the year 2016, at a fixed annual rate of 10%. The current balance of this debt is US\$ 91.25 million.

At September 30, 2009, Sidetur owes Bs. 47 million in short term loans with local banks.

12 DEBT POLICY

Sivensa’s debt policy is oriented to match the term of its liabilities to the type of asset being financed. The long-term financial debt owed by Sivensa and its subsidiaries is denominated primarily in U.S. Dollars.

13 LITIGATION AND CLAIMS

The company and its subsidiaries are not involved in any litigation, civil, fiscal, labor or mercantile claim that impacts or may materially impact its economic solvency or financial situation. For additional details, please refer to Note 21 of the *Report of Independent Accountants and Consolidated Financial Statements*.

14 CREDIT POLICIES

There were no significant revisions to credit, collections and sales policies during the fiscal year. No customer concentrated more than 20% of Sivensa’s sales.

15 COMPENSATION

Pursuant to the requirements of the National Securities Commission, we comply by informing that the contents of form CNV-FG-010, “Compensation Paid to Directors and Executives,” reflects payments in the amount of SIX MILLION FORTY THOUSAND SEVEN HUNDRED FIFTY-TWO BOLIVARES AND 11 CENTS (Bs. 6,040,752.11) during the fiscal year.

The Board of Directors  
Caracas, November 6, 2009.