



Siderúrgica Venezolana Sivensa S.A.
Annual Report 2003

Authorized capital: Bs. 141,190,196,480
Subscribed and Paid-in Capital: Bs. 70,595,098,240

Siderúrgica Venezolana SIVENSA S.A. is a Venezuelan corporation composed of three divisions: Sidetur, producer of billets for the rolling industry and finished steel products for the construction and infrastructure industry; International Briquettes Holding, IBH, which, through its direct reduction plant, Venprecar, produces iron briquettes for sale on international markets as high-quality raw material for steel mills; and Vicson, producer of wire and wire products for the manufacturing, construction, agriculture and infrastructure sectors. Sivensa's partners are: in the Vicson division: Bekaert Corporation; and in the IBH division: CVG Ferrominera Orinoco and BHP Billiton. Sivensa's workforce, including the affiliate company Orinoco Iron, totaled 2,560 workers at September 30, 2003.

BOARD OF DIRECTORS

Directors

Oscar Augusto Machado K.
Henrique Machado Zuloaga
Reinaldo Cervini
Luis I. Mendoza (h)
Gustavo J. Vollmer
Pedro Palma Carrillo
José María Fragachán
Carlos M. Áñez

Alternate Directors

Armando Loynaz Reverón
María Corina Machado
Arnold Volkenborn
Gonzalo Mendoza
Bruno L. Bortesi
Carlos Luis Romero
Neil Malloy
Renny López

EXECUTIVE COMMITTEE

President
OSCAR AUGUSTO MACHADO K.

Executive President of IBH
NEIL J. MALLOY

Corporate Legal and Audit Director
HÉCTOR J. PEÑA

Corporate Finance Director
GUSTAVO MACHADO

General Manager of Vicson
ALEJANDRO SANÁNEZ

Executive President of Orinoco Iron
ALBERTO HASSAN

General Manager of Sidetur
NICOLÁS IZQUIERDO

TO OUR INVESTORS

In fiscal year 2003, Sivensa obtained modest but promising results after a period of four years in which the company confronted a set of circumstances determined by market trends, the performance of some projects and the debt restructuring. Conditions in the year ended September 2003 were characterized by a recession on the local market and higher international prices for metallic and steel products. The company responded to this combination of factors with flexibility, a sense of market opportunity, and rigor in the management of costs and expenses.

Consequently, we wish to begin this report to our shareholders for fiscal year 2003 with a recognition of our workers who have shown new signs of commitment to the organization, giving their best to move forward in the midst of the difficulties. Their efforts to recover the company's profitability have begun to give fruit.

NATIONAL ENVIRONMENT

In the fiscal year ended September 2003, two events took place in Venezuela which influenced Sivensa's key management indicators:

- The general strike in December 2002 and January 2003, which caused an overall fall in economic activity.
- The introduction of the exchange control regime in early February with a fixed buying rate of Bs. 1,596/US\$ and a selling rate of Bs. 1,600/US\$. The new system brought important changes to the processes of obtaining foreign exchange for imports, service of bank debt, and use of the foreign exchange received from exports.

Inflation from October 2002 until September 2003 totaled 26.6% while devaluation was 8.5%; as a result, the exchange rate appreciated steadily in real terms during the year.

Combined with the context of political instability, these factors deepened the economic contraction, which had begun in the previous fiscal year, with a further fall in the demand for goods and services and a steeper decline in both local and foreign investment. Gross

Domestic Product contracted 15.23% during fiscal 2003 produced by a decline in the oil sector of 21.70% and the non-oil sector of 11.81%¹.

International Environment

World steel production grew 8.5% from 857 million metric tons in the October 2001-September 2002 period to 930 million metric tons in the October 2002-September 2003 period². This increase was largely due to steel activity in China, where the economy continued to grow at high annual rates, with effects on a set of industries around the world. Due to steady demand, prices of metallics and finished and semi-finished steel products improved on the international market during the October 2002-September 2003 period in relation to the same period of the year before.

Markets

Steel: The GDP of the construction sector in Venezuela fell 39.87%³ from October 2002 to September 2003, reflecting the economic recession in the period.

On the international market, the prices of billets and reinforcing bars gained around 20%, showing a steady upward trend in the 12 months ended September 30, 2003.

In December 2003, after the end of the fiscal year, the United States government ended the temporary safeguard measure that had been in force since March 2002, considering that the steel industry had increased its productivity and competitiveness during the 21 months' operation of the protection measure.

Briquettes: During the fiscal year, prices of metallics (scrap, pig iron and briquettes) rose on the US, European and Asian markets. The average price of briquettes on-barge US Gulf (New Orleans) increased 38.6% from October 2002 to September 2003⁴. The average price in fiscal 2003 was the highest for iron ore briquettes in the last five years, basically due to strong demand for metallics on

¹ Source: Metroeconómica

² Source: IISI worldsteel.com

³ Source: Metroeconómica

⁴ Source: Percentages calculated by Orinoco Iron from monthly data published by CRU Monitor, Steel, Metallics, Scrap and Pig Iron.

the international market, low volumes of scrap and pig iron inventory in European and Asian countries, and briquette shortages.

Wire: The domestic market for wire and wire products was also affected by the fall in domestic economic activity, especially in the agricultural and construction sectors. The infrastructure sector remained stable at low levels (sustained mainly by higher consumption of wire for production of submarine cables) while the manufacturing sector contracted slightly in comparison with the year before.

RESULTS⁵

- Sales of US\$ 249.9 million, down 8.7% from US\$ 273.6 million reported last year. The level of income in 2003 is attributable to weaker sales in the steel and wire sectors and growth of sales in the briquettes sector.
- Operating Profit: Despite the reduction in sales, operating profit increased from US\$ 5.0 million in fiscal 2002 to US\$ 33.6 million in 2003. These results are attributable to an improvement in the costs in bolivars of certain inputs, and to the continuing effort to reduce and control administrative expenses in the Sidetur, Vicson and IBH divisions. IBH was also favored by a significant increase in briquette prices, mentioned earlier.
- Interest and other financial expenses of US\$ 16.3 million in comparison with US\$ 28.4 million in the previous year. The amount is lower in 2003 because of the application of the terms of the debt restructuring that came into effect in May 2002. Also, the 2002 accounting period reflected total payment of the expenses related to the first restructuring agreement with the banks. If the first agreement had been maintained, this amount would have been amortized over the period of its operation.
- Net profit of US\$ 4.2 million, in comparison with the net loss of US\$ 88.4 million in the previous period.

⁵ Sivensa's financial information for fiscal 2002 has been restructured to reflect retroactively, for comparative purposes, the revaluation of the assets by independent appraisers in 2003. See note 2r of the Report of the Independent Public Accountants.

➤ Items not comparable with fiscal 2002:

As reported at the end of fiscal 2002, Sivensa recognized provisions equivalent to the book value at September 30, 2002 of two investments: 1) the companies in the joint venture of its subsidiary IBH with BHP Billiton (Orinoco Iron, Operaciones RDI, Brifer and IBMS) for US\$ 26.7 million; and 2) the investment in Siderúrgica del Orinoco, Sidor, through its interest in the Amazonia consortium of US\$ 30.0 million. These entries totaled US\$ 56.7 million recorded in *Provision for equity investments* in fiscal 2002.

Sivensa's participation in the joint venture with BHP Billiton, through the IBH subsidiary, in 2002 recorded a loss in *Equity investment in affiliate results* of US\$ 27.6 million).

As reported in previous reports to shareholders, due to the provision made at the end of 2002 for the losses in the joint venture of IBH with BHP Billiton, the 2003 results do not show charges for the two items mentioned above.

LOCAL AND EXPORT SALES

Sivensa reported local sales of US\$ 137.2 million, representing 5.9% of total sales in fiscal 2003, and a fall of 19.8% in local sales in the year. Sivensa's exports in the period totaled US\$ 112.7 million, up 9.8% from the previous period.

ANALYSIS BY BUSINESS SECTOR

Steel: Steel sales totaled US\$ 119.0 million, down 16.8% from fiscal 2002.

Sidetur succeeded in stimulating exports of finished products, especially to Colombia and the Caribbean, which relieved some of the effect of the downturn in local sales. Domestic sales of special rolled steels also improved.

Briquettes: IBH sales were 27.6% higher than in the previous period, totaling US\$ 70 million in fiscal 2003⁶. The increase in sales is explained by the rise in

⁶ Taking into account that IBH only consolidates Venprecar.

international briquette prices. Venprecar production totaled 557,009 metric tons compared with 571,792 tons in the 2002 period. The reduction in the production of the plant was due to failures in gas supply caused by the strike in December 2002 and January 2003, and the major shutdown to change the gas reformer tubes. Since the replacement of the gas reformer equipment, the plant's operating performance has been satisfactory, and production levels have responded to the improved conditions in the plant by reaching revised design levels.

- a. Wire: Sales of wire and wire products by Vicson consolidated, including Proalco's operations in Colombia, totaled US\$ 65.6 million in comparison with US\$ 72.4 million in fiscal 2002. The growth of activities in the Colombian plants partially offset the downturn in sales in Venezuela.

The project to install a new hot-rolled galvanized line in the Muña plant in Bogotá, Colombia, was executed in line with the established budget, and operations began last September. The investment in this plant is a key part of Proalco's strategy to position itself in the Colombian market with high quality products. Stabilization of operations in the Muña plant will give the company more freedom to adapt to market requirements.

QUALITY: ISO 9001-2000

During the fiscal year, the Sidetur, IBH and Vicson divisions reported progress in adapting to the new ISO 9001-2000 quality standard, which has replaced the previous standard established by the International Standards Organization (ISO). The new standard is based on more complex parameters related to all administrative and operating processes. The following advances were made:

- In Sidetur, external audits were performed in the company plants governed by the ISO 9001-2000 standard.
- In IBH, procedures were adapted to the new measurement methods, which will optimize quality management in all the areas where the ISO standard applies.

- Vicson obtained renewal of its ISO and API certifications under the ISO 9001-2000 revised standard, which focuses on processes.

ASPECTS OF THE EXCHANGE CONTROL REGIME

As mentioned earlier in this report, a new exchange control regime came into force in February in Venezuela, with fixed buying and selling rates of Bs. 1,596/US\$ and Bs. 1,600/US\$, respectively. Also, the Foreign Exchange Administration Commission (CADIVI) was set up to coordinate, administer, control and establish requirements, procedures and restrictions for the execution of the new regime.

On January 22, 2003, CADIVI issued orders for registration of private-sector foreign debt. Under these regulations, Sidetur completed the requirements for recording and registration of its net foreign debt at January 22, 2003. This debt consists of US\$ 249.7 million of bank debt and US\$ 570,000 of commercial debt. The registration was approved by CADIVI on October 14, 2003.

PAYMENTS TO FINANCIAL INSTITUTIONS

On January 25, 2002, the Shareholders' Meeting approved the debt restructuring agreement for Sivensa and its Sidetur subsidiary. The terms of the restructuring came into effect in May when the debt totaled US\$ 255 million.

During fiscal year ended September 30, 2003, Sivensa and Sidetur paid US\$ 15.4 million in principal and US\$ 6.98 million in interest.

AMAZONIA AND SIDOR CONSORTIUM

On June 20 this year, Siderurgia Amazonia Ltd. (Amazonia) Consortium, of which Sivensa is part, and Siderúrgica del Orinoco C.A. (Sidor) reached an agreement with their financial creditors and the government of the Bolivarian Republic of Venezuela to restructure the financial debt of Sidor and Amazonia. The main points of the agreement were: financial debt reduced from US\$ 1.88 billion to US\$ 791 million; the Amazonia shareholders – except Sivensa – contributed US\$ 133.5 million; the Venezuelan State increased its interest in Sidor from 30% to 40.3%; and the guarantees given by the

Amazonia shareholders on the Sidor debt were totally cancelled and replaced by other guarantees over Sidor's fixed assets, jointly with the Amazonia shares and the Sidor shares held by Amazonia. The latter were assigned to Sidor's financial creditors. Following this restructuring, Sivensa's interest in Amazonia decreased from 13.25% to 3.4%, and Amazonia's interest in Sidor from 70% to 59.7%.

Since Sivensa made a provision at the end of fiscal 2002 in anticipation of the restructuring of the Sidor and Amazonia debt, the agreement had no effect on the financial statements for fiscal 2003.

RESTRUCTURING OF ORINOCO IRON DEBT

Orinoco Iron is one of the companies in the 50/50 joint venture with the Anglo-Australian Corporation BHP Billiton. In 1997, Orinoco Iron contracted financing of US\$613 million to develop, build and operate its iron-ore direct reduction briquette plant, using the new FINMET technology. The loan was guaranteed in equal parts by the two joint venture partners: IBH and BHP (now BHP-Billiton).

Since the start of its operations in 2000, the financial results of Orinoco Iron have been affected by factors such as delays in plant start-up, delays associated with the adaptation of the new technology, failures in certain equipment which the manufacturers replaced, high production costs, and low international briquette prices. Consequently, in 2003, 2002 and 2001, Orinoco Iron was unable to comply with the payment conditions and with certain covenants established in the debt agreements.

In March 2001, BHP announced that it would write off its investment in Orinoco Iron, and cease any further contributions to the project. BHP paid the Orinoco Iron creditor banks the sum related to its 50% interest in the debt contracted to build the plant. At present, IBH and BHP are negotiating with the creditor banks to restructure the remaining 50% of the debt, which, at September 30, 2003, totaled \$364 million, corresponding to the portion guaranteed by IBH and Venprecar. The continuity of IBH operations depends on finding a solution to the financial situation of Orinoco Iron.

The managements of Venprecar, IBH and Orinoco Iron have prepared a strategic plan to create viable conditions for payment of the debt by Orinoco Iron. The plan calls for

negotiations with BHP, the financial institutions and the main suppliers. It also considers the possible entry of new shareholders, and increasing production as a means of cutting costs per metric ton of Orinoco Iron.

Sivensa has not recorded any type of contingent liability in relation to the restructuring of the Orinoco Iron debt, considering that if the strategic plan is executed Orinoco Iron will have the capacity to pay its debt.

As mentioned in the report for the third quarter of the IBH fiscal year, in June 2003, IBH, the Orinoco Iron creditor banks and Corporación Venezolana de Guayana (CVG) set up a commission to study alternatives and define the terms of the restructuring with a view to guaranteeing the long-term operating capacity of Orinoco Iron. The participation of CVG Ferrominera Orinoco and CVG EDELCA, suppliers of iron ore and electricity, respectively, has been fundamental in achieving the current operating situation of Orinoco Iron, and in supporting the restructuring schemes analyzed to date. The commission has worked on a set of proposals that could eventually lead to an agreement to restructure the company's debt.

FUNDAMETAL

The Fundametal Center for Applied Knowledge, a non-profit organization sponsored by Sivensa, expanded its activities during the fiscal year. The Centers' main achievements and programs include expansion of the coverage of customers in the industrial and service sectors; training of technical staff to work in the Ameriven heavy-crude upgrader plant in the Jose condominium, Anzoátegui state; growth of the outsourcing consulting service in Training and Development activities, using the technological platform designed by Fundametal; and execution of investments for the planned application of electronic marketing of services.

Board of Directors

Caracas, December 9, 2003.

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