

**Siderúrgica Venezolana “Sivensa”,
S.A. and its Subsidiaries**

**Report of Independent Accountants
and Supplementary Consolidated Financial
Statements in U.S. Dollars
September 30, 2008**

Report of Independent Accountants

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

We have audited the consolidated balance sheets of Siderúrgica Venezolana "Sivensa", S.A. and its subsidiaries (the Company) at September 30, 2008 and 2007, and the related consolidated statements of income, changes in equity and cash flows for the years then ended, expressed in U.S. dollars and presented as supplementary information. The preparation of these consolidated financial statements and their notes is the responsibility of Sivensa management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated statements of income, changes in equity and cash flows for the year ended September 30, 2007 include the accounts of Vicson, S.A. (50.002-owned until September 30, 2007). These consolidated financial statements show net consolidated income of US\$12.22 million in 2007. The consolidated financial statements of Vicson, S.A. at September 30, 2007, which was sold on September 30, 2007, 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 and disclosures included for the former subsidiary, is based solely on the report of the other independent accountants.


We conducted our audits in accordance with auditing standards generally accepted in Venezuela. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the report of the other independent accountants for 2007 provide a reasonable basis for our opinion.

As described in Note 2, for reporting purposes, the Company presents its supplementary consolidated financial statements in conformity with the accounting bases described in this Note and in U.S. dollars, which it considers its functional currency. As explained in Note 2, the accounting bases of preparation used by the Company draw principally from International Financial Reporting Standards (IFRS).

ESPIÑEIRA, SHELDON Y ASOCIADOS

In our opinion, based on our audits and the report of the other independent accountants, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the accounting bases of preparation described in Note 2.

Espiñeira, Sheldon y Asociados


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February 20, 2009
Caracas, Venezuela

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Balance Sheet
September 30, 2008 and 2007

<i>(Thousands of U.S. dollars)</i>	2008	2007
Assets		
Current assets		
Cash and cash equivalents (Notes 5 and 21)	214,561	206,320
Accounts receivable		
Trade and other (Note 6)	113,631	162,116
Related companies (Notes 11 and 23)	94	64
Advances to suppliers	26,756	14,970
Inventories (Note 7)	151,943	91,256
Deferred income tax (Note 16)	-	38
Prepaid expenses and other current assets (Note 17)	<u>2,141</u>	<u>6,490</u>
Total current assets	509,126	481,254
Revalued property, plant and equipment, net (Notes 8 and 12)	1,425,366	1,454,503
Investments (Notes 9 and 12)	22,024	11,907
Accounts with related company (Note 23)	161	161
Deferred income tax (Note 16)	16,560	16,738
Other non-current assets (Note 10)	<u>11,984</u>	<u>7,340</u>
Total assets	<u>1,985,221</u>	<u>1,971,903</u>
Liabilities and Equity		
Current liabilities		
Short-term bank loans (Notes 13 and 21)	37,192	639
Current portion of bonds payable (Note 12)	5,000	2,500
Current portion of long-term loans (Note 12)	-	19,000
Accounts payable		
Suppliers	147,183	92,425
Related companies (Note 23)	53,094	29,270
Profit sharing, vacations and other personnel accruals	29,693	22,603
Income tax (Note 16)	6,654	19,341
Other liabilities (Note 15)	<u>36,304</u>	<u>19,665</u>
Total current liabilities	315,120	205,443
Long-term loans (Note 12)	-	362,828
Bonds payable (Note 12)	89,034	94,992
Accrual for employee termination benefits, net of advances and loans to employees	17,565	19,520
Other liabilities and accruals (Note 15)	58,596	55,315
Deferred income tax (Note 16)	<u>107,552</u>	<u>224,597</u>
Total liabilities	<u>587,867</u>	<u>962,695</u>
Equity		
Nominal capital stock	314,948	311,120
Treasury stock	(3,420)	-
Share premium	8,222	8,222
Revaluation of fixed assets	235,411	236,478
Net effect of combination (merger) of subsidiaries (Note 2-c)	119,483	119,483
Difference between fair value and cost of shares of subsidiary (Note 2-c)	336,580	130,029
Unappropriated earnings (deficit)		
Legal reserve	31,495	31,112
Deficit	<u>(4,786)</u>	<u>(62,257)</u>
Total equity	1,037,933	774,187
Minority interests	<u>359,421</u>	<u>235,021</u>
Total equity	<u>1,397,354</u>	<u>1,009,208</u>
Total liabilities and equity	<u>1,985,221</u>	<u>1,971,903</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Statement of Income
Years ended September 30, 2008 and 2007

(Thousands of U.S. dollars, except for number of shares and net income per share)

	2008	2007
Continuing operations		
Net sales		
Export	567,888	380,859
Domestic	<u>610,885</u>	<u>486,379</u>
	1,178,773	867,238
Cost of sales (Note 17)	<u>(913,947)</u>	<u>(721,603)</u>
Gross income	264,826	145,635
General and administrative expenses (Note 17)	(83,491)	(64,929)
Other operating income, net (Note 18)	<u>(6,339)</u>	<u>579</u>
Income before the following items	<u>174,996</u>	<u>81,285</u>
Interest and other financial expense, net (Notes 12 and 19)	(61,157)	(63,970)
Exchange loss, net (Note 2-u)	<u>(461)</u>	<u>(1,831)</u>
	<u>(61,618)</u>	<u>(65,801)</u>
Net gain (loss) on sale, exchange and valuation of investments (Note 9)	<u>(3,837)</u>	<u>49,874</u>
Income before tax	<u>109,541</u>	<u>65,358</u>
Income tax for the year (Note 16)	(20,456)	(27,099)
Deferred income tax (Note 16)	<u>88,383</u>	<u>31,797</u>
	<u>67,927</u>	<u>4,698</u>
Net income for the year from continuing operations	177,468	70,056
Discontinued operation		
Net income for the year from discontinued operation (Note 25)	<u>-</u>	<u>3,583</u>
Net income for the year	<u>177,468</u>	<u>73,639</u>
Net income attributable to		
Sivensa shareholders		
From continuing operations	153,897	78,957
From discontinued operation	<u>-</u>	<u>(2,408)</u>
	<u>153,897</u>	<u>76,549</u>
Minority interests in subsidiaries		
From continuing operations	23,571	(8,901)
From discontinued operation	<u>-</u>	<u>5,991</u>
	<u>23,571</u>	<u>(2,910)</u>
	<u>177,468</u>	<u>73,639</u>
Net income per share attributable to Sivensa shareholders (in US\$)	<u>3.52</u>	<u>1.51</u>
Weighted average of outstanding shares (in thousands)	<u>50,474</u>	<u>48,830</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Statement of Changes in Equity
Years ended September 30, 2008 and 2007

<i>(Thousands of U.S. dollars)</i>	Capital stock	Treasury stock	Share premium	Revaluation of fixed assets	Unrealized gain on available-for-sale investments	Net effect of combination (merger) of subsidiaries	Difference between fair value and cost of shares of subsidiary	Unappropriated earnings (deficit)		Effect from translation of Proalco	Total equity	Minority interests	Total
								Legal reserve	Deficit				
Balances at September 30, 2006	311,120	-	8,222	175,647	29,182	119,483	130,029	30,368	(169,299)	(1,512)	633,240	234,464	867,704
Net income	-	-	-	-	-	-	-	-	76,549	-	76,549	(2,910)	73,639
Appropriation to legal reserve	-	-	-	-	-	-	-	744	(744)	-	-	-	-
Dividends declared (Note 20)	-	-	-	-	-	-	-	-	(11,356)	-	(11,356)	(6,329)	(17,685)
Change in revaluation (Note 2-f)	-	-	-	104,292	-	-	-	-	-	-	104,292	58,948	163,240
Amortization of revaluation, net	-	-	-	(23,447)	-	-	-	-	23,447	-	-	-	-
Effect from translation of foreign subsidiary	-	-	-	-	-	-	-	-	-	644	644	1,183	1,827
Discontinued operation (Note 25)	-	-	-	(20,014)	-	-	-	-	19,146	868	-	(50,335)	(50,335)
Realized gain on available-for-sale investments (Note 9)	-	-	-	-	(29,182)	-	-	-	-	-	(29,182)	-	(29,182)
Balances at September 30, 2007	311,120	-	8,222	236,478	-	119,483	130,029	31,112	(62,257)	-	774,187	235,021	1,009,208
Capital increase (Note 20)	930	-	-	-	-	-	-	-	(930)	-	-	-	-
Net income	-	-	-	-	-	-	-	-	153,897	-	153,897	23,571	177,468
Appropriation to legal reserve	-	-	-	-	-	-	-	383	(383)	-	-	-	-
Amortization of revaluation, net	-	-	-	(18,794)	-	-	-	-	18,794	-	-	-	-
Change in revaluation (Note 2-f)	-	-	-	17,727	-	-	-	-	-	-	17,727	8,093	25,820
Repurchased shares (Note 20)	-	(3,420)	-	-	-	-	-	-	-	-	(3,420)	-	(3,420)
Difference between fair value and cost of shares of subsidiary (Note 15)	-	-	-	-	-	-	206,551	-	-	-	206,551	92,736	299,287
Dividends declared (Note 20)	-	-	-	-	-	-	-	-	(111,009)	-	(111,009)	-	(111,009)
Capital increase through dividends declared (Note 20)	2,898	-	-	-	-	-	-	-	(2,898)	-	-	-	-
Balances at September 30, 2008	<u>314,948</u>	<u>(3,420)</u>	<u>8,222</u>	<u>235,411</u>	<u>-</u>	<u>119,483</u>	<u>336,580</u>	<u>31,495</u>	<u>(4,786)</u>	<u>-</u>	<u>1,037,933</u>	<u>359,421</u>	<u>1,397,354</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Statement of Cash Flows
Years ended September 30, 2008 and 2007

<i>(Thousands of U.S. dollars)</i>	2008	2007
Cash flows from operating activities		
Net income	177,468	73,639
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	89,408	79,481
Net gain (loss) on sale, exchange and valuation of investments	3,837	(49,874)
Unpaid accrued interest	16,324	32,675
Deferred income tax	(88,383)	(31,796)
Provision for loan settlement	45,182	-
Provision for slow-moving inventories	432	925
Provision for doubtful accounts	118	15
Net change in operating assets and liabilities		
Trade accounts receivable	48,367	60,418
Related companies and other accounts receivable	23,794	(62,977)
Inventories	(61,119)	(17,863)
Advances to suppliers and other assets	(12,081)	(9,579)
Employee termination benefits	(1,955)	6,025
Accounts payable, accrued expenses, deferred income tax and other liabilities	<u>(127)</u>	<u>(8,822)</u>
Net cash provided by operating activities	<u>241,265</u>	<u>72,267</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(49,053)	(20,269)
Net sale (purchase) of investments	<u>(13,954)</u>	<u>72,702</u>
Net cash provided by (used in) investing activities	<u>(63,007)</u>	<u>52,433</u>
Cash flows from financing activities		
Short-term loans received (paid), net	36,553	(13,218)
Long-term loans received	246,157	-
Long-term loans repaid through foreclosure of accounts receivable	(315,716)	-
Long-term loans repaid and bonds payable in cash	(22,750)	-
Repurchased shares	(3,420)	-
Dividends received from subsidiary sold	-	(11,356)
Cash dividends paid	<u>(110,841)</u>	<u>6,333</u>
Net cash used in financing activities	<u>(170,017)</u>	<u>(18,241)</u>
Cash from discontinued operation	<u>-</u>	<u>(24,784)</u>
Cash and cash equivalents		
Increase for the year	8,241	81,675
At the beginning of the year	<u>206,320</u>	<u>124,645</u>
At the end of the year	<u>214,561</u>	<u>206,320</u>
Supplementary information		
Cash paid during the year for		
Interest	14,815	12,772
Taxes	40,534	13,390
Supplementary information on non-cash activities		
Revaluation of fixed assets, net	25,820	163,240
Effect from translation of Proalco	-	1,827
Difference between fair value and cost of shares of subsidiary	299,287	-

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

September 30, 2008 and 2007

1. Activities

Siderúrgica Venezolana “Sivensa”, S.A. (Sivensa), a company incorporated and domiciled in Caracas, Venezuela, is listed on the Caracas Stock Exchange and is regulated by the Venezuelan Securities and Exchange Commission (Comisión Nacional de Valores - CNV). Sivensa’s legal address is: Avenida Intercomunal de Antímano, Edificio Planta Antímano, Sector Carapa, Urbanización La Yaguara, Caracas, Distrito Capital. Sivensa’s corporate offices are located in Torre América, piso 11, Avenida Venezuela, Urbanización Bello Monte, Caracas.

Sivensa was established in 1948. The business objective of Sivensa and its subsidiaries (the Company) is to manufacture and sell steel products, reduced iron in briquette form and, until 2007, wire products. Most of the products manufactured by the Company are sold in Venezuela and some are exported to Europe, North America and South America (Note 22). All of its plants are located in Venezuela. At September 30, 2008 and 2007, the Company has 2,843 and 2,906 employees, respectively.

On September 30, 2007, Sidetur sold its 50.002% shareholding in its former subsidiary Vicson, S.A. (Vicson) to the Belgian company N.V. Bekaert, holder of the remaining shares. Through this transaction, Sivensa withdrew from the steel wire business in Venezuela and Colombia (where it used to participate through Vicson’s subsidiary Proalco). This transaction was approved at a Board of Director’s Meeting of Sidetur on July 30, 2007 (Note 25).

The consolidated legal and statutory financial statements prepared in accordance with the rules for the preparation of financial statements of entities regulated by CNV were approved by the Board of Directors on November 17, 2008. The accompanying financial statements were approved by the Board of Directors on December 4, 2008.

Payment of the financial debt being restructured of the subsidiary IBH and exercise of the purchase option

During 2008 the subsidiary International Briquettes Holding (IBH) reduced its financial debt to US\$76.6 million after financial creditors foreclosed certain guarantees set out in the loan agreements. In addition, this operation gave rise to the following transactions: i) capital increase through accounts receivable and securities proportionally contributed by shareholders of the subsidiary IBH de Venezuela, C.A. and ii) amendment and execution of the purchase option agreement on shares of IBH de Venezuela, C.A. In return for these capitalizations, IBH agreed to exercise the purchase option for US\$76.6 million using a long-term loan for this amount obtained from a Sivensa subsidiary (Note 12).

New regulations

On April 30, 2008, the Venezuelan government enacted Decree Law No. 6,058 regulating the steel sector activities in the Guayana Region. Given the relation of the steel sector with strategic activities for the country’s development, this Decree reserves to the Venezuelan government the steel transformation industry in the Guayana region, where the country’s largest steel reservoir is located. Steel production is reserved to the Venezuelan government since 1975. This Decree has not affected manufacturing activities or the continuity of Sivensa’s companies located in the Guayana Region.

In July 2008, the Venezuelan government enacted 26 decree-laws governing activities within certain sectors of the Venezuelan economy and establishing the regulations applicable to social security, housing loans and the public financial systems, among others.

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

September 30, 2008 and 2007

In March 2007, the Venezuelan government established that, as from January 1, 2008, the unit of the Venezuelan monetary system (Venezuelan bolivar) would be redenominated at a conversion rate of one thousand current bolivars to one new bolivar (“Bolívar Fuerte”). Therefore, all amounts expressed in local currency before January 1, 2008 were converted to the new unit on that date by dividing them by one thousand. The Central Bank of Venezuela (BCV) drew up an activity schedule to be complied with by financial institutions and companies in general. By January 1, 2008, the Company had adapted its information systems to accommodate the new monetary unit.

On November 20, 2006, the Venezuelan government published Decree No. 4,497 listing goods and services considered of prime necessity throughout the country for which a Maximum Sale Price (PMVP) would be set. These prime necessity goods and services include most steel bars and meshes manufactured and sold by the subsidiary Sidetur. On December 5, 2006, the People’s Power Ministries for Basic and Light Industries, Infrastructure and Housing set a PMVP for these products through a joint resolution.

2. Bases of Preparation and Accounting Policies

Sivensa is regulated by the Venezuelan Securities and Exchange Commission (CNV) and, therefore, must present its legal and statutory financial statements in bolivars in accordance with the rules for the preparation of financial statements of entities regulated by the CNV.

In addition, for reporting purposes, the Company presents supplementary consolidated financial statements in conformity with the accounting bases described in this Note and in U.S. dollars, which it considers its functional currency. The accounting policies described in this Note are mainly based on International Financial Reporting Standards (IFRS). These accounting policies differ from IFRS mainly as regards the determination of the functional currency of certain subsidiaries, including Sidetur, and its impact on the exchange rate and on the valuation of monetary assets and liabilities, the computation of deferred income tax, and certain equity accounts. These financial statements have been prepared under the historic cost convention, with modifications for revaluation of property, plant and equipment.

IFRS used by the Company as accounting bases are those applicable as of September 30, 2007, including relevant modifications and interpretations applicable from 2007.

Standards, amendments and interpretations effective in 2008

The following standards, amendments and interpretations to previously published standards are applicable to the Company’s accounting period ended September 30, 2008: IFRS 7, Financial Instruments: Disclosures; International Financial Reporting Interpretations Committee N° 10 (IFRIC 10), Interim Financial Reporting and Impairment and; IFRIC 11, IFRS 2, Group and Treasury Share Transactions.

Company management considers that these accounting standards and interpretations had no material effect on the Company’s consolidated financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective

The following standards, revisions, amendments and interpretations to existing standards have been published and will be applicable to Sivensa’s accounting periods beginning on or after October 1, 2008, which Sivensa has not early adopted: IAS 1 (Revised), Presentation of Financial Statements

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

September 30, 2008 and 2007

(effective as from January 1, 2009); IAS 23 (Amended), Borrowing Costs (effective as from January 1, 2009); IAS 32 (Amended), Financial Instruments: Disclosures and Presentation and; IAS 1 (Amended), Presentation of Financial Instruments (effective as from January 1, 2009); IAS 27 (Revised and Amended), Consolidated and Separate Financial Statements (effective as from January 1, 2009); IAS 28 (Amended), Investments in Associates (and consequential amendments to IAS 32, Financial Instruments: Disclosure and Presentation and; IFRS 7, Financial Instruments: Disclosures) (effective as from January 1, 2009); IAS 36 (Amended), Impairment of Assets (effective as from January 1, 2009); IAS 38 (Amended), Intangible Assets (effective as from January 1, 2009); IAS 19 (Amended), Employee Benefits (effective as from January 1, 2009); IAS 39 (Amended), Financial Instruments: Recognition and Measurement (effective as from January 1, 2009); IAS 16 (Amended), Property, Plant and Equipment (and consequential amendment to IAS 7, Statement of Cash Flows) (effective as from 1, 2009); IAS 29 (Amended), Financial Reporting in Hyperinflationary Economies (effective as from January 1, 2009); IAS 31, Interest in Joint Ventures (and consequential amendments to IAS 32 and IFRS 7) (effective as from January 1, 2009); IAS 40, Investment Property (and consequential amendments to IAS 16) (effective as from January 1, 2009); IAS 41, Agriculture (effective as from July 1, 2009); IAS 20 (Amended), Accounting for Government Grants and Disclosure of Government Assistance (effective as from January 1, 2009); IFRS 1 (Amended), First-time Adoption of International Financial Reporting Standards and IAS 27, Consolidated and Separate Financial Statements (effective as from January 1, 2009); IFRS 2 (Amended), Share-based Payments (effective as from January 1, 2009); IFRS 3, Business Combinations (effective as from January 1, 2009); IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations (and consequential amendment to IFRS 1) (effective as from January 1, 2009); IFRS 8, Operating Segments; IFRIC 12, Service Concession Arrangements (effective as from January 1, 2009); IFRIC 13, Customer Loyalty Programs (effective as from January 1, 2009); IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective as from January 2008); IFRIC 15, Agreements for the Construction of Real Estate (effective as from January 2008) and; IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective as from October 2008).

Company management considers that the aforementioned standards, amendments and interpretations to the existing standards will not result in a material effect on the Company's consolidated financial statements.

Below is a summary of the bases of presentation used in 2008 and 2007:

a) Use of estimates in the preparation of financial statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain accounting estimates. It also requires management to exercise judgment in the application of Company accounting policies and to make estimates and assumptions that affect the amounts of assets and liabilities at the balance sheet date, the amounts of income, costs and expenses reported for the year ended on that date and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates. Areas involving a higher degree of judgment or complexity, or those where assumptions and estimates are significant to the consolidated financial statements are disclosed in f, g, m and v below.

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
September 30, 2008 and 2007

b) Translation into U.S. dollars

Functional and presentation currency

The Company has elected to present its supplementary consolidated financial statements in U.S. dollars, its functional and presentation currency. The Company’s main operations and assets are located in Venezuela. One of the subsidiaries in Venezuela has significant export sales, costs, assets and debts denominated in U.S. dollars; hence, the U.S. dollar was used as the functional currency.

The financial statements of Sivensa and each of its subsidiaries have been translated into U.S. dollars considering the functional and reporting currency as one and the same. Balances have been translated using the following exchange rates (Note 21):

Accounts	Exchange rate
Balance sheet	
Current assets, except inventories and prepaid expenses	Year-end
Liabilities	Year-end
Inventories	Historic
Property, plant and equipment	Historic
Deferred charges, except deferred income tax	Historic
Deferred income tax	Year-end
Equity	Historic
Statement of income	
Net sales	Monthly average
Cost of sales	Historic
Depreciation and amortization	Historic
Materials and supplies used in operations	Monthly average
General and administrative expenses	Monthly average
Interest and other income (expense)	Monthly average

The translation adjustment is included in the results for the year. 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 consolidated income statement for the year.

c) Consolidation

Subsidiaries

Subsidiaries are all entities, including special-purpose entities, in which Sivensa has over 50% shareholding or the power to control financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to Sivensa (Note 24). Equity in subsidiaries subject to purchase option is shown on a consolidated basis, according to management’s intention and the right to execute the options (Notes 12 and 15).

Increases in equity of subsidiaries are accounted for at the purchase date. The difference between cost and the book value of the subsidiary’s net assets at the purchase date is recorded as goodwill or negative goodwill, after assessing net assets acquired.

When the Company acquires shares of a minority interest, the excess difference between the book value of equity acquired and the amount paid is shown in equity under Difference between fair value and cost of shares of subsidiary.

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries

Notes to the Consolidated Financial Statements

September 30, 2008 and 2007

Financial statements of sold subsidiaries are consolidated until the rights associated with share ownership are effectively transferred. Results of sold subsidiaries are shown in the consolidated statement of income under Net income for the year from discontinued operation (Note 25).

Business combinations under common control

Business combinations under common control are recorded by the economic entity method, which considers book value of subsidiaries at the transaction date (Note 24). The net effect of changes in equity in partially owned subsidiaries is directly recorded under the equity account Net effect of combination (merger) of subsidiaries, which shows the difference between the book value of net assets transferred and net assets received in combination. In addition, the increase in shareholding in the subsidiary IBH de Venezuela, C.A. was recorded at the book value of net assets at the acquisition date since it is considered a transaction with minority interests. The difference between book value and cost is shown directly in equity under Difference between fair value and cost of shares of subsidiary (Notes 12 and 15).

Transactions, balances and realized gains on transactions with subsidiaries are eliminated in consolidation.

Transactions and minority interests

Minority interests represent third-party interests in the results and equity of partially owned subsidiaries. Conditions for business transactions with minority shareholders are similar to those with third parties and are not eliminated for consolidation purposes.

The subsidiaries' accounting policies are consistent with those adopted by the Company.

d) Trade accounts receivable

Trade accounts receivable are recorded at amounts billed, which approximate fair value. The carrying value of trade accounts receivable is reduced to their estimated recoverable value through the provision for doubtful accounts. The Company sets aside a provision for doubtful accounts after reviewing all balances receivable at year-end closing, and the amount so determined is included in the statement of income. Significant financial difficulties of the debtor, the likelihood that the debtor will undergo financial reorganization or enter bankruptcy, and default or delinquency in payments are indicators of impairment of trade accounts receivable. Uncollectible accounts are written off once identified. Subsequent collection of previously written-off balances is recorded directly in the statement of income.

e) Inventories

Inventories are shown at the lower of restated cost and net realizable value. Costs of finished products, work in progress and raw materials are determined by the average cost method. The cost of finished products and work in progress includes raw materials, direct labor and other direct production overhead costs, but excludes borrowing costs. Net realizable value is the estimated selling price, less costs of completion and disposal.

f) Property, plant and equipment

Buildings, machinery and equipment and land are shown at amounts determined by independent appraisers in 2006 and 2007, which represent the fair values of these assets. All other property, plant and equipment is stated at historic cost.

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Historic cost includes expenses which are directly attributable to the acquisition of the assets. Additions, renewals and improvements are capitalized only when it is probable that future economic benefits will be obtained and they can be measured reliably. The net carrying value of replaced parts is disposed of. All other repair and maintenance expenses are included in the income statement in the year in which they are incurred. The interest cost of loans to finance construction of property, plant and equipment during the time required to complete and prepare the asset for its intended use is capitalized.

The difference between the historic cost of assets and their revalued amounts is included directly in equity under Revaluation of fixed assets. Decreases that offset previous revaluations of the asset are charged to this equity account; all other decreases are charged to the income statement. Additionally, each year the difference between depreciation based on revalued amounts and that based on historic costs is transferred from Revaluation of fixed assets to Unappropriated earnings (deficit), net of the related deferred income tax effect.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, except for plants of Venprecar and its subsidiary Orinoco Iron SCS, and a plant of the subsidiary Sidetur, which is calculated by the unit-of-production method. Useful lives of revalued assets are determined according to appraisals. Below is a breakdown of the estimated useful lives of assets:

	Estimated useful lives (Years)
Buildings	10-44
Machinery and equipment	7-35
Tools	5-10
Vehicles	5-10
Furniture and fixtures	3-5

Land is not depreciated.

The residual value of assets and their useful lives are reviewed and adjusted, if necessary, at each balance sheet date.

Gains and losses from the sale of fixed assets are determined by comparing the amount of cash flows received to the book value of assets sold at the transaction date, and are recorded in the income statement. When revalued assets are sold, the amounts included in the equity account Revaluation of fixed assets are transferred to Unappropriated retained earnings (deficit).

g) Recognition of loss in the value or impairment of long-lived assets

The Company assesses possible impairment in the value of its long-lived assets when events indicate that their recorded value may not be recoverable. If it is not likely that an asset will be recovered, then its carrying value is reduced to its recoverable value, which is the higher between fair value less cost of sale and value in use. At September 30, 2008 and 2007, Company management, based on its analyses, considers, in conformity with applicable generally accepted accounting principles, that none of its long-lived assets is impaired.

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The Company assesses annually whether an impairment loss recognized in prior years no longer exists or may have decreased.

h) Financial assets

The Company classifies financial assets according to the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and accounts receivable, and available-for-sale financial assets. Classification is based on management’s intention when purchasing assets. Management classifies financial assets upon acquisition and revalues this classification at the financial statement presentation date.

Fair value through profit or loss

This category contains investments acquired with the intention of selling them in the short-term and are classified as trading securities. These investments are recorded at cost at the purchase date and subsequently recorded at fair value. Differences between fair value and purchase cost are included in the consolidated income statement in the period in which they arise. Assets included in this category are classified as current assets.

Held to maturity

Investments with fixed maturity that management has the intention and ability to hold to maturity are classified as held-to-maturity and are shown at amortized cost using the effective interest method. When there is evidence that the value of a held-to-maturity investment is impaired, the effect is determined based on the difference between its book value and the discounted present value of the investment and is recorded in the consolidated income statement.

Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are classified as current assets because they mature in less than 12 months. Loans and accounts receivable are shown in the balance sheet as Trade and other accounts receivable.

Available for sale

Investments acquired with the intention of holding them for an indefinite period of time, as well as those not classified under any other category, are classified as available-for-sale. These investments are recorded at cost and subsequently carried at fair value. Unrealized gains or losses resulting from differences between cost and fair value are recognized in the consolidated equity under Unrealized gain on available-for-sale investments, net of deferred tax. Any impairment in the value of these investments considered other than temporary is included in income for the year (Note 9). Fair values of investments are determined based on market values of shares at the financial statement presentation date. When available-for-sale investments are sold or a permanent impairment in value is determined, the accumulated equity effect is recorded in the consolidated statement of income.

Purchases and sales of financial assets are recorded at the date on which the Company is committed to purchasing or selling these assets. Financial assets not shown at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets shown at fair value through profit or loss are initially recorded at fair value and transaction costs are recognized in the results for the year in which they are incurred. The transfer of a financial asset is considered an exchange of assets when the Company substantially transfers risks and advantages inherent to the property of this

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asset. When the Company exchanges financial assets, the effects of the transaction and the assets received at fair value at that date are recognized in the consolidated income statement and balance sheet, respectively.

Fair values of investments are determined based on market values of shares at the financial statement presentation date.

The Company assesses at each balance sheet date whether there is objective evidence of impairment in the value of a financial asset or group of financial assets.

i) Capitalizable lease

The Company recognizes as property, plant and equipment leased assets that comply with capitalizable criteria, and also recognizes the related liability. Depreciation of assets recorded under capitalizable lease is shown in the income statement.

j) Loans

Bank loans are initially recognized at fair value; they are subsequently shown at amortized cost since they bear interest at market rates.

Costs related to incurred debt are shown net of the related liability and amortized during the term of the debt using the effective interest method (Notes 12 and 19).

Changes in loan terms and conditions are assessed to determine the effects on the accounting treatment given to the loan and the related costs incurred. If changes in conditions are accounted for as an extinguishment, all costs or commissions incurred are recognized as part of any income or loss derived from the extinguishment; if not, all costs or commissions incurred are adjusted to the book value of liabilities to be amortized over the remaining useful life of the modified loan (Notes 12 and 19).

The Company recognizes offsetting of financial debt with financial assets in the consolidated financial statements as long as offsetting is allowed under the existing agreements and applicable accounting principles are complied with.

Loans maturing within one year are classified as current liabilities, unless the Company has an unconditional right to defer repayment for a period of over twelve months after the balance sheet date (Note 12). All other loans are classified as long-term liabilities.

k) Accrual for employee termination benefits

The Company accrues for its liability in respect of 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 shown net of advances granted to employees. Among other aspects, the Law provides for a minimum indemnity of 45 days of salary per year (up to a maximum of 90 days depending on length of service), without retroactive adjustments.

Venezuelan Labor Law also requires mandatory distribution to employees (profit-sharing bonus) of up to 15% of a company's pre-tax income. The established minimum and maximum amounts for distribution are 15 and 120 days of salary, respectively. The Company accrued and paid a profit-sharing bonus to its employees of 120 days of salary for 2008 and 2007.

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The Company does not have a pension plan or other post-retirement benefit programs.

l) Accounts payable

Accounts payable are initially recognized at fair value and subsequently shown at amortized cost using the effective interest method.

m) Provisions

Provisions must be recognized when the Company has a present legal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reasonably estimated. The amount of the provision is the present value of expenditures expected to settle the obligation. Provisions are not recognized for future operating losses.

Provisions for environmental restoration are determined based on the present value of expenditures expected to settle the obligation at a pre-tax discount rate that reflects the temporary value of money at the balance sheet date, as well as the specific risk of the related liability. The increase in the provision over time is recognized as interest expense.

When there is a significant number of similar obligations which, individually, are not significant, the likelihood of an outflow of resources to settle them is determined considering the type of obligation as a whole and the respective provision is set aside.

n) Basic and diluted net income per share

Net income per share is determined by dividing net income for the year attributable to Sivensa shareholders by the weighted average of outstanding shares during the year. Basic and diluted net income per share is the same for all periods shown since the Company does not have any potentially dilutive instruments.

o) Capital stock

Common shares are classified as equity. At September 30, 2008 and 2007, Sivensa has no preferred shares.

Costs for the issue of new shares are shown in equity as a reduction in capital stock.

When Sivensa acquires proprietary shares (treasury stock), the amount paid, including share premium, is reduced from capital stock until these shares are cancelled. Subsequently, when these shares are cancelled, the excess amount is charged to the equity account Share premium.

p) Revenue recognition

Revenue comprises the fair value of rights received from the sale of goods in the normal course of the Company's activities. Income is shown net of returns, rebates and discounts after eliminating sales transactions between the Company's subsidiaries. Income from sales of goods is recorded when goods sold by the Company are dispatched and accepted by clients and the risk is transferred to the buyer.

Interest income is recorded when earned using the effective interest method.

Income from dividends from financial assets is recognized in the consolidated income statement when the Company has the right to receive payment.

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q) Cost of sales

For presentation purposes, certain selling expenses, mainly freight and export insurance, are considered an integral part of cost of sales.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, short-term deposits, other highly liquid investments maturing within three months and bank overdrafts. Bank overdrafts are shown as part of loans under current liabilities in the balance sheet.

s) Fair value of financial instruments

The carrying value of cash and cash equivalents, trade accounts receivable, net of provision, investments and accounts payable to suppliers approximates their fair value due to the short-term maturities of these instruments. Since most Company loans and other financial obligations bear interest at variable markets rates, management considers their carrying amounts to approximate fair value.

t) Accounting for derivative instruments and hedging activities

Financial instruments, including derivatives, are recognized in the balance sheet as either assets or liabilities at their respective fair values. The Company recognizes transactions with financial instruments at their transaction date.

The Company does not engage in hedging activities and has identified no derivative instruments.

u) Foreign currency balances and transactions

Foreign currency transactions are recorded at the exchange rate in effect at the transaction date. Foreign currency balances at September 30, 2008 and 2007, mainly in bolivars, are shown at the official exchange rate of Bs 2.15/US\$1 (Note 21). Exchange gains or losses arising from currencies other than the U.S. dollar are included in the income statement.

v) Income tax for the year and deferred income tax

Income tax for the year is determined based on applicable income tax laws at the balance sheet date in the countries where the Company operates and generates income. Management regularly evaluates positions taken for determining income tax in respect of situations in which laws and regulations are subject to interpretation and records the related provisions based on amounts expected to be paid.

The Company records deferred income tax in accordance with the liability method. Under this method, deferred income tax reflects the net effect of expected future tax consequences arising from:

- a) temporary differences from application of the statutory tax rates expected in future periods to differences between the tax base of assets and liabilities and their amounts in the balance sheet, and
- b) tax credits and tax loss carryforwards. The effect on deferred taxes of changes in statutory tax rates is also recognized. If it is not likely that a portion or all of a deferred tax asset will be realized, it is not recognized.

The Company recognizes the deferred tax liability for revalued assets, calculated based on the difference between the revalued carrying amount and the tax base of the assets, with a charge to the related equity account (Note 2-f). The deferred tax liability is also recorded for available-for-sale investments, calculated based on the difference between fair value and the related tax base of investments, with a charge to the equity account Unrealized gain on available-for-sale investments.

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The Company does not recognize a deferred income tax liability for temporary differences arising on investments in subsidiaries and affiliates when: a) Sivensa is able to control the reversal of the temporary difference, and b) it is not likely that the temporary difference will be reversed in the foreseeable future.

w) Segment reporting

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. Management believes that the Company operates in the business segments described in Note 22 and in basically one country.

x) Dividend distribution

Distribution of dividends to shareholders is recorded as a liability in the financial statements for the period when the dividends are approved by Sivensa’s shareholders.

3. Nature and Scope of Risks from Financial Instruments

The Company’s activities are exposed to certain financial risks: concentration of credit risk, liquidity risk and risks arising from the volatility of economic variables, such as the exchange rate, interest rates and the market in general.

Concentration of credit risk

Financial instruments exposed to concentration of credit risk consist primarily of cash equivalents and trade accounts receivable.

Company management administers its cash deposits and equivalents first considering the stability of financial institutions and then interest obtained. Demand and time deposits are not usually over 90 days to maintain a high liquidity level.

At September 30, 2008 and 2007, cash and cash equivalents are placed with local and foreign financial institutions (Note 21).

Trade accounts receivable of certain subsidiaries are concentrated in a small number of clients. Below is the classification of clients based on their collection experience at September 30:

	Percentage on	
	<u>accounts receivable</u>	
	2008	2008
Steel		
Clients with excellent payment experience	89.46	88.08
Clients with good payment experience	10.54	11.92
Briquettes		
Clients with excellent payment experience	99.50	99.15
Clients with good payment experience	0.50	0.85

The Company regularly assesses the financial condition of its clients based on a detailed analysis of overdue and maturing balances. Unrecoverable accounts are provided for in full.

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Liquidity risk

The Company regularly assesses its fund requirements to maintain cash availability in conformity with maturities of its operating and financial obligations, including dividends declared. When necessary, Company management uses its credit capacity to finance working capital and investments. Short-term debts are assessed based on working capital turnover and long-term debts based on estimated cash to be generated by the Company’s industrial facilities.

Foreign exchange risk

Financial instruments exposed to foreign exchange risk at September 30 are as follows:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Assets in bolivars	221,740	134,384
Assets in U.S. dollars	168,867	278,000
Liabilities in bolivars	206,205	406,642
Liabilities in euros	2,588	-
Liabilities in U.S. dollars	164,478	574,000

Acquisition of foreign currency in the country is currently limited due to the exchange control regime in effect as from February 5, 2003. In March 2005, the Ministry of Finance and BCV established new official exchange rates, effective as from that date, of Bs 2.14/US\$1 (purchase) and Bs 2.15/US\$1 (sale) (Note 21).

Assets and liabilities in foreign currency are recorded at the official exchange rates published by BCV at September 30, 2008 and 2007, which represent values at which assets are expected to be realized and liabilities to be settled. Company management does not engage in hedging activities in connection with its monetary assets and liabilities in foreign currency.

Interest rate fluctuation risk

The Company is exposed to interest rate fluctuation risk. Financial liabilities in local currency bear interest at market lending rates; certain financial liabilities in foreign currency bear interest at fixed rates and, therefore, are not subject to interest rate fluctuation risk. Below is a summary of financial liabilities and their interest rates at September 30:

	2008		2007	
	Effective rate	Average market rate	Effective rate	Average market rate
Letters of credit in foreign currency	12%	10.20%	between 7% and 15%	8.30%
Short-term promissory notes in local currency	19%	22.31%	-	-
Bonds payable in foreign currency	10%	10.30%	10%	8.40%
Long-term loans in foreign currency	-	-	Between 8.13% and 11.75%	8.40%
Other financial liabilities	Between 12.10% and 18.63%	22.31%	18.63%	16.53%

Company management regularly assesses the cost of its financial liabilities to obtain the best credit conditions. Management does not engage in hedging activities in connection with interest rates of its financial liabilities.

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Long-term loans at fixed interest rates and other financial obligations at variable interest rates approximate their fair value.

All financial liabilities are shown at their balance payable.

Market risk

The Company is exposed to the risk of price fluctuation of supplies and finished products. At September 30, 2008 and 2007, Company management does not engage in hedging activities in connection with the cost of its raw materials and prices of products sold on local and international markets.

The main supplies used by the subsidiary IBH, such as fine iron ore and iron ore lumps, iron ore pellets, electricity and gas, are provided by Venezuelan state-owned companies (Note 23).

In 2008 and 2007, the Company exported 48% and 44%, respectively, of its annual sales, mainly denominated in U.S. dollars. A portion of its costs and expenses is denominated in bolivars.

4. Classification of Financial Instruments

Available-for-sale investments at September 30, 2008 are as follows:

<i>(Thousands of U.S. dollars)</i>	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Investments in available-for-sale preferred shares	34,884	-	-	34,884
Provision for impairment	<u>(12,860)</u>	<u>-</u>	<u>-</u>	<u>(12,860)</u>
	<u>22,024</u>	<u>=</u>	<u>=</u>	<u>22,024</u>

Available-for-sale investments at September 30, 2007 are as follows:

<i>(Thousands of U.S. dollars)</i>	Cost	Unrealized gain	Unrealized loss	Book value (equivalent to market value)
Investments in available-for-sale preferred shares	20,930	-	-	20,930
Provision for impairment	<u>(9,023)</u>	<u>-</u>	<u>-</u>	<u>(9,023)</u>
	<u>11,907</u>	<u>=</u>	<u>=</u>	<u>11,907</u>

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Financial assets and liabilities recorded at amortized cost at September 30, 2008 are as follows:

<i>(Thousands of U.S. dollars)</i>	Amortized cost	Unrealized gain (loss)	Market value
Bank deposits in bolivars	6,977	-	6,977
Bank deposits in U.S. dollars	5,891	-	5,891
Trade accounts receivable in bolivars	2,632	-	2,632
Trade accounts receivable in U.S. dollars	56,096	-	56,096
Letters of credit in euros	5,564	-	5,564
Short-term bank loans in bolivars	31,628	-	31,628
Trade accounts payable	147,183	-	147,183
Bonds payable	96,250	-	96,250

Financial assets and liabilities recorded at amortized cost at September 30, 2007 are as follows:

<i>(Thousands of U.S. dollars)</i>	Amortized cost	Unrealized gain (loss)	Market value
Bank deposits in bolivars	7,443	-	7,443
Bank deposits in U.S. dollars	127,390	-	127,390
Trade accounts receivable in bolivars	2,528	-	2,528
Trade accounts receivable in U.S. dollars	75,371	-	75,371
Letters of credit in U.S. dollars	640	-	640
Trade accounts payable	92,427	-	92,427
Bonds payable	100,000	-	100,000
Long-term bank loans	390,161	-	390,161

5. Cash and Cash Equivalents

Cash and cash equivalents at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Cash on hand and at banks	201,693	71,487
Short-term deposits	-	69,304
Non-negotiable bill of exchange	-	15,000
Bank deposits	<u>12,868</u>	<u>50,529</u>
	<u>214,561</u>	<u>206,320</u>

At September 30, 2008, US\$7.6 million guarantees payment of principal and interest of bonds payable and bank deposits of US\$5 million guarantee a letter of credit signed by the subsidiary Sidetur (Notes 12 and 13).

At September 30, 2008, short-term bank deposits in bolivars and U.S. dollars earn interest at between 2.75% and 17% (1.25% and 11% in 2007). These deposits mature between October and November 2008 (October and December 2007 in 2007).

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At September 30, 2007, the subsidiary Sidetur had short-term deposits for US\$5 million, which guaranteed two payments of interest on bonds payable (Note 12). In addition, the subsidiary Sidetur had a U.S. dollar account with a foreign financial institution for US\$19.5 million. These funds guaranteed a bank loan and accrued interest (Note 12) and was repaid in October 2007.

At September 30, 2007, the subsidiary Sidetur had a deposit with a foreign financial institution of US\$15 million that was supported by a non-negotiable bill of exchange issued by the financial institution on behalf of the subsidiary and earned interest at a fixed annual market rate. This bill of exchange was collected at maturity.

Short-term deposits for 2007 were in respect of cash deposits held by foreign subsidiaries with foreign financial institutions at three-month LIBOR less 0.15%.

6. Accounts Receivable

Accounts receivable at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Trade	58,728	77,900
Provision for doubtful accounts	<u>(949)</u>	<u>(831)</u>
	57,779	77,069
Value added tax (VAT) and client withholdings (Note 15)	51,524	44,529
Account receivable from subsidiary shares sold (Note 25)	-	35,488
Export incentives and import duty drawbacks, net of provision	-	-
Other accounts receivable	<u>4,328</u>	<u>5,030</u>
	<u><u>113,631</u></u>	<u><u>162,116</u></u>

Trade accounts receivable of IBH subsidiaries are concentrated in a small number of clients. In addition, in 2007 certain accounts receivable were provided as bank loan guarantees (Note 12). The decrease in IBH’s trade accounts receivable in 2008 compared to 2007 is mainly due to a decrease in sales of briquettes in September 2008 and to improved collections.

At September 30, 2008 and 2007, Bs 40.8 million (equivalent to US\$19 million) and Bs 26.2 million (equivalent to US\$12.18 million), respectively, are subject to reimbursement in respect of export incentives and import duty drawbacks established in the Venezuelan Customs Law. It is Company policy to set aside provisions for the full carrying amounts and recognize income upon collection. During 2008 no drawback payments were received and during 2007 payments for Bs 27,402 million (equivalent to US\$12.75 million) were received in this connection (Note 18).

The account receivable from subsidiary shares sold is in respect of the sale of shares held by the Company in Vicson until September 30, 2007, which were sold to N.V. Bekaert for US\$35.48 million. This account was collected on October 1, 2007.

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Trade accounts receivable which are overdue based on the Company’s credit policies are assessed to compute the provision for doubtful accounts. A summary of balances at September 30 is shown below:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Maturities		
Not due	51,909	76,380
30 to 60 days	1,594	289
61 to 90 days	1,603	374
91 to 120 days	1,972	54
Over 120 days	<u>1,650</u>	<u>803</u>
	<u>58,728</u>	<u>77,900</u>

Overdue trade accounts receivable with no recent losses that are expected to be recovered are not provided for.

Below is a summary of the movements in the provision for doubtful accounts:

<i>(Thousands of U.S. dollars)</i>	Years ended	
	<u>September 30,</u>	
	2008	2007
Balance at the beginning of the year	831	1,185
Provided in the year	141	15
Effect of changes in the exchange rate and deductions	<u>(23)</u>	<u>(369)</u>
Balance at the end of the year	<u>949</u>	<u>831</u>

7. Inventories

Inventories at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Finished products	48,525	28,054
Work in progress	15,332	31,307
Raw materials and direct supplies (Note 23)	78,747	24,833
In-transit merchandise	10,109	7,647
Provision for obsolescence	<u>(770)</u>	<u>(585)</u>
	<u>151,943</u>	<u>91,256</u>

At September 30, 2008, finished products for US\$2.9 million are shown at their net realizable values.

The increase in raw materials arises from the increase in international raw material prices.

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8. Property, Plant and Equipment

Property, plant and equipment comprises the following:

<i>(Thousands of U.S. dollars)</i>	Buildings, machinery and equipment	Tools	Vehicles	Land	Furniture and fixtures	Construction in progress	Total
At September 30, 2007							
Opening balance	1,252,255	1,198	6,677	87,594	2,415	7,893	1,358,032
Additions	22,864	314	2,386	2,336	1,986	13,415	43,301
Disposals, net	(1,303)	(610)	(30)	(5,814)	-	(10,776)	(18,533)
Depreciation expense	(77,403)	(97)	(982)	(4)	(673)	-	(79,159)
Revaluation	226,756	-	-	6,294	-	-	233,050
Discontinued operation	(70,556)	-	(1,336)	(9,413)	(427)	(456)	(82,188)
Net closing balance	<u>1,352,613</u>	<u>805</u>	<u>6,715</u>	<u>80,993</u>	<u>3,301</u>	<u>10,076</u>	<u>1,454,503</u>
At September 30, 2007							
Cost	1,554,596	4,698	14,959	27,236	11,150	10,076	1,622,715
Accumulated depreciation	(634,430)	(3,893)	(8,244)	-	(7,849)	-	(654,416)
Revaluation	432,447	-	-	53,757	-	-	486,204
Net balance	<u>1,352,613</u>	<u>805</u>	<u>6,715</u>	<u>80,993</u>	<u>3,301</u>	<u>10,076</u>	<u>1,454,503</u>
At September 30, 2008							
Opening balance	1,352,613	805	6,715	80,993	3,301	10,076	1,454,503
Additions	28,780	45	2,910	-	925	35,087	67,747
Disposals, net	(9,356)	(580)	(69)	(2,072)	(43)	(4,754)	(16,874)
Depreciation expense	(74,751)	(4)	(1,744)	-	(1,283)	-	(77,782)
Reclassifications	30,853	-	67	-	390	(31,310)	-
Revaluation	(2,228)	-	-	-	-	-	(2,228)
Net closing balance	<u>1,325,911</u>	<u>266</u>	<u>7,879</u>	<u>78,921</u>	<u>3,290</u>	<u>9,099</u>	<u>1,425,366</u>
At September 30, 2008							
Cost	1,595,235	2,680	17,670	27,895	11,281	9,099	1,663,860
Accumulated depreciation	(669,297)	(2,414)	(9,791)	-	(7,991)	-	(689,493)
Revaluation	399,973	-	-	51,026	-	-	450,999
Net balance	<u>1,325,911</u>	<u>266</u>	<u>7,879</u>	<u>78,921</u>	<u>3,290</u>	<u>9,099</u>	<u>1,425,366</u>

During 2008 the subsidiary Sidetur completed construction of the smoke extraction system of its plant located in Guayana in order to comply with environmental regulations. An investment of US\$26.3 million was made in this connection (Note 26).

Depreciation expense for the years ended September 30, 2008 and 2007 was US\$78 million and US\$79 million, respectively, charged mainly to cost of sales.

During the years ended September 30, 2008 and 2007, the Company did not capitalize interest on property, plant and equipment.

In 2007 most of IBH's property, plant and equipment of US\$1,197 million was pledged to secure this subsidiary's bank loans (Note 12).

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9. Investments

Investments at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Investments in available-for-sale preferred shares	34,884	20,930
Provision for impairment	<u>(12,860)</u>	<u>(9,023)</u>
Investments in available-for-sale preferred shares	<u>22,024</u>	<u>11,907</u>

Investments in available-for-sale preferred shares

In September 2008, Sidetur invested Bs 30 million (equivalent to US\$14 million) in 60 million preferred shares of a local shipping company with a par value of Bs 0.5 each. These shares grant a guaranteed, fixed and accrued dividend of 4% per annum, payable every six months. The holders of these shares have no rights to vote at meetings. These shares are not computed for purposes of the related quorum. Based on the difference between the fixed yield of shares and market yields, management estimated at Bs 21.75 million (equivalent to US\$10 million) the present value of this investment, based on an effective interest rate of 12.10%. The difference between the amount paid and the present value of the investment of Bs 8.25 million (equivalent to US\$3.8 million) was recorded in the consolidated income statement under Net gain (loss) on sale, exchange and valuation of investments. Under the Aquatic Space Law, Sidetur is entitled to receive income tax credits in respect of 75% of the amount invested in the acquisition of these shares.

During 2007 Sidetur acquired 4,500 million preferred shares of another local shipping company with a par value of Bs 0.01 each. These shares grant a guaranteed, fixed and accrued dividend of 4% per annum, payable every six months. The holders of these shares have no rights to speak or vote at meetings. Based on the difference between the fixed yield of shares and market yields, Company management estimated at Bs 25.6 million (equivalent to US\$11.9 million) the present value of this investment, based on an effective interest rate of 18.63%. The difference between the amount paid and the present value of the investment of Bs 19.4 million (equivalent to US\$9 million) was recorded in the consolidated income statement under Net gain (loss) on sale, exchange and valuation of investments. Under the National Merchant Navy Reactivation Law, Sidetur received income tax credits in respect of 75% of the amount invested in the acquisition of these shares.

Available-for-sale investments

As from January 31, 2006, Ternium, S.A. (Ternium) shares are listed on the New York Stock Exchange as American Depositary Receipts (ADRs). Ternium is the direct or indirect shareholder of Hylsamex in Mexico (86.4%), Sidor in Venezuela (55% until 2008), Siderar in Argentina (56.1%) and Techint Trade (100%).

At September 30, 2005, Sidetur owned 3.4% of the capital stock of Consorcio Siderurgia Amazonia, Ltd. (Amazonia). In November 2005, Sidetur exchanged its shares in Amazonia for 33.8 million shares of Ternium, with a par value of US\$1 each, equal to 2.36% of that company’s capital stock at that date.

Under applicable accounting standards, the exchange of shares in Amazonia for Ternium shares was considered an exchange of financial assets. Therefore, Sidetur recorded income of US\$26.7 million in the results for 2006, which included settlement of the US\$4.64 million liability with Amazonia. This

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amount comprised the difference between the estimated value of Ternium at the exchange date and the book value of its equity in Amazonia, and settlement of the aforementioned account payable.

In January 2006, Ternium made a public offering of shares in the form of ADRs and Sidetur’s equity in the capital stock of Ternium decreased from 2.36% to 1.64%. Original Ternium shares were converted into 3.38 million ADRs, which were provided as collateral to a foreign bank against a loan of US\$19 million taken out by the subsidiary Sidetur (Note 12).

In April 2007, the progressive sale of Ternium ADRs owned by Sidetur and one of its subsidiaries was initiated. The total sale of these ADRs for a net amount of US\$92.9 million was completed in September 2007 and resulted in a gain of US\$58.9 million shown in the consolidated income statement under Net gain (loss) on sale, exchange and valuation of investments. This gain included the realization of US\$29.2 million, shown in the equity account Unrealized gain on investments at September 30, 2006.

10. Other Non-current Assets

Other non-current assets at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	Goodwill	Other	Total
Balance at September 30, 2006	1,223	3,211	4,434
Additions	-	5,077	5,077
Disposals and reclassifications	-	(340)	(340)
Amortization	-	(322)	(322)
Discontinued operation	<u>(1,223)</u>	<u>(286)</u>	<u>(1,509)</u>
Balance at September 30, 2007	-	7,340	7,340
Additions	<u>-</u>	<u>4,644</u>	<u>4,644</u>
Balance at September 30, 2008	<u>-</u>	<u>11,984</u>	<u>11,984</u>

A breakdown of other assets at September 30 is shown below:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Amortizable dies	9,391	5,067
Investments in shipping port	1,743	1,426
Guarantee deposits	159	146
Works of art and other	<u>691</u>	<u>701</u>
	<u>11,984</u>	<u>7,340</u>

Amortizable dies relate to molds used for briquette production, which are amortized based on units produced.

11. Settlement Agreement with BHP-Billiton

In September 1997, IBH agreed with the Australian company BHP-Billiton to develop, construct and jointly operate the iron-ore direct reduction plant of Orinoco Iron and the Operaciones RDI plant. In March 2001, Operaciones RDI shut down its plant and no decision has been made to date as to how

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long it will be closed. At September 30, 2008, Operaciones RDI has assets of US\$2.3 million and an equity deficit of US\$7.4 million (US\$2.2 million and US\$6.9 million, respectively, at September 30, 2007).

On November 5, 2004, BHP-Billiton, owner of 50% of Orinoco Iron’s capital stock, agreed to terminate the joint venture with IBH and to assign 1% of Orinoco Iron’s capital stock thereto. Consequently, as from that date, IBH owns 51% of Orinoco Iron’s capital stock and has assumed control of its operations and management; therefore, it began to consolidate Orinoco Iron’s results for accounting purposes.

As part of this agreement, IBH undertook to pay BHP-Billiton US\$30 million once creditor banks receive payment of principal and interest totaling US\$240 million (Note 12). The aforementioned amount of US\$30 million was recorded at net present value, which, at September 30, 2007, was estimated at US\$23 million and recorded in the results for the respective years.

During 2008 Venprecar and Orinoco Iron issued promissory notes in favor of a foreign bank and US\$30 million in this connection was used to settle the debt with BHP-Billiton.

12. Bonds and Long-term Bank Loans

Bonds payable at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Bonds payable	96,250	100,000
Cost of bonds issued	<u>(2,216)</u>	<u>(2,508)</u>
Net amount of issue costs	94,034	97,492
Current portion	<u>(5,000)</u>	<u>(2,500)</u>
	<u>89,034</u>	<u>94,992</u>

Long-term bank loans at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	Sidetur	IBH	Vicson	Total
Balance at September 30, 2006	19,000	330,153	12,392	361,545
Capitalization of interest	-	32,675	-	32,675
Loans of discontinued operation	<u>-</u>	<u>-</u>	<u>(12,392)</u>	<u>(12,392)</u>
Balance at September 30, 2007	19,000	362,828	-	381,828
Capitalization of interest	-	16,324	-	16,324
Payments through foreclosures of accounts receivable	-	(315,716)	-	(315,716)
Cash payments	(19,000)	-	-	(19,000)
Amortization of expenses and commissions associated with incurred debt (Note 19)	-	11,334	-	11,334
Debt from settlement with BHP-Billiton	-	30,000	-	30,000
New debt	-	246,157	-	246,157
Capitalization of debt in subsidiary	<u>-</u>	<u>(350,927)</u>	<u>-</u>	<u>(350,927)</u>
Balance at September 30, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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Maturities of these liabilities at September 30, 2007 are shown below:

<i>(Thousands of U.S. dollars)</i>	Sidetur	IBH	Total
Years			
2008	19,000	-	19,000
2009	-	4,640	4,640
2010 and beyond	<u>-</u>	<u>369,522</u>	<u>369,522</u>
	19,000	374,162	393,162
Restructuring expense	<u>-</u>	<u>(11,334)</u>	<u>(11,334)</u>
	19,000	362,828	381,828
Current portion	<u>(19,000)</u>	<u>-</u>	<u>(19,000)</u>
Long-term portion	<u>-</u>	<u>362,828</u>	<u>362,828</u>

Sidetur

a) Refinancing of long-term restructured debt and bond issues

During 2006 Sidetur refinanced its May 2002 long-term debt. Transactions related to debt refinancing are summarized below:

Bond issue agreement

In February and April 2006, the Board of Directors of Sidetur and its subsidiary Sidetur Finance, B.V., respectively, authorized a private issue of bonds of US\$100 million on the international market to mature in 2016. Bonds were issued on May 3, 2006, and a fixed annual interest rate of 10% was set upon placement. All funds obtained were used to refinance the long-term debt described in this note.

Below is a summary of the main terms and conditions of the bond issue agreement:

- a) The amount of principal and interest is repayable in 32 quarterly installments of US\$1,250,000 beginning April 2008 and the remaining balance in a single payment of US\$60 million in April 2016. The applicable annual interest rate will be 10%, payable on a quarterly basis as from July 2006.
- b) Sidetur will unconditionally and irrevocably guarantee payment of principal and interest in respect of bonds issued by its subsidiary Sidetur Finance, B.V.
- c) The issuer is entitled to redeem bonds in whole, but not in part, at any time on or after April 20, 2011 at discretion, for the total amount owed at that date, at recovery rates equal to 105% of the amount owed in 2011 and up to 100% of the amount owed as from April 2014.
- d) The bond issue agreement sets limits in respect of: i) certain specific payments, ii) certain debt, iii) liens on certain assets, iv) sales of assets, v) financial lease transactions, vi) mergers, and vii) repurchase of bonds from holders by the issuer and the guarantor.

At September 30, 2008, the consolidated financial statements of Sivensa show a balance of US\$96.25 million in respect of bonds issued in May 2006, net of issue costs of US\$2.2 million.

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Amended and Restated Loan Agreement

In March 2006, Sidetur was notified by the Commission for the Administration of Foreign Currency (CADIVI) that its request for a creditor change and the issue of the Amended and Restated Loan Agreement, filed in February 2006, had been approved (Note 21).

In May 2006, a foreign bank acquired each of the creditor loans comprising Sidetur and Sivensa's long-term debt (Amended and Restated Loan Agreement). Under this Agreement, Sidetur agreed to release Sivensa from all obligations under the loan agreement in effect at that date and the creditor bank accepted Sidetur as the agreement's sole debtor. At the transaction date, the amount owed by Sidetur in respect of the long-term debt was US\$113 million.

Furthermore, under the refinancing agreement, Sivensa acquired 15% of Sivensa's capital stock from creditor banks of the long-term debt owned by these banks as a result of the long-term debt restructuring agreements of May 2002 (Note 20).

The main terms and conditions of the Amended and Restated Loan Agreement are summarized below:

- a) The debt will be repaid in “A” and “B” Tranches, with initial balances of US\$100 million and US\$13 million, respectively. Tranche “A” is repayable in 32 quarterly installments of US\$1,250,000 each as from the second quarter of 2008, and the final balance of US\$60 million will be repaid in the second quarter of 2016. Tranche “B” was paid at maturity on May 31, 2006. The annual interest rate for Tranche “A” will be 10.10%, payable on a quarterly basis beginning June 2006; the interest rate for Tranche “B” was LIBOR plus 4.10%, fully paid on May 31, 2006 along with principal.
- b) The occurrence of an event of default under the loan agreement shall relate to an event of default under the bond issue agreement of May 3, 2006.
- c) The number of guarantees provided under the original loan agreement was reduced. Under the Amended and Restated Loan Agreement, only Sidetur's export accounts receivable and the bank account for export collections are pledged as guarantee for debt repayment (both existing under the original loan).
- d) Sidetur will pay a commission for Tranche “A” debt service. The amount paid in this connection during the year ended September 30, 2008 was US\$310,625 (US\$337,500 in 2007).

Under applicable accounting standards, the restructured long-term debt of Sivensa and Sidetur was recorded as debt repayment and the balance of costs incurred of US\$4.8 million at May 3, 2006, in respect of the restructured long-term debt, was recognized as part of the result of such repayment (Note 2-j).

On May 3, 2006, Sidetur Finance B.V. and the new creditor of the amended and restated loan signed a participation agreement on the aforementioned debt under the same terms and conditions of the debt agreement. Under the participation agreement, Sidetur Finance B.V. may not sell, assign or transfer its participation to any entity or individual. The consolidated financial statements at September 30, 2008 and 2007 include offsetting of the balance of the amended and restated loan owed by Sidetur with the participation acquired by its subsidiary.

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Maturities of these obligations at September 30, 2008 are shown below:

(Thousands of U.S. dollars)

Years	
2009	5,000
2010	5,000
2011	5,000
2012 and beyond	<u>81,250</u>
	96,250
Cost of bonds issued	<u>(2,216)</u>
	<u>94,034</u>

During 2008 Sidetur paid the first three quarterly principal installments amounting to US\$3.75 million. Interest on debt incurred for issuing bonds during 2008 amounts to US\$10 million (US\$10 million in 2007), of which US\$8.1 million has been paid at September 30, 2008 and US\$1.9 million has accrued and will be paid at maturity.

The request filed by Sidetur in February 2006 for a change of creditor in respect of the restructured long-term debt of 2002 and issue of the Amended and Restated Loan Agreement was formally approved by CADIVI in March 2006 (Note 21).

Sidetur long-term loan

In May 2006, Sidetur took out a loan from the Deutsche Bank A.G. London Branch for US\$19 million maturing in November 2007 at annual LIBOR rates, plus 5%, calculated monthly. This loan, formerly guaranteed by Ternium shares, was secured with cash obtained from the sale of these shares (Note 9). Funds obtained from this loan were used to purchase common shares representing 15% of Sivensa’s fully subscribed and paid-in capital stock at that date, as well as the Golden Share upon conversion into a common share. Sidetur repaid this loan on October 30, 2007.

IBH

a) Background of the financial debt being restructured and Standstill Agreement

Background

Orinoco Iron received funds of US\$613 million (senior debt) in conformity with several lines of credit to finance construction of the Orinoco Iron Plant. Fifty percent (50%) of this debt was guaranteed by IBH and Venprecar.

Lenders shared a common security package which comprised: 1) pledges on all of the assets of Orinoco Iron (as borrower) and Operaciones RDI (as guarantor); 2) pledges on sales, construction and supply contracts and insurance policies of Orinoco Iron, Operaciones RDI and Venprecar; 3) pledges by IBH of its share ownership in the capital stock of Orinoco Iron, Operaciones RDI, SVS International Steel Holdings (SVS International) and Venezolana de Prerreducidos Caroní “Venprecar,” C.A.; 4) pledges by SVS International of its share ownership in Siderúrgica del Caroní “Sidecar,” S.A.; 5) pledges by Sidecar of its share ownership in Venprecar; 6) a mortgage on land and civil works owned by Venprecar; 7) a mortgage on Venprecar’s business operations; 8) escrow agreements on two of Venprecar’s bank accounts and; 9) an unconditional guarantee by Operaciones RDI.

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In May 2001, BHP-Billiton paid Orinoco Iron’s creditor banks US\$314 million in respect of its percentage (50%) of the secured debt. After this payment, BHP-Billiton became an Orinoco Iron creditor for this amount, subject to the same rights of its initial creditors and subordinated to debt settlement with creditor banks. In November 2004, BHP-Billiton assigned its rights on this debt to Orinoco Iron’s creditor banks. This debt was subject to the settlement agreement with BHP-Billiton (Note 11).

During 2008 the financial debt being restructured bore interest for US\$16.32 million. Interest payable to banks was calculated based on the terms of the original debt agreements at between 11.25% and 5.38% (11.75% and 8.13% in 2007) per annum, including additional interest charges on late payments of 2% beginning in May 2001. At September 30, 2007, the balance of the financial debt being restructured was US\$296 million and unpaid accrued interest was US\$77.3 million.

Standstill Agreement

In August 2005, creditor banks of Orinoco Iron, C.A. (subsequently merged into Venprecar) and IBH and its subsidiaries signed an agreement to maintain the status quo of the bank debt being restructured (“Standstill Agreement”). According to this Agreement, default conditions in respect of the debt being restructured still existed. Furthermore, the Agreement should not be construed as a waiver of the aforementioned default or as a novation of the debt and its original terms. Therefore, Venprecar was required to pay at least US\$304 million in principal and interest, fees and other amounts to which creditor banks were entitled. Under this Agreement, financial institutions maintained all of the rights related to the guarantees originally subscribed in 1997 and creditor banks reserved the right to take any necessary legal action against the responsible parties in case Venprecar defaulted on the aforementioned payments. Based on the terms of the Agreement and during the standstill period, creditor banks should forbear from enforcing their rights and/or take any other action in connection with the debt being restructured provided that no new events of default occurred in connection with the new obligations arising from the Agreement, except for action that, at their sole discretion, creditor banks could exercise in respect of accounts receivable from and revenues of Venprecar, Operaciones RDI and Orinoco Iron S.C.S. Based on the above, IBH presented the aggregate debt as a long-term liability. In addition, put and call option contracts were signed in August 2005 by IBH and Venprecar in respect of 39.14% of Class “B” shares in IBH de Venezuela, C.A. owned by creditor banks. Venprecar would have the necessary resources to conduct normal business operations, including those required for investments in fixed assets.

The Standstill Agreement would remain in effect until a financial restructuring agreement was reached, provided that the following conditions were met:

- a) Payment of an amount equivalent to US\$180 million and the equivalent of minimum interest calculated at LIBOR plus 4.5%, payable quarterly. At September 30, 2007, the balance amounted to US\$157.2 million (including minimum interest of US\$27.6 million).
- b) Payment of US\$194 million on October 1, 2014 and the equivalent of interest calculated at 6% per annum. Unpaid accrued interest could be capitalized annually. The balance of principal and interest at September 30, 2007 was US\$204 million.
- c) Compliance with debt restructuring agreements signed with CVG’s subsidiaries.

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- d) Transfer by the subsidiary IBH de Venezuela, C.A. of 3% of Venprecar’s shareholding to CVG upon approval and request of the latter.
- e) Compliance with call option contracts in favor of IBH or Venprecar on 39.14% of IBH de Venezuela, C.A. shares and compliance with the put option in favor of creditor banks. The exercise price for both put and call options would be in the range of US\$34 million to US\$80 million, depending on the exercise date.

Considering the terms of the aforementioned agreement and future estimates made by management, in 2005 IBH recorded a liability in respect of the present value of the exercise option price under Other liabilities and accruals, which was expected to be exercised in 2010. At September 30, 2007, this liability amounted to US\$24 million. Furthermore, as from 2005 IBH has consolidated 39.14% of the shares covered under the aforementioned option, and the results of the subsidiary were fully recognized as from September 1, 2005 even though the option had not been legally exercised at that date. The difference between the liability recorded in respect of the option and the equity value of the related shareholding is shown in equity under Difference between fair value and cost of shares of subsidiary.

Repayment of financial debt being restructured

In January 2008, creditor banks of the financial debt being restructured assigned to another foreign bank the debt owed at that date by Venprecar. This change in creditor was notified to CADIVI. As from that date and until June 2008, acting as the creditor and due to the increase in sales prices of briquettes, foreclosures of accounts receivable resulting from exports made by Venprecar and Orinoco Iron, S.C.S. were initiated for purposes of debt collection.

In June 2008, after foreclosure of these accounts receivable, the remaining balance of Venprecar’s financial debt for US\$74.8 million was assigned to another foreign bank. This assignment was notified to CADIVI. Upon assignment, Venprecar agreed with the creditor of the financial debt to novate the obligations derived from the debt, thereby terminating all agreements guaranteeing the financial debt being restructured and replacing this debt with a new debt of Bs 161 million, denominated and payable in bolivars. In July 2008, Venprecar had no foreign currency debt derived from the financial debt being restructured.

On June 25, 2008, the new financial creditor resolved to increase the capital stock of IBH de Venezuela, C.A. by Bs 755 million (equivalent to US\$351 million), which included the remaining balance of the financial debt for Bs 161 million (equivalent to US\$74.8 million) and other loans to finance working capital granted during 2008 to Venprecar and Orinoco Iron for Bs 594 million (equivalent to US\$276 million), which included the amount in connection with the BHP-Billiton settlement payment of US\$30 million. In turn, IBH contributed accounts receivable and other credits for Bs 1,143 million (equivalent to US\$532 million), thereby maintaining the original equity of both parties.

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13. Short-term Bank Loans

Short-term bank loans at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Letters of credit and financial overdrafts	5,564	639
Promissory notes	<u>31,628</u>	<u>-</u>
	<u>37,192</u>	<u>639</u>

In 2008 Sidetur signed a letter of credit for €3.95 million with a local bank to guarantee equipment purchased from a foreign supplier. This letter of credit bears interest at 12% per annum and is guaranteed by cash deposits with a foreign financial institution (Note 5).

During 2008 Sidetur used cash obtained from promissory notes to finance working capital. During 2008 these promissory notes bore interest for US\$4.8 million. At September 30, 2008, current promissory notes bear 19% annual interest and mature between October 2008 and February 2009.

14. Regulations

The Law on Narcotic and Psychotropic Substances was published in Official Gazette No. 38,287 on December 16, 2005. This Law repeals the previous Law of September 30, 1993 and requires all companies, public or private, with 50 or more employees to earmark 1% of their annual taxable income for social programs for the prevention of illegal drug consumption and traffic, one-half of which is to be set aside for child welfare protection programs. At September 30, 2008 and 2007, the Company has set aside provisions of US\$0.8 million and US\$0.2 million, respectively, in this connection.

Contributions under the Law for the Advancement of Science, Technology and Innovation became mandatory as from January 1, 2006. This Law establishes that the country’s major corporations will annually earmark from 0.5% to 1% of gross income generated in Venezuela to support activities which, according to the Law, relate to investments in science, technology and innovation. This Law defines major corporations as those whose annual gross income exceeds 100,000 tax units. This Law’s regulations establish the mechanisms, methods and procedures for mandatory contributions from major corporations, as well as the timeframe and procedures that must be complied with for the purpose of determining which activities will be considered by the People’s Power Ministry for Science and Technology in connection with these contributions. Contributions under this Law are to be calculated based on gross income obtained during the previous period. During the years ended September 30, 2008 and 2007, the Company invested US\$6 million and US\$7.8 million, respectively, in science, technology and innovation activities.

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15. Other Liabilities and Accruals

Other liabilities and accruals at September 30 comprise the following:

	2008	2007
Current portion		
Provision for estimated loan settlement value (Note 18)	16,754	-
Employer contributions and other accruals	5,184	6,385
Interest on loans payable	2,547	2,423
Other liabilities	<u>11,819</u>	<u>10,857</u>
	<u>36,304</u>	<u>19,665</u>
Long-term portion		
Provision for estimated loan settlement value (Note 18)	28,428	-
Cost of call option (Notes 12-a and 19)	-	22,934
Broken Hill Proprietary Company Limited (BHP-Billiton) (Notes 8 and 19)	-	24,366
Promissory notes payable	22,024	-
Other liabilities	<u>8,144</u>	<u>8,015</u>
	<u>58,596</u>	<u>55,315</u>

The provision for estimated loan settlement value is in respect of estimated cash flows required for repayment of the loan obtained for exercise of the call option (Note 2-c).

At September 30, 2008, the Company has promissory notes for Bs 47.35 million (equivalent to US\$22 million) maturing in September 2011 and 2012. These promissory notes bear interest at a fixed rate (Notes 4 and 9).

Exercise of the call option

IBH and Venprecar, together with the new financial creditor, owner of 39.15% of shareholding in IBH de Venezuela, C.A., resolved to amend and reissue the call option contract (formerly of IBH's creditor banks) originally signed in 2005 and agreed the new total value of the option, after the capital increase in IBH de Venezuela, C.A. at US\$76.6 million. On June 30, 2008, the parties executed the call option through which IBH acquired 39.14% shareholding in the subsidiary IBH de Venezuela, C.A. This transaction was recorded as a transaction between shareholders (Note 2-c), giving rise to an increase of US\$207 million (net of minority interests) in the equity account Difference between fair value and cost of shares of subsidiary.

As a result of the aforementioned transaction, IBH obtained 100% of equity in IBH de Venezuela, C.A.

16. Taxes

The estimated income tax benefit for the years ended September 30 comprises the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Income tax, net of benefit from utilization of tax loss carryforwards	(20,456)	(27,099)
Deferred income tax	<u>88,383</u>	<u>31,797</u>
Total tax benefit	<u>67,927</u>	<u>4,698</u>

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Income tax

Under Venezuelan Income Tax Law, the Company does not consolidate its results for tax purposes and, accordingly, files separate tax returns (in local currency). Below are the main differences between income tax computed at the 34% statutory tax rate and the effective income tax rates for the following years:

	<u>Years ended</u> <u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
	%	%
Statutory tax rate	(34.00)	(34.00)
Reduction (increase) in the statutory tax rate resulting from		
Effect from variation in the tax bases of fixed assets and inventories	74.26	53.76
Inflation adjustment for tax purposes	48.78	(5.62)
Tax loss carryforwards	(44.92)	29.68
Provisions	(1.23)	(40.96)
Investment tax credits for the year	16.38	25.95
Other, net	<u>2.74</u>	<u>(21.62)</u>
Effective income tax rate	<u>62.01</u>	<u>7.19</u>

Venezuelan Income Tax Law requires an annual inflation adjustment of certain assets and liabilities, as well as net equity, to compute taxable income. This adjustment represents an increase or reduction of taxable income. The annual inflation adjustment for tax purposes calls for a method of calculation that differs from that used for accounting purposes; the calculation is made by indexing all nonmonetary assets and liabilities, and initial fiscal equity, based on changes in the Consumer Price Index (CPI) for the related tax year or from the date of acquisition of the nonmonetary assets, assumption of nonmonetary liabilities, or increase or decrease in the initial fiscal equity required to be adjusted for inflation. Under this Law, the new values resulting from inflation adjustments are to be depreciated over the remaining useful lives of the fixed assets.

The Law also allows tax losses not offset and unused investment tax credits to be carried forward for three years to offset and reduce tax expense. At September 30, 2008, Sivensa and certain IBH subsidiaries have tax loss carryforwards of Bs 515 million (equivalent to US\$240 million), of which Bs 421 million (equivalent to US\$196 million), Bs 27 million (equivalent to US\$13 million) and Bs 67 million (equivalent to US\$31 million) may be used to offset future taxable income for the years ending 2009, 2010 and 2011, respectively. In addition, at September 30, 2008, the subsidiary Sidetur has advance payments of income tax of Bs 35 million (equivalent to US\$16 million), shown net of income tax payable.

The components of the deferred income tax asset (liability) are shown below:

	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
<i>(Thousands of U.S. dollars)</i>		
Difference in tax base of inventories	10,338	8,540
Difference in tax base of investments	-	104
Allowances and provisions not deductible until paid	<u>6,222</u>	<u>8,132</u>
	<u>16,560</u>	<u>16,776</u>

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<i>(Thousands of U.S. dollars)</i>	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
Included in		
Deferred income tax asset (long-term portion)	<u>16,560</u>	<u>16,738</u>
Other accruals	(8,639)	(22,869)
Difference in tax base of fixed assets, resulting mainly from inflation adjustment for tax purposes and revaluation	(98,913)	(197,728)
Difference in tax base of investments	-	(3,989)
Allowances and provisions not deductible until paid	<u>-</u>	<u>(11)</u>
Deferred income tax liability (long-term portion)	<u>(107,552)</u>	<u>(224,597)</u>

The movements of deferred income tax asset (liability) accounts are summarized below:

<i>(Thousands of U.S. dollars)</i>	Tax loss carryforwards	Other accruals	Fixed assets	Inventories	Investments	Provisions and other	Total deferred
Deferred income tax asset							
At September 30, 2006	351	-	-	7,069	579	7,180	15,179
Credits (charges) to the consolidated income statement	(351)	-	-	1,563	(475)	1,963	2,700
Discontinued operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(92)</u>	<u>-</u>	<u>(1,011)</u>	<u>(1,103)</u>
At September 30, 2007	-	-	-	8,540	104	8,132	16,776
Credits (charges) to the consolidated income statement	-	-	-	1,798	(104)	(1,588)	106
Charges to revaluation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(322)</u>	<u>(322)</u>
At September 30, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,338</u>	<u>-</u>	<u>6,222</u>	<u>16,560</u>
Deferred income tax liability							
At September 30, 2006	-	22,869	168,781	-	13,726	1,043	206,419
Charges (credits) to the consolidated income statement	-	-	(33,378)	-	5,296	(1,014)	(29,096)
Charges to revaluation	-	-	82,822	-	-	-	82,822
Discontinued operation	-	-	(20,497)	-	-	(18)	(20,515)
Charges (credits) to unrealized gain from investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,033)</u>	<u>-</u>	<u>(15,033)</u>
At September 30, 2007	-	22,869	197,728	-	3,989	11	224,597
Charges (credits) to the consolidated income statement	-	-	(84,288)	-	(3,989)	-	(88,277)
Charges to revaluation	<u>-</u>	<u>(14,230)</u>	<u>(14,527)</u>	<u>-</u>	<u>-</u>	<u>(11)</u>	<u>(28,768)</u>
At September 30, 2008	<u>-</u>	<u>8,639</u>	<u>98,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,552</u>

Valued added tax (VAT)

In May 1999, the Venezuelan government enacted the Value Added Tax (VAT) Law. This tax is based on a tax credit system; it is payable based on the value added at each stage of production or sales. The tax rate is set annually in the Venezuelan Budget Law. The tax rate was set at 9% as from July 1, 2007 (11% between March 1 and June 30, 2007; 14% between May 12, 2006 and February 28, 2007 and; 15% between September 1, 2004 and July 31, 2005). The Law provides a special zero tax rate 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.

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At September 30, 2008, IBH subsidiaries have non-interest-bearing net value added tax (VAT) credits of Bs 103.6 million (equivalent to US\$48.2 million at the official exchange rate in effect at September 30, 2008). This balance includes Bs 9.5 million (equivalent to US\$4.4 million) in respect of requests for Special Tax Reimbursement Certificates approved in accordance with resolutions issued by the National Integrated Customs and Tax Administration Service (SENIAT) during January, February, April and May 2008 for the tax period between August and October 2007. Additionally, this balance includes Bs 36.7 million (equivalent to US\$17.1 million) in respect of tax reimbursement requests that have not yet been approved for the tax period between November 2007 and June 2008, and Bs 40.6 million (equivalent to US\$18.9 million) in respect of tax credits to be requested at September 30, 2008.

At September 30, 2008, Orinoco Iron has recorded Bs 4 million (equivalent to US\$1.9 million) in respect of tax credits which may be offset with local taxable sales and Bs 11.9 million (equivalent to US\$5.5 million) in respect of tax credits that are subject to appeals filed in May and July 2007 after they were initially disallowed by the Tax Authorities. However, in the opinion of the subsidiary's management and its legal advisors, there is reason to believe that the final decision will be in favor of IBH. In the opinion of IBH management and its legal advisors, these tax credits are fully recoverable. Therefore, at September 30, 2008, no provision has been set aside in this connection. Furthermore, at September 30, 2008, IBH subsidiaries have recorded VAT withholdings made by local clients of Bs 0.9 million (equivalent to US\$420,000).

During October and November 2008, IBH subsidiaries requested tax credits from SENIAT for the tax period between May and August 2008 amounting to Bs 8.1 million (equivalent to US\$3.8 million). Requests for the remaining tax credit balance of Bs 32.3 million (equivalent to US\$15 million) are yet to be made.

During 2008 tax credits requested for Bs 61.9 million (equivalent to US\$28.7 million) were recovered through Special Tax Reimbursement Certificates (CERTs).

Transfer pricing

Venezuelan Income Tax Law includes transfer-pricing regulations. According to these regulations, taxpayers that conduct transactions with related parties abroad are required to calculate income, costs and deductions applying the methodology set out in the Law. For the year ended September 30, 2007, the Company made the transfer-pricing study and prepared all the documentation needed to file a transfer-pricing return for information purposes. The results of this study determined that computation of transfer prices had no significant effect on taxable income. The study for 2008 is in process, but management believes it will have no significant effect on taxable income for 2008.

Tax on Financial Transactions for Incorporated and Unincorporated Entities

On October 3, 2007, the Venezuelan government enacted by Decree-Law the Tax on Financial Transactions for Incorporated and Unincorporated Entities. This tax is levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. Entities qualified as special taxpayers and debt payments made without the mediation of financial institutions are also subject to this tax. The tax rate was set at 1.5% as from November 1,

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2007. During the year ended September 30, 2008, the Company recorded US\$14.7 million in this connection, shown under Other operating income (expense), net (Note 18). The Tax on Financial Transactions was repealed on June 12, 2008.

17. Expenses by Nature

Expenses by nature for the years ended September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Raw materials	399,200	287,333
Materials	84,399	73,361
Spare parts	43,895	35,053
Depreciation	77,782	79,159
Labor	132,306	101,009
Electricity, gas, water and other	111,822	94,358
Other production costs	17,628	20,540
Freight and other exporting costs	25,204	17,493
Shutdowns	42,601	35,687
Taxes and contributions	20,831	11,924
Professional fees and advisory	13,329	13,079
Surveillance and maintenance	3,023	2,148
Other	<u>25,418</u>	<u>15,388</u>
Total cost of sales and general and administrative expenses	<u>997,438</u>	<u>786,532</u>

18. Other Operating Income (Expense), Net

Other operating income (expense), net for the years ended September 30 comprises the following:

<i>(Thousands of US. dollars)</i>	2008	2007
Gain (loss) on sale of securities, net	50,719	(12,690)
Provision for estimated loan settlement (Note 15)	(45,182)	-
Tax on financial transactions (Note 16)	(14,696)	-
Indemnity from M-V Ythan insurance claim	6,000	-
Other expenses, net	(3,351)	398
Income from sales of fines, scrap metal and spare parts, net	362	370
Withdrawal and sale of fixed assets	(191)	(244)
Draw Back collections (Note 4)	<u>-</u>	<u>12,745</u>
	<u>(6,339)</u>	<u>579</u>

During the year ended September 30, 2008, Sivensa and the subsidiaries Sidetur and IBH swapped securities at a net gain of US\$50.7 million (net loss of US\$12.7 million in 2007).

During 2008 the subsidiary Venprecar collected US\$6 million on the M-V Ythan insurance claim filed by Venprecar. In December 2006, Venprecar paid US\$8 million, approved by CADIVI, under the settlement agreement of the M-V Ythan case. Foreign currency received from this indemnity was sold to BCV.

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19. Interest and Other Financial Expense, Net

Interest and other financial expense, net for the years ended September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Interest on loans (Notes 12 and 13)	(32,909)	(45,270)
Amortization of deferred charges (Note 12)	(11,626)	(414)
Interest expense with suppliers	(7,760)	(8,468)
Restatement of BHP-Billiton accrual and put option (Note 15)	(7,700)	(5,235)
Prompt payment discounts	(1,888)	(2,857)
Other financial expenses and commissions	<u>(3,933)</u>	<u>(6,763)</u>
	(65,816)	(69,007)
Interest income (Note 5)	<u>4,659</u>	<u>5,037</u>
	<u>(61,157)</u>	<u>(63,970)</u>

During 2008, due to payment of the IBH debt being restructured, expenses and commissions of US\$11 million related to the Standstill Agreement were fully amortized and included under Interest and other financial expense, net (Note 12).

20. Equity

a) Capital stock

At September 30, 2008, Sivensa’s capital stock amounts to Bs 105,889,970, represented by 52,944,985 shares with a par value of Bs 2 each. At September 30, 2008, there are 52,634,441 outstanding shares and 310,544 treasury shares (0.58% of capital stock), mainly resulting from the Stock Repurchase Program approved at the Shareholders’ Meeting on July 28, 2008.

At September 30, 2007, Sivensa’s capital stock amounted to Bs 97,660,626.68, represented by 4,883,031,334 shares with a par value of Bs 0.02 each. At a Special Shareholders’ Meeting on October 19, 2007, it was resolved to increase the par value of Sivensa’s shares from Bs 0.02 each to Bs 2.00 each with an eye to currency redenomination effective beginning January 1, 2008 (Note 1).

To this end, it was decided at the Shareholders’ Meeting to increase Sivensa’s subscribed and paid-in capital stock by issuing new shares with a par value of Bs 0.02 each distributed among the shareholders as follows: i) each shareholder was given two new shares for every 98 shares owned and ii) once this operation was completed, each shareholder was issued a variable number of shares (between 3 and 99) so that the total number of shares held by each shareholder would be a multiple of 100.

The capital stock increase was charged to the equity account Capital stock inflation adjustment, as reported in the Company’s primary consolidated financial statements at September 30, 2006, approved at a Regular Shareholders’ Meeting on January 26, 2007, with no effect on Sivensa’s net equity, charged to deficit in the supplementary financial statements in U.S. dollars.

Immediately thereafter, all outstanding shares (including those issued in connection with the aforementioned capital increase) were exchanged for new shares with a par value of Bs 2 each. Accordingly, every 100 shares with a par value of Bs 0.02 were exchanged for one share of Bs 2. As a

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result of the approved capital stock increase, and the distribution and exchange of shares with a par value of Bs 2 each, Sivensa's capital stock increased to Bs 99,661,148, represented by 49,830,574 shares with a par value of Bs 2 each.

At the first Special Shareholders' Meeting on July 28, 2008 (Note 20-b), it was resolved to increase the Company's capital stock by Bs 6,228,822 by issuing 3,114,411 new shares, distributed at one share for every 16 shares held by the shareholder. As a result, capital stock increased to Bs 105,889,970, represented by 52,944,985 shares with a par value of Bs 2 each.

At the second Special Shareholders' Meeting on July 28, 2008, a stock repurchase program was approved with the following characteristics:

- Maximum share acquisition amount: 15% of shares representing the Company's capital stock.
- Maximum share price: Bs 80.
- Duration of the first phase of the Stock Repurchase Program: six months as of the approval date.

At November 17, 2008, Sivensa has acquired 420,609 shares (0.79% of capital stock) at an average share price of Bs 22.85, totaling Bs 9.6 million in the Repurchase Program.

Acquired shares are accounted for as treasury stock and are not part of outstanding capital stock. These shares do not grant the holder the right to cast a vote at shareholders' meetings or to receive dividends declared.

Under Sivensa'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 Venezuelan Code of Commerce, the Capital Markets Law and any other applicable legal provisions or regulations.

b) Dividends

At a Regular Shareholders' Meeting on November 30, 2007, a dividend of Bs 178,767,185 (equivalent to US\$83.15 million) was approved with a charge to profit sharing for the year ended September 30, 2007. At this Meeting, it was resolved to pay this dividend as follows: a cash dividend of Bs 44,847,517 (equivalent to US\$20.86 million) at Bs 0.90 per share and a dividend in kind of Bs 133,919,668 (equivalent to US\$62.29 million) at Bs 2.6875 per share through the assignment of units with a fixed value of US\$1.25 per share related to a trust fund set up abroad.

On December 6, 2007, Sivensa was ordered by the CNV to cease payment of the dividend in kind. Requests were made to CNV to reverse this decision but after seven months, the Board of Directors deemed it necessary to convene a Special Shareholders' Meeting to consider a proposal for replacing this dividend.

At the first Shareholders' Meeting on July 28, 2008, it was resolved to replace the dividend in kind, declared at the Regular Shareholders' Meeting on November 30, 2007, with a substitute dividend amounting to Bs 133,919,668 (equivalent to US\$62.29 million), to be paid as follows: a cash dividend of Bs 127,690,844 (equivalent to US\$59.39 million) at Bs 2.56 per share and Sivensa shares of

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Bs 6,228,824 (equivalent to US\$2.9 million) with a par value of Bs 2 at one share for every 16 shares held by each shareholder. To this end, the shareholders resolved to increase capital stock by Bs 6,228,824 (equivalent to US\$2.9 million) through the issue of 3,114,411 new shares. It was also resolved that the subsidiary C.A. Inversiones Siderúrgicas “Inverside” (wholly owned subsidiary of Sivensa) acquire fractions at fair value on the trading day prior to the cash portion payment date (Inverside acquired 2,935 shares considered treasury stock). The portion in cash of the substitute dividend was paid on August 8, 2008; the portion in shares was paid on August 26, 2008.

At the second Shareholders’ Meeting held on July 28, 2008, it was resolved to pay a cash dividend of Bs 1.25 per share totaling Bs 66,132,081 (equivalent to US\$30.76 million) (not including treasury stock at the payment date).

At a Regular Shareholders’ Meeting on January 26, 2007, a cash dividend of Bs 24.42 million at Bs 0.005 per share was approved with a charge to profit sharing for the year ended September 30, 2006.

Sivensa pays dividends in bolivars. The Capital Markets Law requires companies with publicly traded shares to distribute to their shareholders at least 50% of their net profit (in bolivars) after tax and appropriation to legal reserves. In addition, at least one-half of this dividend must be paid in cash. In conformity with CNV rules, the basis for distribution of dividends and statutory equity does not include equity in the results of subsidiaries. For the year ended September 30, 2008, Sivensa (unconsolidated parent company) has determined that it has profits of Bs 202 million (equivalent to US\$93.95 million at the official exchange rate in effect at September 30, 2008) available for dividend distribution.

c) Legal reserve

The legal reserve is a requirement whereby Venezuelan companies must set aside 5% of their net income until the reserve reaches the equivalent of at least 10% of their capital stock, based on the Company’s primary financial statements.

21. Foreign Currency

The Company has the following balances in foreign currency other than the U.S. dollar (mainly bolivars) at the dates indicated below:

<i>(Thousands of bolivars)</i>	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	182,362	119,901
Accounts receivable - trade and related companies	195,663	107,146
Advances to suppliers	34,646	7,694
Investments	47,350	11,907
Other non-current assets	<u>2,748</u>	<u>13,833</u>
Total monetary assets	<u>462,769</u>	<u>260,481</u>
Liabilities		
Bank loans and current portion of long-term loans	79,963	-
Suppliers and other liabilities	<u>519,291</u>	<u>379,190</u>
Total monetary liabilities	<u>599,254</u>	<u>379,190</u>
Total net monetary liabilities, in bolivars	<u>(136,485)</u>	<u>(118,709)</u>
Total net monetary liabilities, equivalent in millions of U.S. dollars	<u>(63.48)</u>	<u>55.21</u>

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The Company does not engage in hedging activities.

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

	<u>Years ended</u> <u>September 30,</u>	
	2008	2007
Official year-end exchange rate (Bs/US\$1)	2.15	2.15
Average exchange rate (Bs/US\$1)	2.15	2.15
Increase in the Consumer Price Index (%)	36	15

On January 21, 2003, the Venezuelan government announced the closure of the foreign exchange market in Venezuela and, on February 5, 2003, the Ministry of Finance and BCV began to publish the legal instruments regulating the exchange control regime. On that same date, the government created CADIVI with the task of establishing the detailed rules and regulations and generally administering the exchange control regime.

Among other things, the first of these legal instruments requires the sale to BCV of all incoming currency. BCV centralizes all currency purchases and sales in the country.

CADIVI has subsequently issued resolutions on a number of requirements in connection with the administration of the exchange control regime, such as user registration, guidelines for importers and exporters, and the registration of private-sector foreign debt at January 22, 2003.

On March 2, 2005, the Ministry of Finance and BCV established new official exchange rates, effective as from that date, of Bs 2.14/US\$1 (purchase) and Bs 2.15/US\$1 (sale).

Sivensa and Sidetur complied with certain requirements set out in CADIVI regulations in respect of their private-sector foreign debt of US\$250 million to obtain currency required for payment of this debt at the official exchange rate. As per communication from CADIVI dated October 14, 2003, the application for registration was approved. In March 2006, Sidetur received formal approval from CADIVI to change its creditor and issue the Amended and Restated Loan Agreement filed by Sidetur in February 2006 (Note 12).

Orinoco Iron, C.A. (extinguished due to the merger by absorption by Venprecar) complied with requirements set out in regulations issued by CADIVI for registration of its foreign debt of US\$728 million at January 22, 2003. In connection with that amount, Orinoco Iron, C.A. received approval to purchase foreign currency and Authorizations for Currency Liquidation of US\$147 million, which were not used. During 2008 the creditor bank foreclosed foreign accounts receivable arising from exports of Venprecar and Orinoco Iron amounting to US\$316 million to collect this debt in foreign currency. The remaining amount of US\$74.8 million was converted into bolivars in June 2008. In July 2008, Venprecar, as surviving company, notified CADIVI that it had no debt in U.S. dollars. At September 30, 2008, a subsidiary of IBH has debt in foreign currency with a subsidiary of Sivensa amounting to US\$41.3 million not registered with CADIVI (Note 12).

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22. Business Segment Reporting

The Company’s business structure mainly includes production operations in the following business segments operating in basically one country:

Briquettes (subsidiary IBH)

Iron briquettes are produced at IBH plants located in the Guayana region (Note 1). Once local demand has been met, the remaining product is exported.

Steel (subsidiary Sidetur)

Sidetur produces steel bars and other long-rolled products for sale on the local market.

Relevant data is provided below for each main market segment:

Segment results for the year ended September 30, 2008 are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Net sales						
Exports	548,692	19,196	-	567,888	-	567,888
Local market	137,894	586,765	-	724,659	(113,774)	610,885
	<u>686,586</u>	<u>605,961</u>	<u>-</u>	<u>1,292,547</u>	<u>(113,774)</u>	<u>1,178,773</u>
Dividends received	<u>-</u>	<u>-</u>	<u>37,209</u>	<u>37,209</u>	<u>(37,209)</u>	<u>-</u>
Financial income (expense), net	<u>(49,654)</u>	<u>(12,212)</u>	<u>248</u>	<u>(61,618)</u>	<u>-</u>	<u>(61,618)</u>
Income (loss) before tax	14,113	59,757	72,880	146,750	(37,209)	109,541
Income tax	65,236	2,277	414	67,927	-	67,927
Net income (loss) from continuing operations	<u>79,349</u>	<u>62,034</u>	<u>73,294</u>	<u>214,677</u>	<u>(37,209)</u>	<u>177,468</u>
Minority interests in continuing operations	<u>(895)</u>	<u>9</u>	<u>-</u>	<u>(886)</u>	<u>(22,685)</u>	<u>(23,571)</u>

Segment results for the year ended September 30, 2007 are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Net sales						
Exports	366,707	14,152	-	380,859	-	380,859
Local market	92,433	455,915	8,834	557,182	(70,803)	486,379
	<u>459,140</u>	<u>470,067</u>	<u>8,834</u>	<u>938,041</u>	<u>(70,803)</u>	<u>867,238</u>
Dividends received	<u>-</u>	<u>6,331</u>	<u>123,372</u>	<u>129,703</u>	<u>(129,703)</u>	<u>-</u>
Financial income (expense), net	<u>(51,292)</u>	<u>(14,848)</u>	<u>279</u>	<u>(65,861)</u>	<u>60</u>	<u>(65,801)</u>
Income (loss) before tax	(49,935)	125,696	121,308	197,069	(131,711)	65,358
Income tax	23,581	(18,416)	(478)	4,687	11	4,698
Net income (loss) from continuing operations	<u>(26,354)</u>	<u>107,280</u>	<u>120,830</u>	<u>201,756</u>	<u>(131,700)</u>	<u>70,056</u>
Minority interests in continuing operations	<u>622</u>	<u>-</u>	<u>-</u>	<u>622</u>	<u>8,279</u>	<u>8,901</u>

In 2008 and 2007, consolidated elimination entries mainly relate to the elimination of intercompany sales and dividends declared by Sivensa subsidiaries, and to the recording of IBH’s minority interests.

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Other segment amounts at September 30, 2008 included in the consolidated statement of income are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Depreciation (Note 8)	52,271	25,399	112	77,782	-	77,782
Amortization (Note 10)	11,334	292	-	11,626	-	11,626

Other segment amounts at September 30, 2007 included in the consolidated statement of income are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Depreciation (Note 8)	53,162	24,966	1,031	79,159	-	79,159
Amortization (Note 10)	322	-	-	322	-	322

Segments of assets and liabilities at September 30, 2008 and capital disbursements of continuing operations for the year then ended are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Assets	1,422,302	637,802	496,358	2,556,462	(571,241)	1,985,221
Liabilities	406,813	353,629	52,836	813,278	(225,411)	587,867
Additions to fixed assets (Notes 8 and 10)	41,140	31,251	-	72,391	-	72,391

Segments of assets and liabilities at September 30, 2007 and capital disbursements for the year then ended are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Corporate and other	Combined total	Consolidated elimination entry	Total
Assets	1,354,295	621,870	531,477	2,507,642	(535,739)	1,971,903
Liabilities	699,598	361,052	39,110	1,099,760	(137,065)	962,695
Additions to fixed assets (Notes 8 and 10)	28,830	18,647	901	48,378	-	48,378

Most of the Company’s export sales are made in the following regions:

<i>(Thousands of U.S. dollars)</i>	Years ended	
	September 30,	September 30,
	2008	2007
Sales		
North America	292,303	120,662
South America, Central America and the Caribbean	31,543	36,353
Asia and Africa	66,665	91,993
Europe	<u>177,377</u>	<u>131,851</u>
Total export sales	<u>567,888</u>	<u>380,859</u>

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23. Accounts and Transactions with Related Companies

The Company conducts business with some of its minority partners and related companies under various contractual agreements.

I. Balances with related companies at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2008	2007
Accounts receivable		
Other	<u>94</u>	<u>64</u>
Long-term accounts receivable		
CVG Ferrominera Orinoco, C.A.	<u>161</u>	<u>161</u>
Accounts payable		
CVG Ferrominera Orinoco, C.A.	52,275	28,106
Other	<u>819</u>	<u>1,164</u>
	53,094	29,270
CVG Ferrominera Orinoco, C.A., long-term portion	<u>-</u>	<u>-</u>
	<u>53,094</u>	<u>29,270</u>

CVG Ferrominera Orinoco, C.A. owns 40% of the subsidiary Fior de Venezuela, S.A. and through this subsidiary owns 13.16% of the subsidiary IBH. Accounts payable to CVG Ferrominera Orinoco, C.A. accrue interest on past due amounts. During the year ended September 30, 2008, interest rates ranged between 16.59% and 24.78% per annum (13.78% and 17.67% per annum in 2007).

Accounts with other related companies are interest-free.

II. The most significant transactions with related companies comprise the following:

<i>(Thousands of U.S. dollars)</i>	Years ended	
	<u>September 30,</u>	
	2008	2007
Purchases of iron ore and other raw materials		
CVG Ferrominera Orinoco, C.A.	<u>222,620</u>	<u>145,008</u>

Iron ore supply agreements

The iron ore and pellets used by Venprecar and Orinoco Iron to produce briquettes is provided by CVG Ferrominera Orinoco, C.A., a Venezuelan state-owned company and the only supplier of this mineral in Venezuela, under agreements entered into in 1988, renewed in 1998 for 20 years with Venprecar and in 1997 for 20 years with Orinoco Iron. Agreements have automatic renewal clauses. According to these agreements, the price of supplies should be calculated with reference to prevailing international market prices for iron ore. Interannual increases should not exceed variations of the international price index for the producer. In 2007 Venprecar, with prior authorization, imported a portion of pellets used for production.

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In September 2005, the Venezuelan government issued the Decree for Guaranteed Supply of Local Raw Materials and Semi-finished Products through the Official Gazette to guarantee the supply of raw materials and semi-finished products for the Venezuelan industrial transformation sector. This Decree requires companies to sign an Agreement for Guaranteed Supply of Raw Materials and Semi-finished Iron and Steel Products (CAMP) with the Ministry of Basic Industries and Mining (MIBAM) (through CVG Ferrominera Orinoco, C.A. in the case of Venprecar and Orinoco Iron S.C.S.).

In November 2005, the Ministry of Basic Industries and Mining instructed CVG Ferrominera Orinoco, C.A. to begin applying the full international price of this raw material as from December 2005. On July 31, 2006, with prior approval from creditor banks, the subsidiaries Venprecar and Orinoco Iron entered into an agreement to adhere to the terms and conditions set out in the CAMP and, only as from August 2006, started receiving a 20% discount on the raw material price as provided in this agreement.

In January 2008, an increase in the reference price of raw materials, used to set prices in accordance with the iron ore supply agreements, resulted in a price increase of 66% for fine iron ore, 97% for iron ore lumps and 87% for pellets (price increase of 9.5% for fine iron ore and iron ore lumps and 5.3% for pellets in 2007).

24. Main Subsidiaries

The subsidiaries with the most significant operations are the following:

Name	Participation %	Country	Segment
Siderúrgica del Turbio, S.A. “Sidetur” and its subsidiaries	100	Venezuela	Steel
International Briquettes Holding (IBH)	68.54	Cayman Islands	Briquettes

Merger agreement between Venprecar and Orinoco Iron, C.A.

At Special Shareholders’ Meetings of IBH’s subsidiaries, Orinoco Iron, C.A. and Venprecar in May 2005, the shareholders approved the merger by absorption of the assets and liabilities of Orinoco Iron, C.A. by the surviving company Venprecar. The merger became effective on August 27, 2005. Consequently, as from that date, the direct and indirect shareholding of IBH in the surviving merged subsidiary Venprecar is 67.75%. Since these exchange transactions in the shareholdings of subsidiaries constitute a combination of commonly controlled entities, they were accounted for using book values at the transaction date. The difference between equity values exchanged is shown in equity under Net effect of combination (merger) of subsidiaries.

25. Discontinuance of Operations

In order to focus its operations on the long-rolled steel product business, such as steel bars, angles and beams, through Sidetur and consolidate its iron briquette manufacturing operations through IBH, on September 30, 2007, Sidetur sold for US\$35.48 million its 50.002% shareholding in its former subsidiary Vicson to the Belgian company N.V. Bekaert (Bekaert), holder of the remaining Vicson shares. Through this transaction, Sivensa withdrew from the steel wire business in Venezuela and Colombia (where it used to participate through Vicson’s subsidiary Proalco). This transaction was approved at a Board of Director’s Meeting of Sidetur on July 30, 2007.

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At September 30, 2007, Sidetur recorded an account receivable of US\$35.48 million, which was collected on October 1, 2007 (Note 6).

Under Vicson’s sale agreement, Sidetur undertakes to cover any contingent liabilities originating prior to September 30, 2007 that exceed the amount of any provision set aside by Vicson in connection therewith. The guarantees provided by Sidetur are equal to 50.002% of the contingent amount. Minimum and maximum guarantee amounts of US\$300,000 and US\$2,500,000, respectively, were established based on contingencies and on what is covered. Furthermore, according to this agreement, had Sidetur or Sivensa defaulted on certain general representations set out in the Sales Agreement, Bekaert could claim for damages up to the sale amount. The aforementioned guarantees expire in one to six years, also depending on the nature of the contingency.

Based on the opinion of Sivensa management and its legal advisors, the consolidated financial statements at September 30, 2008 and 2007 do not include additional provisions in respect of this guarantee. The consolidated financial statements of Vicson at September 30, 2007 included provisions related to some of the aforementioned contingencies of Bs 1,745 million (equivalent to US\$811,600).

Based on applicable accounting principles, the Vicson sale transaction has been accounted for in the consolidated financial statements as a discontinued operation. Accordingly, Sivensa’s consolidated financial statements at September 30, 2007 include the effect of writing off the shareholding in Vicson, which amounts to US\$10.1 million and is shown net of the interest in Vicson’s income of US\$7.5 million until the effective date of the sale transaction (September 30, 2007), under Net income for the year from discontinued operation.

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Below is a summary of discontinued operation accounts in the consolidated income statement for the year ended September 30, 2007:

(Thousands of U.S. dollars)

Net sales	
Exports	70,425
Local market	<u>124,910</u>
	195,335
Cost of sales	<u>(166,788)</u>
Gross income	28,547
General and administrative expenses	(9,387)
Other operating expenses, net	<u>(291)</u>
Income before the following items	18,869
Full financing expense	<u>(3,717)</u>
Income before tax	15,152
Income tax	<u>(2,932)</u>
Income before loss on write-off of operation	12,220
Loss on write-off of Vicson	<u>(8,637)</u>
Net income for the year from discontinued operation	<u><u>3,583</u></u>
Net income attributable to	
Sivensa shareholders	(2,408)
Minority interests in subsidiaries	<u>5,991</u>
	<u><u>3,583</u></u>

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26. Commitments and Contingencies

Litigations and other claims

The Company is a party to several lawsuits and claims arising in the normal course of business, whose possible outcome cannot be quantified. In the opinion of Company management, based on the opinion of Sivensa’s legal advisors, these matters should not have a material adverse effect on the Company’s consolidated financial position or consolidated results of operations.

In November 2008, (after its year-end closing), the subsidiary Sidetur was notified of a resolution from the Superintendency for the Promotion and Protection of Free Competition, which fined Sidetur Bs 5.4 million (equivalent to US\$2.5 million) for allegedly violating Article No. 6 of the Law for the Promotion and Protection of Free Competition. Sidetur will file the respective appeal contesting this resolution. In the opinion of Sidetur management and its external legal advisors, there are sufficient and solid arguments to request the annulment of this administrative resolution and even to expect an injunction to be issued in favor of Sidetur suspending the aforementioned resolution.

Tax matters

On November 2, 2007, Sivensa was notified by the Capital Region’s Internal Tax Office for Special Taxpayers of the final resolutions in connection with the income tax assessments filed by this office in October 2006. These resolutions partially confirm disallowances made in connection with the tax inflation adjustment of nonmonetary assets, particularly of securities, and determined a total amount payable of Bs 27 million (equivalent to US\$12.5 million) (including taxes, fines and interest). However, in the opinion of the external legal advisors, there are sufficient legal grounds for Sivensa to obtain a favorable decision. At September 30, 2008, based on the opinion of its legal advisors, Sivensa management did not set aside an additional provision to cover this contingent liability.

On April 10, 2008, SENIAT notified the subsidiary Venprecar, as affected party due to the merger with Orinoco Iron, C.A., of two tax assessments for failing to retain and pay VAT within the legal timeframe for the tax period from January 2003 to December 2004. These tax assessments amount to Bs 6.7 million (equivalent to US\$3.12 million), of which approximately Bs 5.4 million (equivalent to US\$2.5 million) is in respect of overdue interest. In Venprecar’s opinion, calculation of overdue interest was not well grounded in law. Venprecar appealed these assessments within the legal timeframe. Venprecar management and its legal advisor believe there is a reasonable expectation of obtaining a favorable outcome for Venprecar.

Environmental regulations

The Company is subject to Venezuelan environmental laws and regulations. The Company is not involved in any environmental-related claims or litigations with Venezuelan environmental and health authorities, except for a claim filed by the Ministry of the Environment against Sidetur’s Casima plant in Guayana, as described below:

Sidetur

On June 17, 2002, the Ministry of the Environment reviewed the operations of Sidetur’s Casima plant in Puerto Ordaz, Bolivar State. As a result of this review, Sidetur must install an emissions control system to comply with Venezuelan environmental regulations. Sidetur was required to install the emissions control system in two stages: the first stage was to be completed before August 2005 and the second stage before June 2007. The first called for installation of a dust filter system in the

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electric arc and ladle furnace; the second called for installation of a hood vent over the electric arc furnace to treat secondary emissions. System installation is estimated at US\$11 million.

In January 2006, the Ministry of the Environment approved an extension for these deadlines. The new terms require the first stage to be completed before August 2007 and the second stage before June 2008.

In July 2007, Sidetur requested a new extension for installing the emissions control system in the Casima plant. In October 2007, the People’s Power Ministry for the Environment approved the extension for the installation of all components until May 2008. Sidetur shut down a major plant as of March 3, 2008. Emissions control equipment and systems were expected to be installed and put into operation after this date.

The present value of discounted future cash flows related to the environmental management plan at September 30, 2007 amounted to US\$10 million.

Installation of the emissions control system was completed in July 2008; costs in this connection amounted to US\$26.3 million.