

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

**Report of Independent Accountants
and Consolidated Financial Statements
September 30, 2010 and 2009**

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. (Sivensa or the Company) and its subsidiaries at September 30, 2010 and 2009, and the related consolidated statements of income, changes in equity and cash flows for the years then ended, expressed in constant bolivars at September 30, 2010. The preparation of these financial statements and their notes is the responsibility of Sivensa management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 from 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 provide a reasonable basis for our opinion.

Siderúrgica Venezolana “Sivensa”, S.A. is regulated by the Venezuelan Securities Superintendency (SNV) (formerly Venezuelan Securities and Exchange Commission - CNV) and, therefore, Sivensa and its subsidiaries present their consolidated financial statements in accordance with the rules for the preparation of financial statements established by this regulatory agency and not in conformity with accounting principles generally accepted in Venezuela. As described in Note 2, these rules differ from accounting principles generally accepted in Venezuela. The differences between CNV (currently SNV) rules and accounting principles generally accepted in Venezuela issued by the Venezuelan Federation of Public Accountants (FCCPV) could have significant effects on the consolidated financial statements.

In our opinion, 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, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the rules for the preparation of financial statements of entities regulated by the CNV (currently SNV).


As described in Note 1, on May 21, 2009, the President of the Bolivarian Republic of Venezuela (the Venezuelan president) announced the “nationalization” of the then subsidiaries of Internacional Briquettes Holding (IBH) Venezolana de Prerreducidos Caroní “Venprecar”, C.A. (Venprecar) and Orinoco Iron, S.C.S. (Orinoco Iron), together with all other domestic private briquette companies. On May 25, 2009, the People’s Power Ministry for Basic Industries and Mining (MIBAM) notified Venprecar and Orinoco Iron managements that a “Transition Committee” had been appointed for each company. Subsequently, Decree No. 6,796 was published in Official Gazette No. 39,220 on July 14, 2009 ordering, among other things, the acquisition of these companies’ assets, as well as those of their subsidiaries and affiliates engaged in the transformation of iron ore. In 2009 the managements of Venprecar and Orinoco Iron hired duly certified independent appraisers to value their machinery and facilities with a view to determining these assets’ depreciated replacement value at June 30, 2009. In addition, Venprecar and Orinoco Iron managements calculated the value in use of each company’s property, plant and equipment, which is the present value of the discounted future cash flows expected to be derived from asset use or disposal. As a result of these calculations, it was determined that both the appraisal value and value in use at June 2009 exceed the carrying amount of these companies’ net assets at that date. On February 5, 2010, the Venezuelan government took formal control of Venprecar and Orinoco Iron through a judicial inspection conducted by the First Court of the Caroní Municipality’s Second Judicial Circuit of Bolivar State. As explained by management in Note 1, through this measure, the Venezuelan State unilaterally, exclusively and fully assumed the operational control and management of the aforementioned going concerns (in all commercial, financial, labor, tax and legal matters), as well as the risks arising from Venprecar’s and Orinoco Iron’s real, personal and intangible property and their industrial use. At September 30, 2010 and 2009, the net consolidated assets of these companies under “nationalization,” including net accounts receivable, amount to Bs 3,027 million and Bs 3,041 million, respectively. On May 15, 2010, during a public address, the Venezuelan president informed about the process of “nationalization” of the country’s briquette companies, including Venprecar and Orinoco Iron. Among other things, the Venezuelan president announced some of the economic terms of the “nationalization” and indicated that the price of both of IBH’s plants would range between US\$600 million and US\$800 million. As described in Note 1, IBH management has conducted negotiations with the Venezuelan government on possible compensation, which in some cases does not exceed book value at September 30, 2010. IBH management considers that a fair compensation for the “nationalization” of Venprecar and Orinoco Iron should exceed the book value of the investment in companies under “nationalization,” as supported by the June 2009 appraisals and value in use calculations at that date. In addition, there are no circumstances indicating that such calculations could vary substantially, so no adjustment to the carrying amount of the investment in companies under “nationalization” has been considered necessary. To date, IBH has not been informed of the amount of the indemnity it will receive from the “nationalization” of the companies or from the acquisition of their production assets, in what currency the indemnity will be paid, how such “nationalization” or asset acquisition will take place, or when the Venezuelan government will make payments in this connection. IBH is also unaware of the currency in which the receivables and payables of these companies, which form part of the investment in companies under “nationalization,” will be realized or settled. Consequently, we are unable to anticipate the effects that the resolution of these matters might have on the accompanying consolidated financial statements of Siderúrgica Venezolana “Sivensa”, S.A.

On October 31, 2010, the Venezuelan president publicly announced the expropriation of the plants and other industrial assets of the subsidiary Siderúrgica del Turbio, S.A. (Sidetur) and its subsidiaries and affiliates. Subsequently, in Official Gazette No. 39,544 of November 3, 2010, Decree No. 7,786 of November 2, 2010 was published ordering the forced acquisition of all the real and personal property and improvements of Sidetur and its subsidiaries and affiliates, comprising two steel mills, four plant lamination trains, an electrowelded mesh plant, and the fifteen scrap iron collection and processing centers owned by Sidetur. At September 30, 2010, the book value of the property, plant and equipment of Sidetur and its subsidiaries is Bs 1,060 million. On November 2, 2010, the Institute for the Defense of People's Access to Goods and Services (INDEPABIS) issued an administrative resolution for the temporary operational occupation of the Antímáno plant. On November 3, 2010, the Venezuelan Securities Superintendency temporarily suspended Sivensa's shares from trading until the consequences of the Decree for the expropriation of Sidetur are fully known. Trading is still suspended at the issue date of this report. In November 2010, both the MIBAM and Sidetur appointed their representatives to the High Level Commission in charge of conducting negotiations in accordance with the Expropriation Decree. In the opinion of Sidetur management and its internal legal counsel, the assets subject to forced acquisition are limited to the real and personal property and improvements comprising Sidetur's industrial facilities. Likewise, in the opinion of Sidetur management and its internal legal counsel, Sidetur may keep the assets not subject to expropriation and will be liable for all financial, commercial and tax liabilities, including debt on bonds issued in 2006 totaling US\$86.25 million at September 30, 2010. In November 2010, Sidetur management commissioned an appraisal of Sidetur's real property, machinery, equipment and facilities to update the one conducted in September 2009 and determined that the total value of property, plant and equipment substantially exceeds any restatement by the national consumer price index of appraisal values determined in September 2009. Additionally, Sidetur management calculated the value in use of Sidetur's property, plant and equipment at November 30, 2010. These calculations determined that both the appraisal values and value in use updated in November 2010 exceed the carrying amount of Sidetur's property, plant and equipment at September 30, 2010. Based on the above, Sidetur management considers that the carrying amount of property, plant and equipment recognized in Sivensa's consolidated financial statements is below what should be their fair indemnity value payable by the Venezuelan government under the Law on Expropriation for Public or Social Purposes. Also, at September 30, 2010, the subsidiary Sidetur has an account receivable of US\$53.8 million from Venprecar, one of the companies under "nationalization." To date, Sidetur has not been informed of the amount of the indemnity it will receive from the forced acquisition of the real and personal property and improvements of Sidetur and its subsidiaries or when the Venezuelan government will make payments in this connection or its effects; or when or how Venprecar's net debt with Sidetur will be paid. Consequently, we are unable to anticipate the effects that the resolution of these matters might have on the accompanying consolidated financial statements of Siderúrgica Venezolana "Sivensa", S.A.

ESPIÑEIRA, SHELDON Y ASOCIADOS

The accompanying consolidated financial statements have been prepared by Siderúrgica Venezolana "Sivensa", S.A. on a going concern basis and, therefore, do not show the effect of any adjustment that could be required if assets and liabilities were settled for amounts other than those included in the consolidated financial statements at September 30, 2010, as a result of the matters described in the fifth and sixth paragraphs herein.

Espiñeira, Sheldon y Asociados



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December 17, 2010

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated balance sheet
September 30, 2010 and 2009

(Thousands of constant bolivars
at September 30, 2010)

	Notes	2010	2009
Assets			
Current assets			
Cash and cash equivalents	5	285,418	437,208
Trading investments	9	-	27,087
Accounts receivable			
Trade and other	6	205,287	208,424
Related companies	18	1,941	957
Advances to suppliers		62,461	87,925
Inventories	7	203,698	226,576
Prepaid expenses and other current assets		<u>20,017</u>	<u>1,967</u>
Total current assets		778,822	990,144
Property, plant and equipment, net	8	1,141,108	1,253,394
Available-for-sale investments			
Investments in preferred shares	9	21,750	59,159
Investment in companies under “nationalization”	1, 9 and 20	3,026,504	3,041,204
Accounts receivable from companies under “nationalization”	21	282,333	150,285
Deferred income tax	13	63,906	51,988
Other non-current assets		<u>3,312</u>	<u>4,495</u>
Total assets		<u>5,317,735</u>	<u>5,550,669</u>
Liabilities and Equity			
Current liabilities			
Short-term bank loans	11	20,000	74,480
Current portion of bonds payable	10	21,500	13,431
Accounts payable			
Suppliers		81,734	141,883
Related companies	18	3,461	10,739
Profit sharing, vacation and other employee accruals		58,864	53,436
Income tax	13	2,323	48,176
Other liabilities and accruals	12	<u>105,538</u>	<u>80,363</u>
Total current liabilities		293,420	422,508
Bonds payable	10	345,868	226,519
Accrual for employee termination benefits, net of advances and loans to employees		23,247	29,736
Other long-term liabilities and accruals	12	87,957	114,421
Deferred income tax	13	<u>478,900</u>	<u>327,095</u>
Total liabilities		<u>1,229,392</u>	<u>1,120,279</u>
Minority interests in subsidiaries		<u>878,908</u>	<u>933,737</u>
Equity			
Capital stock			
Nominal		105,049	105,890
Treasury stock		-	(15,826)
Inflation adjustment		1,168,865	1,169,374
Share premium		122,530	136,977
Result from holding nonmonetary assets		(824,729)	(819,348)
Difference between the fair value and cost of shares of subsidiary		1,559,059	1,607,688
Net effect of combination (merger) of subsidiaries		499,300	514,874
Unappropriated earnings			
Legal reserve		127,525	127,525
Available		<u>451,836</u>	<u>669,499</u>
Total equity		<u>3,209,435</u>	<u>3,496,653</u>
Total liabilities, minority interests and equity		<u>5,317,735</u>	<u>5,550,669</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated income statement
Years ended September 30, 2010 and 2009

*(Thousands of constant bolivars
at September 30, 2010,
except net income per share)*

	Notes	2010	2009
Continuing operations			
Net sales		1,459,965	1,956,584
Cost of sales	6, 7 and 8	<u>(1,183,025)</u>	<u>(1,561,120)</u>
Gross income		276,940	395,464
General and administrative expenses		(181,223)	(182,454)
Other operating income (expense), net	14	<u>(17,373)</u>	<u>303,249</u>
Income before full financing income (expense)		<u>78,344</u>	<u>516,259</u>
Full financing income (expense)			
Interest and other financial expense, net	15	(11,933)	(73,942)
Exchange gain (loss), net	17	23,398	(1,972)
Gain (loss) from net monetary position	23	<u>63,120</u>	<u>(114,026)</u>
		<u>74,585</u>	<u>(189,940)</u>
Income before tax and minority interests in subsidiaries		<u>152,929</u>	<u>326,319</u>
Income tax			
Current	13	(51,521)	(92,053)
Deferred	13	<u>(37,604)</u>	<u>17,063</u>
		<u>(89,125)</u>	<u>(74,990)</u>
Income before minority interests in subsidiaries		63,804	251,329
Minority interests in subsidiaries		<u>17,774</u>	<u>37,273</u>
Net income from continuing operations		81,578	288,602
Discontinued operation			
Net loss from discontinued operation	20	<u>-</u>	<u>(14,108)</u>
Net income		<u>81,578</u>	<u>274,494</u>
Net income per share (in bolivars)	2-n	<u>1,55</u>	<u>5,23</u>
Weighted average of outstanding shares (in thousands)		<u>52,522</u>	<u>52,521</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, 2010 and 2009

	<u>Capital stock</u>			<u>Share premium</u>	<u>Result from holding nonmonetary assets</u>	<u>Difference between fair value and cost of shares of subsidiary</u>	<u>Net effect of combination (merger) of subsidiaries</u>	<u>Unappropriated earnings</u>		<u>Total</u>
	<u>Nominal</u>	<u>Treasury stock</u>	<u>Inflation adjustment</u>					<u>legal reserve</u>	<u>Available</u>	
<i>(Thousands of constant bolivars at September 30, 2010)</i>										
Balances at September 30, 2008	105,890	(12,128)	1,169,374	136,992	(561,884)	1,662,212	526,593	127,525	739,135	3,893,709
Net income	-	-	-	-	-	-	-	-	274,494	274,494
Amortization of the result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	39,979	-	-	-	(39,979)	-
Result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	(297,443)	-	-	-	-	(297,443)
Repurchased shares (Note 16)	-	(3,698)	-	(15)	-	-	-	-	-	(3,713)
Dividends declared (Note 16)	-	-	-	-	-	-	-	-	(304,151)	(304,151)
Deferred tax on shares of companies under “nationalization” (Note 13)	-	-	-	-	-	(54,524)	(11,719)	-	-	(66,243)
Balances at September 30, 2009	105,890	(15,826)	1,169,374	136,977	(819,348)	1,607,688	514,874	127,525	669,499	3,496,653
Net income	-	-	-	-	-	-	-	-	81,578	81,578
Amortization of the result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	34,493	-	-	-	(34,493)	-
Result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	(39,874)	-	-	-	-	(39,874)
Capital decrease (Note 16) and sale of treasury stock	(841)	15,826	(509)	(14,447)	-	-	-	-	-	29
Dividends declared (Note 16)	-	-	-	-	-	-	-	-	(248,258)	(248,258)
Deferred tax on shares of companies under “nationalization” (Note 13)	-	-	-	-	-	(48,629)	(15,574)	-	(16,490)	(80,693)
Balances at September 30, 2010	<u>105,049</u>	<u>-</u>	<u>1,168,865</u>	<u>122,530</u>	<u>(824,729)</u>	<u>1,559,059</u>	<u>499,300</u>	<u>127,525</u>	<u>451,836</u>	<u>3,209,435</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated cash flows statement
Years ended September 30, 2010 and 2009

(Thousands of constant bolivars
at September 30, 2010)

	2010	2009
Cash flows from operating activities		
Net income	81,578	274,494
Adjustments to reconcile net income to net cash provided by operating activities		
Gain (loss) from net monetary position	(63,120)	114,026
Minority interests in subsidiaries	(17,774)	(37,273)
Equity in the results of discontinued operation, net of minority interests	-	3,515
Deferred income tax	37,604	(17,063)
Depreciation	98,759	98,600
Decrease in the provision for doubtful accounts	(111)	(1,213)
Amortization of restructuring expenses	628	785
Increase (decrease) in the provision for inventory losses	3,125	(1,613)
Adjustment of inventories to fair value	11,921	-
Interest earned but not collected	(32,100)	-
Gain on sale and disposal of fixed assets	1,570	16,824
Exchange gain (loss)	(23,398)	1,371
Accrual for employee termination benefits	(553)	4,530
	<u>98,129</u>	<u>456,983</u>
Net change in operating assets and liabilities		
Receivables - trade, related companies and other	(68,254)	(89,415)
Inventories	34,756	14,657
Advances to suppliers, prepaid expenses, deferred charges and other assets	41,450	(32,478)
Accounts payable, accrued expenses and other liabilities	(25,323)	68,227
Net cash provided by operating activities	<u>80,758</u>	<u>417,974</u>
Cash flows from investing activities		
(Purchase) sale of investments, net	45,726	(27,087)
Additions to property, plant and equipment, net	(24,736)	(18,124)
Net cash provided by (used in) investing activities	<u>20,990</u>	<u>(45,211)</u>
Cash flows from financing activities		
New loans	75,000	254,666
Short-term loans repaid	(115,882)	(280,693)
Long-term loans repaid and bonds payable in cash	(21,500)	(13,431)
Shares repurchased	29	(3,713)
Dividends paid	(204,833)	(252,637)
Net cash used in financing activities	<u>(267,186)</u>	<u>(295,808)</u>
Effect of inflation on the purchasing power of cash and cash equivalents	<u>13,648</u>	<u>(181,878)</u>
Cash from discontinued operation	-	<u>(200,790)</u>
Cash and cash equivalents		
Decrease for the year	(151,790)	(305,713)
At the beginning of the year	<u>437,208</u>	<u>742,921</u>
At the end of the year	<u>285,418</u>	<u>437,208</u>

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, 2010 and 2009

1. Activities

Siderúrgica Venezolana “Sivensa”, S.A. (Sivensa or the Company), a company incorporated and domiciled in Caracas, Venezuela, is listed on the Caracas Stock Exchange and is regulated by the Venezuelan Securities Superintendency (formerly Venezuelan Securities and Exchange Commission - 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 is to manufacture and sell steel products and, until June 2009, reduced iron in briquette form (Note 20). Most of the products manufactured by the Company are sold in Venezuela. All of its plants are located in Venezuela. At September 30, 2010 and 2009, the Company has 1,847 and 1,785 employees, respectively.

The accompanying consolidated financial statements were approved by the Board of Directors on December 15, 2010 (November 6, 2009 in 2009).

“Nationalization” of IBH’s operating subsidiaries

On May 21, 2009, the President of the Bolivarian Republic of Venezuela (the Venezuelan president) announced the “nationalization” of Sivensa’s then subsidiaries Venezolana de Prerreducidos Caroní “Venprecar”, C.A. (Venprecar) and Orinoco Iron, S.C.S. (Orinoco Iron) together with all other domestic private briquette companies. On May 25, 2009, the People’s Power Ministry for Basic Industries and Mining (MIBAM) notified Venprecar and Orinoco Iron managements that a “Transition Committee” had been appointed for each company. Subsequently, Decree No. 6,796 was published in Official Gazette No. 39,220 on July 14, 2009 ordering, among other things: i) the acquisition of Venprecar’s and Orinoco Iron’s assets and ii) the appointment of: 1) the “Transition Committees” that would immediately assume operating control to ensure the transfer and continuity of these companies’ operations and 2) the “Technical Committees” made up of company and government representatives to determine within 60 days, extendable for a like period by agreement of the parties, asset fair value.

In 2009 the managements of Venprecar and Orinoco Iron hired duly certified independent appraisers to value their machinery and facilities with a view to determining these assets’ depreciated replacement value at June 30, 2009. In addition, Venprecar and Orinoco Iron managements calculated the value in use of each company’s property, plant and equipment, which is the present value of the discounted future cash flows expected to be derived from asset use or disposal. As a result of these calculations, which represent different methods for determining the fair value of a company’s assets, it was determined that both the appraisal value and value in use at June 2009 exceed the carrying amount of these companies’ net assets at September 30, 2010 and 2009.

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

Notes to the consolidated financial statements

September 30, 2010 and 2009

On February 5, 2010, the Venezuelan government took formal control of Venprecar and Orinoco Iron through a judicial inspection conducted by the First Court of the Caroní Municipality’s Second Judicial Circuit of Bolívar State attended by MIBAM representatives on behalf of the Venezuelan government, Venprecar’s and Orinoco Iron’s Transition Committees, and trade union representatives. Through this measure, the Venezuelan State unilaterally, exclusively and fully assumed the operational control and management of the aforementioned going concerns (in all commercial, financial, labor, tax and legal matters), as well as the risks arising from Venprecar’s and Orinoco Iron’s real, personal and intangible property and their industrial use. Consequently, Venprecar’s and Orinoco Iron’s real, personal and intangible property, as well as these companies’ management, operations, security and production, became the exclusive responsibility of the Venezuelan State, without prejudice to the rights of the partners, shareholders or direct or indirect stakeholders of these corporations, by virtue of the Venezuelan government’s decision to nationalize them and, more specifically, to execute the aforementioned Decree, and without IBH’s agreeing to transfer the operational and management control of the aforementioned companies to the respective Transition Committees being construed as a waiver of their rights by these companies or by their partners, shareholders or direct or indirect stakeholders, nor as the acceptance of what is provided in the Presidential Decree.

IBH management considers that, as a result of the measures taken by the Venezuelan government, it has lost the power to direct the financial and operating policies of Venprecar and Orinoco Iron; therefore, it consolidated these companies’ assets, liabilities and results of operations until June 30, 2009, the closing date closest to the date when the aforementioned Decree was enacted. The carrying amount of the investment at the date when the companies were deconsolidated was considered as cost and was shown as an available-for-sale investment within Investment in companies under “nationalization.” The operating results until June 30, 2009 are presented under Net loss from discontinued operation (Note 20). At September 30, 2010 and 2009, the net consolidated assets of the companies under “nationalization,” including net receivables, amount to Bs 3,027 million and Bs 3,041 million, respectively (Note 20).

On May 15, 2010, during a public address, the Venezuelan president informed about the process of “nationalization” of the country’s briquette companies, including Venprecar and Orinoco Iron. The president informed that the Transition Committees had been working with a two-fold objective: continuing plant operations and negotiating the prices of the “nationalized” companies. Referring to Venprecar and Orinoco Iron, the Venezuelan president mentioned that the shareholders expected payment in U.S. dollars even though these companies’ capital is exclusively domestic. The president also announced some of the economic terms of the “nationalization” and indicated that the price of both of IBH’s plants would range between US\$600 million and US\$800 million and that the payment terms were yet to be defined.

During 2010 IBH management has conducted friendly negotiations with the Venezuelan government on possible compensation, which in some cases does not exceed book value at September 30, 2010. IBH management considers that a fair compensation for the “nationalization” of Venprecar and Orinoco Iron should exceed the book value of the investment in companies under “nationalization,” as supported by the June 2009 appraisals and value in use calculations at that date. In addition, there are no circumstances indicating that such calculations could vary substantially, so no adjustment to the carrying amount of the investment in companies under “nationalization” has been considered necessary.

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

Notes to the consolidated financial statements

September 30, 2010 and 2009

Forced acquisition of Sidetur’s real and personal property and improvements

On October 31, 2010, the Venezuelan president publicly announced the expropriation of the plants and other industrial assets of the subsidiary Sidetur. Subsequently, in Official Gazette No. 39,544 of November 3, 2010, Decree No. 7,786 was published ordering, among other things: i) the forced acquisition of all the real and personal property and improvements of Sidetur and its subsidiaries and affiliates, comprising two steel mills owned by Sidetur (Casima and Barquisimeto plants), four lamination trains in the Lara, Antímáno and Guarenas plants, an electrowelded mesh plant, and fifteen scrap iron collection and processing centers; ii) the expropriated property shall pass unencumbered and without limitations to the Bolivarian Republic of Venezuela for the execution of the “Bolivarian Steel Complex” and; iii) the MIBAM will be in charge of such execution.

On November 1, 2010, Sidetur’s Board of Directors announced that it would take the necessary legal actions to safeguard the rights and interests of its employees, clients, suppliers and shareholders in light of the expropriation of all its industrial facilities ordered by the Venezuelan government. In particular, Sidetur shall demand compliance with the guarantees provided in the 1999 Constitution and the Law on Expropriation for Public or Social Purposes of 2002.

On November 2, 2010, the Institute for the Defense of People’s Access to Goods and Services (INDEPABIS) issued Administrative Resolution No. 422 for the temporary operational occupation of the Antímáno plant. To date, INDEPABIS and the MIBAM have assumed the daily monitoring of this plant’s production and sales.

On November 3, 2010, the Venezuelan Securities Superintendency temporarily suspended Sivensa’s shares from trading until the consequences of the Decree for the expropriation of Sidetur are fully known. Trading is still suspended at the issue date of this report.

On November 18, 2010, the MIBAM informed Sidetur that a High Level Commission had been created to conduct negotiations in accordance with the Expropriation Decree of November 2, 2010 and that it had appointed its representatives. On November 19, 2010, Sidetur notified the MIBAM that it had, in turn, appointed its representatives to the Commission to conduct negotiations during the expropriation process.

On November 22, 2010, the High Level Commission convened to address, among other issues, the assets subject to expropriation under Decree No. 7,786, the continuity of plant production, raw material supply, and labor relationships.

Subsequently, on December 2, 2010, the Attorney General’s Office of the Bolivarian Republic of Venezuela, in compliance with Decree No. 7,786, published a notice summoning the owners and, in general, anyone having rights or interests in Sidetur’s real and personal property and improvements to appear at the Attorney General’s offices within 30 days of notice publication. According to the notice, the assets subject to forced acquisition are: two steel billet mills (Casima and Barquisimeto plants), four billet lamination trains producing rods, bars, beams, bends and plates (Lara, Antímáno and Guarenas plants), an electrowelded mesh, wire and sidepanel construction plant (Valencia plant), and fifteen scrap iron collection and processing centers.

In the opinion of Company management and its internal legal counsel, and based on their legal interpretation of the aforementioned Decree, the assets subject to forced acquisition are limited to the real and personal property and improvements comprising Sidetur’s industrial facilities listed in Article

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No.1 of the Decree. Likewise, in the opinion of Sidetur management and its internal legal counsel, Sidetur may keep the assets not subject to expropriation and will be liable for all financial, commercial and tax liabilities, including debt on bonds issued in 2006 totaling US\$86.25 million at September 30, 2010. Regarding this debt, the main terms and conditions of the bond issue agreement (governed by the laws of the State of New York, United States of America) set restrictions on asset encumbrance and disposal, and establish related breaches of contract that could cause the debt to become due (Note 10). In this regard, in the view of Sidetur’s external legal advisors, and based on the interpretation of the Expropriation Decree, the enforcement of the Decree has thus far not caused an event of default under the bond issue agreement. At September 30, 2010, the liability in respect of Bonds payable is shown in the consolidated balance sheet considering the original maturity dates established in the bond issue agreement.

In November 2010, Sidetur management commissioned an appraisal of Sidetur’s real property, machinery, equipment and facilities to update the one conducted in September 2009 and determined that the total value of property, plant and equipment substantially exceeds any restatement by the national consumer price index of appraisal values determined in September 2009. Additionally, Sidetur management calculated the value in use of Sidetur’s property, plant and equipment at November 30, 2010, which is the present value of the discounted future cash flows expected to be derived from asset use or disposal. These calculations determined that both the appraisal values and value in use updated in November 2010 exceed the carrying amount of Sidetur’s property, plant and equipment at September 30, 2010. Based on the above, Sidetur management considers that the carrying amount of property, plant and equipment recognized in Sivensa’s consolidated financial statements is below what should be their fair indemnity value payable by the Venezuelan government under the Law on Expropriation for Public or Social Purposes.

At September 30, 2010, the book value of Sidetur’s net property, plant and equipment is Bs 1,060 million and the net consolidated assets of Sidetur and its subsidiaries is Bs 1,138 million.

Regulations

Stock Market Law

The Stock Market Law, which repealed the Capital Markets Law, was published in Official Gazette No. 39,489 on August 17, 2010. Among the novelties of this Law are:

- 1) The creation of the National Securities Superintendency (SNV) to replace the Venezuelan Securities and Exchange Commission (CNV). The SNV will be presided by the National Securities Superintendent appointed by the Venezuelan president.
- 2) The SNV shall have the power to: (i) establish regulations for granting proxies for shareholders’ meetings; (ii) establish regulations for using privileged information and for price manipulation and securities volumes; (iii) establish regulations for intervening, restructuring or liquidating the entities subject to the Law; (iv) determine the equity and liquidity floors of the entities subject to the Law; (v) demand the creation of capital provisions to safeguard shareholder savings; (vi) increase or reduce the contributions to the SNV made by the entities subject to the Law; and (vii) adopt any measures needed to protect investors.
- 3) The SNV may resolve to intervene or liquidate regulated entities or their related companies, including dominant and dominated entities, all of which are expressly excluded from the stay of payment and bankruptcy benefits.

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- 4) All entities regulated by the SNV are required to publish in one of the main local newspapers their financial statements and indicators within 15 days of month-end closing.

Law for Managing Steel Companies Operating in the Guayana Region

On April 30, 2008, the Venezuelan government enacted Decree-Law No. 6,058 regulating steel sector activities in the Guayana Region. Given the importance of the steel sector 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 reservoirs are located. Steel production is reserved to the Venezuelan government since 1975.

Decree Fixing the Maximum Sale Price of Prime Necessity Goods and Services

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 rods and meshes manufactured and sold by the subsidiary Sidetur. On December 5, 2006, the People's Power Ministries for Basic and Light Industries, for Infrastructure, and for Housing set a PMVP for these products through a joint resolution.

2. Basis of preparation and accounting policies

For statutory purposes, Sivensa is required to present its consolidated financial statements in accordance with the rules for the preparation of financial statements of entities regulated by the SNV (formerly CNV). CNV rules provide that, except for the limitations indicated therein, inflation-adjusted financial statements should be prepared in accordance with Revised Statement of Accounting Principles No. 10 (DPC 10), "Rules for the preparation of financial statements adjusted for the effects of inflation."

In April 2008, the Venezuelan Federation of Public Accountants (FCCPV) approved the adoption of Venezuelan Financial Reporting Standards (VEN NIF) as the accounting principles of mandatory application in Venezuela. These standards are mainly based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and their interpretations. The FCCPV established that companies not qualified as small or medium-sized entities and not regulated must adopt VEN NIF for accounting periods beginning on January 1, 2008.

In August 2008, the FCCPV issued a communication to the CNV (currently SNV) on certain issues concerning VEN NIF adoption. This communication clarified that: i) the FCCPV issues accounting principles in Venezuela for entities in general, except for those governed by regulatory agencies as provided in Venezuelan law and ii) the VEN NIF adoption schedule created in 2006, as well as VEN NIF Adoption Bulletin No. 0 (BA VEN NIF No. 0), "Framework for Adoption of International Financial Reporting Standards," approved in 2008, applies to entities that are not governed by a regulatory agency such as the CNV. In this regard, in December 2008, the CNV's Board of Directors resolved that publicly traded entities governed by the Capital Markets Law must prepare and present their financial statements in conformity with IAS and IFRS for accounting periods beginning on or after January 1, 2011 as the only method of financial statement presentation. The adoption deadline for Sivensa is the period beginning on October 1, 2011. In addition, the CNV's Board of Directors ratified the requirement to present financial statements and their notes in conformity with the rules for the preparation of financial statements of entities governed by the CNV (currently SNV) for accounting periods ending on or after December 31, 2010 (in Sivensa's case until September 30, 2011). The CNV resolution allows early adoption of IAS and IFRS, provided that certain CNV requirements are met.

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a) Differences between the basis of preparation and VEN NIF

There are significant differences between CNV (currently SNV) rules and VEN NIF, the accounting framework applicable to companies not governed by the SNV or other regulatory agency. The main differences relevant to the Company are described below:

Preparation of financial statements in accordance with CNV rules

Entities governed by the SNV must present primary financial statements adjusted for the effects of inflation as required by DPC 10, which is applicable to all types of entities, whether for profit or otherwise, including those in the preoperating stage and, in general, to all entities domiciled in Venezuela that report individually or on a consolidated basis. IAS 29, “Financial reporting in hyperinflationary economies,” shall be applied to the financial statements (including consolidated financial statements) of any entity whose functional currency is the currency of a hyperinflationary economy. VEN NIF Adoption Bulletin No. 2 (BA VEN NIF No. 2), “Criteria for applying IAS 29 in Venezuela,” requires that the effects of inflation on the financial statements be recognized, provided that inflation for the year exceeds one digit. Company management has determined that the functional currency of certain subsidiaries, including the companies under “nationalization,” is the U.S. dollar. Under DPC 10 and, therefore, CNV rules, the financial statements of these Venezuelan subsidiaries must be presented in bolivars and adjusted for the inflation rate in Venezuela, whereas under IAS 29 they must be prepared in the functional currency and subsequently restated into bolivars following IAS 29 guidance.

Foreign currency transactions and balances

Technical Bulletin No. 13 (PT-13), “Current exchange rate at closing date for conversion or translation of foreign currency items,” applicable to entities regulated by the SNV, sets forth that foreign currency transactions and balances must be shown at the effective official exchange rate published by the Central Bank of Venezuela (BCV). Under VEN NIF, and for purposes of paragraph 26 of IAS 21, “The effects of changes in foreign exchange rates,” the only exchange rate in Venezuela is that established by BCV. In addition, net monetary liability positions in a foreign currency which are not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rate shall be measured on the basis of best estimates of future cash flows in bolivars expected to be required to settle these liabilities at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.

In October 2010, the FCCPV published a clarification on the accounting treatment of foreign currency transactions and balances, which is not applicable to entities regulated by the SNV, such as the Company. According to this clarification, liabilities in foreign currency not registered with the Commission for the Administration of Foreign Currency (CADIVI), liabilities in foreign currency registered with CADIVI but not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rates established in the exchange agreements, and assets in foreign currency not required to be sold to BCV should be measured on the basis of best estimates of future cash flows in bolivars expected to be received or required, as applicable, to realize or settle foreign currency assets or liabilities at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law (e.g., the System for Transactions with Securities in Foreign Currency - SITME).

Result from holding nonmonetary assets and fixed asset revaluation

CNV rules, DPC 10 and Technical Bulletin No. 17, “Value in use and impairment of long-lived assets,” allow for the recognition of a loss from holding nonmonetary assets in equity, provided that no indications of asset impairment exist and, consequently, the recoverable amount of the fixed asset

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(value in use) exceeds its current value and restated cost. Under VEN NIF and IAS 16, “Property, plant and equipment,” if an asset’s carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss to the extent of any credit balance existing in the revaluation surplus in respect of that asset. To the extent that such decrease does not exceed the revaluation surplus, the impairment loss is recognized in equity.

VEN NIF are mainly based on International Financial Reporting Standards (IFRS), except for certain criteria concerning adjustments for inflation. Over the past three years, accumulated inflation in Venezuela exceeded 100%; therefore, it is considered a hyperinflationary economy as from 2009 under IAS 29. Consequently, to date the financial statements prepared under IFRS and VEN NIF require adjustments for inflation.

b) Accounting for inflation

CNV rules provide that inflation-adjusted financial statements should be presented in accordance with Revised DPC 10.

The Company uses, for purposes of presenting its inflation-adjusted consolidated financial statements, the Mixed method as established by CNV rules.

The Mixed method consists in restating the financial statements based on changes in the General Price Level (GPL), according to the Consumer Price Index (CPI) for the Metropolitan Area of Caracas until September 30, 2009 and the National Consumer Price Index (NCPI) as from October 2009 published by BCV and, subsequently, adjusting nonmonetary assets and property, plant and equipment (fixed assets) on the basis of current values determined by independent appraisers (Note 2-g). Current values may differ from historic costs adjusted by the GPL in that the former represent specific prices and the latter are calculated based on average general price indices reflecting the loss in purchasing power of the bolivar. The result from holding nonmonetary assets in equity offsets the difference between fixed asset values according to the GPL and the Mixed methods.

The consumer price indices at the beginning and end of the year, the average consumer price indices and the annual inflation for the years ended September 30 were as follows:

	2010	2009
	NCPI	CPI
At the beginning of the year	158.80	123.20
At the end of the year	198.40	158.80
Average for the year	178.23	141.51
Inflation for the year (%)	24.94	28.90

The consolidated financial statements for 2009 are expressed in constant bolivars at September 30, 2010 to enable comparison in currency of uniform purchasing power. Below is a summary of the main bases used in the preparation of the accompanying inflation-adjusted consolidated financial statements:

Nonmonetary assets

These assets (inventories, property, plant and equipment, certain investments, prepaid expenses and other assets) have been restated by multiplying them by the factor obtained from dividing the NCPI at September 30, 2010 by the NCPI or CPI at their dates of acquisition or origin. Property, plant and equipment was subsequently adjusted based on its current market value (Note 2-g).

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Monetary assets and liabilities and result from monetary position

Monetary assets and liabilities, including amounts in foreign currency, are shown in terms of purchasing power at September 30, 2010. The result from monetary position reflects the gain or loss resulting from maintaining a net monetary liability or net monetary asset position during an inflationary period. This gain (loss) from monetary position is shown under Full financing income (expense).

Capital stock, share premium and unappropriated earnings

These equity accounts have been restated by multiplying them by the inflation factor obtained from their dates of origin until September 30, 2010. The effects of revaluation adjustments to the historic cost of property, plant and equipment, included in equity, were not considered when preparing the inflation-adjusted consolidated financial statements.

Income statement

All items in the consolidated income statement have been restated based on the date on which they were earned or incurred, with the exception of those related to nonmonetary items (cost of sales, depreciation expense, amortization of prepaid expenses, result from sale and disposal of fixed assets and investments), which have been restated in bolivars of purchasing power at year-end, based on their date of origin. Depreciation was subsequently adjusted based on the current market values of fixed assets.

c) Use of estimates in the preparation of the consolidated 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 reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in g), h), i), m), t), u) and w) below.

d) Consolidation

Subsidiaries

Subsidiaries are all entities in which the Company has over 50% direct or indirect shareholding or the power to control financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred.

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 amount by which book value of equity acquired exceeds the amount paid is shown in equity under Difference between fair value and cost of shares of subsidiary (Note 16).

The Company loses control when it lacks the power to direct the financial and operating policies of the subsidiary or affiliate in order to obtain benefits from its activities. The loss of control may or may not be accompanied by a change in absolute or relative levels of ownership.

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The financial statements of subsidiaries sold or over which control has been lost are consolidated until the rights associated with share ownership are effectively transferred or when the parent loses control of the subsidiary. The results of subsidiaries sold or over which control has been lost are shown in the consolidated income statement as a net loss from discontinued operation (Notes 1 and 20).

Based on the above considerations and in conformity with IAS 27, “Consolidated and separate financial statements,” the Company consolidated the assets, liabilities and results of the companies under “nationalization” Venprecar and Orinoco Iron until June 30, 2009, the closing date closest to the date when the Decree granting the operating control of these companies to the Venezuelan government was published (Notes 1 and 20), and presented its investments in these companies as an available-for-sale financial asset pursuant to paragraph 11 of IAS 32, “Financial instruments: Disclosure and presentation.” Management believes that these investments do not meet IAS 39, “Financial instruments: Recognition and measurement,” recognition criteria and that the classification given is more suitable when accounting for involuntary asset disposal. The book value of the investment in Venprecar and Orinoco Iron at June 30, 2009 (the date on which the companies ceased to be subsidiaries) was considered as the cost for initial recognition according to IAS 39 and differences between the book value of Venprecar and Orinoco Iron and their fair value at each reporting date are directly recognized in equity.

The consolidated financial statements at September 30, 2010 include the accounts of the subsidiary Sidetur since the aforementioned decree for the forced acquisition of the industrial assets is dated November 3, 2010 and, in conformity with IAS 10, is a subsequent event which does not require an adjustment of amounts at September 30, 2010 but the respective disclosure in the notes to the financial statements. In addition, control over this subsidiary’s assets and transactions has not been lost to date.

Business combinations under common control

Since it is considered a business combination between commonly controlled subsidiaries, the merger in 2005 of the former subsidiaries Venprecar and Orinoco Iron, C.A., was recorded by the economic entity method, which considers book values of subsidiaries at the transaction date. The net effect of changes in equity in partially owned subsidiaries was 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 (Note 16). 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 (Note 16).

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.

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

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

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e) Trade receivables

Trade receivables are initially recognized at the amount billed, which approximates fair value. The carrying amount of trade receivables is reduced to their estimated recoverable amount 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 consolidated income statement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that trade receivables are impaired. Subsequent collection of previously written-off balances is recorded directly in the consolidated income statement.

f) 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 in the normal course of operations less selling expenses.

g) Property, plant and equipment

Buildings, machinery and equipment, and land are recorded at amounts determined by independent appraisers in 2009. Following Revised DPC 10 guidance, these appraisals were adjusted until September 30, 2010 by the inflation factor obtained by dividing the NCPI at September 30, 2010 by the CPI at September 30, 2009. Appraisal values represent the assets' depreciated replacement values. The difference between the restated historic cost and current values is included directly under Result from holding nonmonetary assets. All other property, plant and equipment is shown at restated historic cost.

The difference between depreciation based on current values and that based on restated costs is transferred from Result from holding nonmonetary assets to Unappropriated earnings available, net of deferred income tax (Note 2-w).

Restated historic costs include expenses which are directly attributable to the acquisition of assets. Additions, renewals and improvements are included in the asset's carrying amount only when it is probable that future economic benefits will be obtained and can be measured reliably. The net carrying amount of replaced parts is disposed of. All other repairs and maintenance are included in the consolidated 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 only by the portion exceeding inflation; the remaining interest is recognized as expenses for the year incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, except for 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 the assets:

	Years
Buildings	10 - 44
Machinery and equipment	7 - 35
Tools	5 - 10
Vehicles	5 - 10
Furniture and fixtures	3 - 5

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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 for the year. When fixed assets shown at current values are sold, amounts included in Result from holding nonmonetary assets are transferred to Unappropriated earnings available (Note 14).

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

The Company assesses possible impairment in the value of its long-lived assets used in operations when events indicate that their recorded value may not be recoverable. The recoverable amount of an asset is the higher of fair value less cost to sell and value in use. Value in use is the present value of estimated discounted future cash flows expected to be generated by asset use or disposal. If estimated future discounted cash flows are not sufficient to recover the value of recorded assets, they are adjusted to their recoverable amount. To assess impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

At September 30, 2010 and 2009, Company management considers, in conformity with applicable generally accepted accounting principles, that none of its long-lived assets is impaired, such as the investment in companies under “nationalization.” In addition, management considers that changes in future cash flow or fair value estimates arising from unforeseen changes in business assumptions could positively or negatively affect the valuation of long-lived assets.

i) Investments

Investments are classified upon acquisition, based on their intended use, as investments in trading securities, held-to-maturity or available-for-sale investments.

Investments in trading securities

Investments acquired mainly with the intention to be sold in the short term are classified as investments in trading securities. These investments are accounted for at cost at purchase date and subsequently shown at fair value. Changes between fair value and cost are shown in the income statement. Investments included in this category are classified as current assets.

Held-to-maturity investments

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 determined effect is recorded in the consolidated income statement.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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Available-for-sale investments

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 equity. Any impairment in the value of these investments considered other than temporary is included in the consolidated income statement for the year.

In conformity with paragraph 46 of IAS 39, “Financial instruments: Recognition and measurement,” fair values of investments in equity instruments with a quoted market price are determined based on the market value of shares at the financial statement presentation date; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are valued at cost. When available-for-sale investments are sold or if they are judged to be other than temporarily impaired, the accumulated equity effect is recorded in the consolidated income statement.

Previously recognized impairment losses relating to investments in available-for-sale equity instruments are considered permanent and, therefore, are not reversed through profit or loss.

The transfer of an investment is considered an exchange of assets when the Company substantially transfers risks and advantages inherent to the property of this financial asset. When the Company exchanges investments, the effects of the transaction and the asset received at fair value at that date are recognized in the income statement and the consolidated balance sheet, respectively.

The Company assesses at each balance sheet date whether there is objective evidence of impairment in the value of an investment or group of investments.

At September 30, 2010, the balance of the available-for-sale investment in companies under “nationalization” was restated using the inflation factor for the year.

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 10 and 15).

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 term of the loan (Notes 10 and 15).

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

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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 11). All other loans are classified as long-term liabilities.

k) Employee benefits

Accrual for termination benefits

Employee termination benefits are calculated and recorded in the Company's books as incurred based on the provisions of the Venezuelan Labor Law and its Reform. In accordance with the current Venezuelan Labor Law and the prevailing collective labor agreement, employees are entitled to a minimum indemnity of five days of salary per month, up to a maximum of 90 days per year, without retroactive adjustments. Severance payments are mandatory after three months of uninterrupted service and are accrued as incurred.

Profit sharing

Venezuelan Labor Law also requires mandatory distribution to employees of a 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 accrues and pays a profit-sharing bonus to its employees of 120 days of salary and sets aside a provision in this connection when it has a present legal obligation to do so as a result of past events.

Vacation leave

The Company, as established in its collective labor agreement, grants its employees vacation leave that meets or exceeds the legal minimums, and maintains the corresponding accruals as incurred.

Pension plans and other post-retirement benefits

The Company does not have a pension plan or other post-retirement benefit programs for its employees; it does not grant stock purchase options.

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.

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) Net income per share

Net income per share is determined by dividing net income for the year by the weighted average of outstanding shares, excluding treasury stock. Basic and diluted net income per share is the same for all periods shown since the Company does not have any potentially dilutive instruments.

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o) Capital stock

Common shares are classified as equity. At September 30, 2010 and 2009, Sivensa has no preferred shares.

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

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 accounts Share premium and Capital inflation adjustment.

p) Revenue recognition

Revenue comprises the fair value of the consideration received for the sale of goods in the normal course of the Company's and its subsidiaries' activities. Income is shown net of returns, rebates and discounts after eliminating sales transactions between Group companies. Income from sales of goods and other income are recognized as follows:

Sales of goods

Sales of goods are recorded when goods sold by the Company and its subsidiaries are dispatched and accepted by clients. Sales are shown net of volume discounts.

Income from services

Income from sales and other services is recorded on an accrual basis, when services are delivered and accepted by clients.

Interest income

Interest income is recognized over the term of the financial instrument using the effective interest method. When a financial instrument is impaired, the Company reduces its carrying amount to its recoverable amount, being the estimated future cash flow discounted at the instrument's original effective interest rate, and records the resulting effect in the income statement for the year.

q) Costs and expenses

Costs and expenses are recognized in the consolidated income statement as incurred. For presentation purposes, certain selling expenses, mainly freight and insurance on exports, are an integral part of the cost of sales.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks, short-term deposits and bank overdrafts. For purposes of the consolidated cash flow statement, the Company considers as cash equivalents all highly liquid deposits maturing within three months and on-demand bank overdrafts, which are an integral part of the Company's cash management. Bank overdrafts are shown under Current liabilities as part of short-term bank loans.

s) 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, 2010 and 2009, mainly in U.S. dollars, are shown at the official exchange rates of Bs 4.30/US\$1 and Bs 2.60/US\$1 (Bs 2.15/US\$1 in 2009) (Note 17). Exchange gains or losses arising from currencies other than the U.S. dollar are included in the consolidated income statement.

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For consolidation purposes, exchange differences arising from the translation of net investments in foreign transactions, loans and other hedging financial instruments that could exist on such investments, are recorded in equity. When a foreign transaction is fully or partially sold or realized, exchange differences previously recorded in equity are recognized in the consolidated income statement as part of gain or loss on sale.

t) Fair value of financial instruments

The carrying amount of cash and cash equivalents, trade receivables, 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 and commercial obligations bear interest at variable market rates, management considers their carrying amounts to approximate fair value.

u) Accounting for derivative instruments and hedging activities

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

At September 30, 2010, the Company does not engage in hedging activities and has identified no derivative instruments.

v) 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 at September 30, 2010 and 2009 the Company operates in a single business segment (steel) and its manufacturing operations are mainly conducted in one country (Venezuela) (Note 1).

w) Current 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 taxable income. Management regularly evaluates positions taken for determining income tax in respect of situations in which laws and regulations are subject to interpretation and sets aside the related provisions based on amounts expected to be paid.

The Company records deferred income tax in accordance with the balance sheet method based on Statement of Accounting Principles No. 3 (Revised DPC 3), “Accounting for income tax.” 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 rate 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. Sivensa recognizes deferred tax assets only if their recoverability may be established beyond any reasonable doubt. If it is not likely that a portion or all of a deferred tax asset will be realized, it is not recognized.

For purposes of the consolidated financial statements, in conformity with CNV rules, an additional deferred tax asset or liability is recognized in the balance sheet in respect of the application of the Mixed method due to the difference between the value of fixed assets determined using the GPL method and the Mixed method against the equity account Result from holding nonmonetary assets (Notes 2-g and 13).

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The Company does not recognize a deferred 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 likely that the temporary difference will not be reversed in the foreseeable future. When the Company is not able to control the reversal of the temporary difference of its investments or these differences are likely to be reversed in the short term, a deferred tax liability is recorded for the taxable temporary differences against the equity accounts that gave rise to the investment.

The Company offsets deferred tax assets and liabilities in the consolidated financial statements when it has a legal right to offset the recognized amounts with the tax authorities and the conditions established in the relevant accounting principles are met.

x) Discontinued operation

A discontinued operation is a component of an entity that either has been disposed of or is classified as available for sale and; (a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale (Notes 1 and 20).

y) Consolidated financial statements expressed in nominal bolivars

The consolidated financial statements expressed in nominal bolivars, which served as the basis for the preparation of the financial statements expressed in constant bolivars, are provided for purposes of additional analysis (Note 24). These consolidated financial statements constitute a presentation which differs from accounting principles generally accepted in Venezuela, insofar as they give no recognition to the effects of inflation and include revaluation of fixed assets.

z) Reclassifications

Certain items in the 2009 consolidated financial statements have been reclassified for purposes of comparison with the financial statements for the year ended September 30, 2010.

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 exchange rates, 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 receivables.

Company management administers cash and cash 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, 2010 and 2009, cash and cash equivalents are placed with local and foreign financial institutions (Notes 5 and 17).

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Below is the classification of clients based on their collection experience at September 30:

	Percentage of accounts receivable	
	2010	2009
Clients with excellent payment experience	86.11	80.86
Clients with good payment experience	13.89	19.14

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.

Liquidity risk

The Company regularly assesses its fund requirements to maintain cash availability in keeping 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.

At September 30, 2010, the Company has short-term monetary liabilities (mainly financial obligations, accounts payable to suppliers, income tax payable and other) amounting to Bs 293 million. Short-term monetary assets (mainly cash and cash equivalents, accounts receivable, advances to suppliers and inventories, among others) of Bs 779 million exceed short-term monetary liabilities.

Foreign exchange risk

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

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Assets in bolivars	409,651	634,618
Assets in foreign currency	<u>531,486</u>	<u>329,255</u>
	<u>941,137</u>	<u>963,873</u>
Liabilities in bolivars	(762,389)	(760,327)
Liabilities in foreign currency	<u>(467,003)</u>	<u>(359,952)</u>
	<u>(1,229,392)</u>	<u>(1,120,279)</u>

Acquisition of foreign currency in the country is currently limited due to the exchange control regime in effect as from February 5, 2003. The Venezuelan government and the BCV set the official exchange rates, which at September 30, 2010 are Bs 4.30/US\$1 and Bs 2.60/US\$1 (Bs 2.15/US\$1 in 2009) (Note 17).

Assets and liabilities in foreign currency are recorded at the official exchange rates published by BCV at September 30, 2010 and 2009, which represent the values at which assets are expected to be realized and liabilities to be settled. At September 30, 2010, the Company does not engage in hedging activities in connection with its monetary assets and liabilities in foreign currency.

Interest rate 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

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rates and, therefore, are not subject to interest rate risk. Below is a summary of financial liabilities and their interest rates at September 30:

	2010		2009	
	Effective rate %	Average market rate %	Effective rate %	Average market rate %
Promissory notes and letters of credit in foreign currency	-	-	4.78	4.78
Short-term promissory notes in local currency	15.50	19.00	18.32	20.49
Bonds payable in foreign currency	10.00	17.00	10.00	10.30
Other financial liabilities	13.04	16.69	Between 18.63 and 20.23	20.49

Company management regularly assesses the cost of its financial liabilities to obtain the best credit conditions. Management does not hedge against fluctuations in the interest rates of its financial liabilities.

Fixed-rate bonds and other floating-rate short-term financial obligations approximate their fair value.

All financial liabilities are shown at their balance payable.

Market risk

The Company is exposed to the risk of fluctuation in the price of its supplies and finished products. At September 30, 2010 and 2009, Company management has not engaged in hedging activities in connection with the cost of its raw materials and prices of products sold on local and international markets.

The Company is exposed to the risk of fluctuations in the price of its products. However, the prices of certain products are regulated by the Venezuelan government and variations depend mainly on factors beyond the Company’s control.

The main supplies used by the subsidiary Sidetur, such as briquettes, are purchased at market value; scrap used in the manufacturing process is purchased through collection centers and paid at market values; briquettes, electricity and gas used in production are provided by Venezuelan state-owned companies.

In 2010 and 2009, the Company exported 2% and 4%, 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, 2010 are as follows:

(Thousands of constant bolivars at September 30, 2010)

	Cost	Book value
Investments in preferred shares	<u>21,750</u>	<u>21,750</u>
Investment in companies under “nationalization”	<u>3,026,504</u>	<u>3,026,504</u>

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Available-for-sale investments at September 30, 2009 are as follows:

*(Thousands of constant bolivars
at September 30, 2010)*

	Cost	Book value
Investments in preferred shares	<u>59,159</u>	<u>59,159</u>
Investment in companies under “nationalization”	<u>3,041,204</u>	<u>3,041,204</u>

Financial assets and liabilities recorded at amortized cost at September 30, 2010 are as follows:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Amortized cost	Unrealized gain (loss)	Market value
Bank deposits in bolivars	7,475	-	7,475
Bank deposits in U.S. dollars	34	-	34
Trade and other receivables in bolivars	144,453	-	144,453
Trade and other receivables in U.S. dollars	60,834	-	60,834
Short-term bank loans in bolivars	20,000	-	20,000
Trade payables in bolivars	51,050	-	51,050
Trade payables in U.S. dollars	30,684	-	30,684
Bonds payable	367,368	-	367,368

Financial assets and liabilities recorded at amortized cost at September 30, 2009 are as follows:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Amortized cost	Unrealized gain (loss)	Market value
Bank deposits in U.S. dollars	57,572	-	57,572
Investments in trading securities	16,901	-	16,901
Trade and other receivables in bolivars	203,052	-	203,052
Trade and other receivables in U.S. dollars	5,372	-	5,372
Short-term bank loans in bolivars	58,932	-	58,932
Short-term bank loans in euros	15,548	-	15,548
Trade payables	141,883	-	141,883
Bonds payable	239,950	-	239,950

5. Cash and cash equivalents

Cash and cash equivalents at September 30 comprise the following:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Cash on hand and at banks	277,909	362,735
Bank deposits	<u>7,509</u>	<u>74,473</u>
	<u>285,418</u>	<u>437,208</u>

At September 30, 2010, short-term bank deposits in local and foreign currency earn interest at between 3% and 0.15% (7.5% and 0.4% in 2009). These deposits mature between October 2010 and August 2011 (in 2009, October and November 2009).

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At September 30, 2010, US\$7.6 million guarantees payment of principal and interest on bonds payable (US\$7.6 million in 2009). At September 30, 2009, bank deposits of US\$5.8 million guaranteed a promissory note taken out by the subsidiary Sidetur (Notes 10 and 11).

6. Accounts receivable

Accounts receivable at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Trade (Note 17)	112,006	140,474
Provision for doubtful accounts	<u>(958)</u>	<u>(1,336)</u>
	111,048	139,138
Value added tax (VAT) withholdings and credits (Note 13)	42,274	39,516
Accounts receivable (drawback)	-	-
Other accounts receivable	<u>51,965</u>	<u>29,770</u>
	<u>205,287</u>	<u>208,424</u>

At September 30, 2010 and 2009, Bs 5.8 million and Bs 7.7 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 under Cost of sales. During 2010, the Company received drawback payments for Bs 1.72 million (Bs 3.2 million in 2009).

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

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Maturities		
Not due	102,213	114,371
30 to 60 days	2,534	12,905
61 to 90 days	2,567	1,354
91 to 120 days	809	4,660
Over 120 days	<u>3,883</u>	<u>7,184</u>
	<u>112,006</u>	<u>140,474</u>

Overdue trade receivables with no recent loss history 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 constant bolivars at September 30, 2010)</i>	Years ended September 30,	
	2010	2009
Balance at the beginning of the year	1,336	3,286
Effect of inflation	(267)	(737)
Provision (reversal) against general and administrative expenses	<u>(111)</u>	<u>(1,213)</u>
Balance at the end of the year	<u>958</u>	<u>1,336</u>

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Any increase or decrease in the provision for doubtful accounts is recognized in the consolidated income statement under General and administrative expenses.

At September 30, 2010 and 2009, trade receivables in foreign currency are represented by accounts receivable mainly in U.S. dollars (Note 17).

At September 30, 2010, other accounts receivable include US\$9.5 million in loans payable in U.S. dollars at LIBOR plus 3% and maturing within 180 days of the agreement date (Note 17).

7. Inventories

Inventories at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Finished products	18,653	36,014
Work in progress	27,025	82,728
Raw materials	107,475	100,696
Other materials	38,441	-
In-transit materials and spare parts	16,703	8,612
Provision for inventory losses	<u>(4,599)</u>	<u>(1,474)</u>
	<u>203,698</u>	<u>226,576</u>

At September 30, 2010 and 2009, the cost of inventories sold is included in the consolidated income statement under Cost of sales.

Below is a summary of the movements in the provision for inventory losses:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Years ended September 30,	
	2010	2009
Balance at the beginning of the year	1,474	3,087
Provision (reversal) against cost of sales	<u>3,125</u>	<u>(1,613)</u>
Balance at the end of the year	<u>4,599</u>	<u>1,474</u>

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8. Property, plant and equipment

Property, plant and equipment at September 30 comprises the following:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Buildings	467,540	482,876
Machinery and equipment	1,410,541	1,388,404
Tools	38,232	38,393
Vehicles	76,537	83,195
Furniture and fixtures	<u>39,526</u>	<u>58,408</u>
	2,032,376	2,051,276
Accumulated depreciation	<u>(1,365,797)</u>	<u>(1,291,585)</u>
	666,579	759,691
Land and improvements	463,018	482,132
Construction in progress, machinery in transit and other	<u>11,511</u>	<u>11,571</u>
	<u>1,141,108</u>	<u>1,253,394</u>
Depreciation expense for the year, included mainly under cost of sales	<u>98,759</u>	<u>98,601</u>

The movement in property, plant and equipment for the years ended September 30 is as follows:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Buildings, machinery and equipment	Tools	Vehicles	Land and improvements	Furniture and fixtures	Construction in progress, machinery in transit and other	Total
At September 30, 2010							
Net opening balance	736,024	2,934	13,352	482,132	7,381	11,571	1,253,394
Additions	1,482	-	526	-	36	25,569	27,613
Disposals, net	(5,314)	-	(412)	800	-	-	(4,926)
Reclassifications	23,999	-	-	-	-	(23,999)	-
Assets reclassified to investment	(7,311)	-	(741)	(20,466)	(6,122)	(1,631)	(36,271)
Depreciation expense	(91,799)	(59)	(5,225)	-	(1,676)	-	(98,759)
Result from holding nonmonetary assets	<u>(3,649)</u>	<u>643</u>	<u>1,873</u>	<u>552</u>	<u>637</u>	<u>1</u>	<u>57</u>
Net closing balance	<u>653,432</u>	<u>3,518</u>	<u>9,373</u>	<u>463,018</u>	<u>256</u>	<u>11,511</u>	<u>1,141,108</u>
At September 30, 2009							
Net opening balance	4,727,099	2,992	29,435	488,447	25,315	36,922	5,310,210
Additions	1,714	-	1,148	-	81	22,708	25,651
Disposals, net	(342)	-	(1,512)	(18,262)	-	(866)	(20,982)
Reclassifications	22,684	-	2	(2)	-	(22,684)	-
Assets reclassified to investment	(4,054,335)	-	(9,708)	(76,748)	(15,394)	(24,509)	(4,180,694)
Depreciation expense	(89,908)	(58)	(6,013)	-	(2,621)	-	(98,600)
Result from holding nonmonetary assets	<u>129,112</u>	<u>-</u>	<u>-</u>	<u>88,697</u>	<u>-</u>	<u>-</u>	<u>217,809</u>
Net closing balance	<u>736,024</u>	<u>2,934</u>	<u>13,352</u>	<u>482,132</u>	<u>7,381</u>	<u>11,571</u>	<u>1,253,394</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 commitments. An investment of US\$26.3 million (equivalent to Bs 101.20 million in constant amounts at September 30, 2010) was made in this connection. In September 2009, the subsidiary Sidetur received an environmental compliance certificate from the People’s Power Ministry for the Environment for having achieved the environmental adequation goals set by the Venezuelan government.

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At September 30, 2010 and 2009, there are fully depreciated fixed assets of Bs 1.61 million and Bs 1.57 million, respectively.

9. Investments

Investments at September 30 comprise the following:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Trading		
Debt securities	<u> -</u>	<u> 27,087</u>
Available for sale		
Preferred shares	30,000	93,705
Impairment provision	<u> (8,250)</u>	<u> (34,546)</u>
	<u> 21,750</u>	<u> 59,159</u>
Investment in companies under “nationalization” (Notes 1 and 20)	<u>3,026,504</u>	<u>3,041,204</u>

Trading investments

In September 2009, the Company acquired securities guaranteed by the Venezuelan government and PDVSA 2011 bonds at a cost of Bs 16.83 million (Bs 13.47 million in constant amounts), maturing in July 2011. In addition, the Company acquired commercial paper from Corporación Digitel at a cost of Bs 8.64 million (Bs 6.91 million in constant amounts), which matured in October 2009. Both investments were recorded at fair value. In addition, the Company had Tax Reimbursement Certificates for Bs 1.6 million (Bs 1.3 million in constant amounts) resulting from import duty drawbacks. In October 2009, these investments were sold in full.

Investments in available-for-sale preferred shares

In September 2008, Sidetur invested 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 and are not counted for purposes of determining quorum. Based on the difference between the fixed yield of shares and market yields, management estimated at Bs 21.75 million the present value of this investment, based on an effective interest rate of 20.23%. The difference between the amount paid and the present value of the investment of Bs 13.2 million was recorded in the consolidated income statement under Net loss on valuation of investments. Under the Aquatic Space Law, Sidetur is entitled to receive income tax credits on 75% of the amount invested to purchase 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, management estimated at Bs 25.6 million the present value of this investment, based on an effective interest rate of 18.63%. Under the Aquatic Space Law, Sidetur is entitled to receive income tax credits on 75% of the amount invested to purchase these shares. At September 30, 2010, all of the preferred shares owned by Sidetur were assigned to a non-related foreign company to repay a loan taken out by one of Sidetur’s subsidiaries from this entity.

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10. Long-term bonds payable

Long-term bonds payable at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Bonds payable	370,875	245,118
Cost of bonds issued	<u>(3,507)</u>	<u>(5,168)</u>
Net amount of issue costs	367,368	239,950
Current portion	<u>(21,500)</u>	<u>(13,431)</u>
	<u>345,868</u>	<u>226,519</u>

The movement in long-term bonds payable for the years ended September 30 is as follows:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	
Balance at September 30, 2008	325,597
Effect of inflation	(73,001)
Cash payments	(13,431)
Amortization of loan expenses and commissions (Note 15)	<u>785</u>
Balance at September 30, 2009	239,950
Effect of inflation	(47,898)
Cash payments	(18,812)
Exchange gain	193,500
Amortization of loan expenses and commissions (Note 15)	<u>628</u>
Balance at September 30, 2010	<u>367,368</u>

Sidetur

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

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 bond issue 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.

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- b) Sidetur unconditionally and irrevocably guarantees 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 restrictions on: i) certain specific payments, ii) certain debt, iii) encumbrance of certain assets, iv) asset disposal, v) financial lease transactions, vi) mergers, and vii) repurchase of bonds from holders by the issuer and the guarantor.

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 17).

In May 2006, a foreign bank acquired each of the creditor loans comprising Sidetur's and Sivensa's long-term debt (Amended and Restated Loan Agreement). At the transaction date, the amount owed by Sidetur in respect of the long-term debt was US\$113 million.

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

- a) The debt will be repaid in Tranches “A” and “B”, 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.
- 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 loan is secured by Sidetur's export accounts receivable and the bank account for export collections as provided in the agreement.
- d) Sidetur pays a commission for Tranche “A” debt service. The amount paid in this connection during the year ended September 30, 2010 was US\$234,766, equivalent to Bs 1.01 million (US\$272,656, equivalent to Bs 0.74 million in constant amounts, in 2010).

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, 2010 and 2009 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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The maturities of these obligations at September 30, 2010 are shown below:

*(Thousands of constant bolivars
at September 30, 2010)*

Years	
2011	21,500
2012	21,500
2013	21,500
2014	21,500
2015 and beyond	<u>284,875</u>
	370,875
Cost of bonds issued	<u>(3,507)</u>
	<u>367,368</u>

During 2010, Sidetur repaid US\$5 million in principal. In addition, interest on debt in foreign currency during 2010 amounts to US\$9.02 million (US\$9.5 million in 2009), of which US\$4.6 million has been paid.

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 17).

11. Short-term bank loans

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

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Promissory notes in bolivars	20,000	58,933
Promissory notes and letters of credit in foreign currency	<u>-</u>	<u>15,547</u>
	<u>20,000</u>	<u>74,480</u>

The balance of bank loans and interest payable at September 30, 2010 comprises the following:

Type	Maturity	Year-end interest rate %	Amount in thousands of bolivars	Interest pending payment in thousands of bolivars
Promissory notes in bolivars	November 2010	15.5	<u>20,000</u>	<u>353</u>

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The movement in bank loans at September 30 is as follows:

*(Thousands of constant bolivars
at September 30, 2010)*

Balance at September 30, 2008	128,778
New debt	254,666
Amortization	(280,693)
Effect of inflation	(28,872)
Exchange gain	<u>601</u>
Balance at September 30, 2009	74,480
New debt	75,000
Amortization	(115,882)
Effect of inflation	(14,867)
Exchange gain	<u>1,269</u>
Balance at September 30, 2010	<u><u>20,000</u></u>

During 2010 and 2009, Sidetur obtained financing from local private banks through promissory notes and debt securities, which were mostly paid during 2010.

12. Other liabilities and accruals

Other liabilities and accruals at September 30 comprise the following:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Short term		
Advances from clients	49,499	23,110
Accrued expenses	19,339	17,953
Labor contributions	12,986	12,360
Interest payable (Notes 10 and 11)	7,760	6,949
Dividends payable (Note 16)	8,982	12,313
Provisions for taxes payable (Note 13)	3,706	4,485
Client bonuses	771	2,802
Other accounts payable	<u>2,495</u>	<u>391</u>
	<u><u>105,538</u></u>	<u><u>80,363</u></u>
Long term		
Promissory notes payable	21,750	59,159
Other (Note 22)	<u>66,207</u>	<u>55,262</u>
	<u><u>87,957</u></u>	<u><u>114,421</u></u>

The Law on Narcotic and Psychotropic Substances (LOCTICSEP) 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.

In December 2009, the Venezuelan government, through the People’s Power Ministry for the Interior and Justice, issued Resolutions No. 007-2009 and 008-2009 containing the procedures for filing and paying contributions required under Articles No. 96 and 97 of the LOCTICSEP.

Resolution No. 007-2009 established the procedures for taxpayer registration and for collection, control and auditing of the contributions required under Articles No. 96 and 97 of the LOCTICSEP.

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Resolution No. 008-2009 establishes the rules for filing and paying the contributions required under Articles No. 96 and 97 of the LOCTICSEP for the years ended 2006, 2007 and 2008.

During 2010, the Company made investments of Bs 0.54 million and recorded a liability of Bs 1.45 million 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, Technology and Intermediate Industries 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, 2010 and 2009, the Company invested Bs 8.9 million and Bs 14.6 million (Bs 11.7 in nominal amounts), respectively, in science, technology and innovation activities.

At September 30, 2010, the Company has a promissory note for Bs 21.75 million maturing in September 2012 (in 2009 Bs 59.16 million maturing in September 2011 and 2012 - Bs 47.4 million in nominal amounts). These promissory notes bear interest at a fixed rate of 13.04% (Note 9).

At September 30, 2010 and 2009, advances from clients include US\$9.3 million and US\$4.4 million, respectively, to guarantee future purchases of inventories and billets.

13. Taxes

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

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Income tax	(51,521)	(92,053)
Deferred income tax	<u>(37,604)</u>	<u>17,063</u>
Total income tax expense	<u>(89,125)</u>	<u>(74,990)</u>

Income tax

Company management computed net taxable income based on the Venezuelan Income Tax Law and the opinion of its external advisors, and considers that assumed criteria conform to Law and do not originate taxes and penalties.

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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 tax rates for the following years:

	Years ended	
	September 30,	
	2010	2009
	%	%
Statutory tax rate	(34.00)	(34.00)
(Increase) decrease in the statutory tax rate resulting from		
Inflation adjustment for tax purposes	7.52	(16.68)
Gain (loss) on securities swap	(5.60)	35.01
Unrealized exchange gain	4.65	-
Provision for deferred tax on tax loss carryforwards	(9.39)	(0.21)
Investment tax credits for the year	-	0.59
Results of tax-exempt subsidiaries	(8.22)	2.80
Other, net	<u>(13.24)</u>	<u>(10.49)</u>
Effective income tax rate	<u>(58.28)</u>	<u>(22.98)</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 decrease in 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, 2010, certain Sivensa subsidiaries have tax loss carryforwards of Bs 42 million, which may be used until 2011. In addition, at September 30, 2010, the subsidiary Sidetur has advance payments of income tax of Bs 38.9 million, shown net of income tax payable.

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

	September 30,	
	2010	2009
<i>(Thousands of constant bolivars at September 30, 2010)</i>		
Difference in tax base of inventories	48,224	45,692
Allowances and provisions not deductible until paid and other	<u>15,682</u>	<u>6,296</u>
Deferred tax asset	<u>63,906</u>	<u>51,988</u>
Included in		
Deferred tax asset (long-term portion)	<u>63,906</u>	<u>51,988</u>
Difference in tax base of fixed assets	(203,545)	(219,438)
Difference in tax base of investments	(265,353)	(107,657)
Difference in tax base of accounts receivable and other	<u>(10,002)</u>	<u>-</u>
Deferred tax liability	<u>(478,900)</u>	<u>(327,095)</u>
Included in		
Deferred tax liability (long-term portion)	<u>(478,900)</u>	<u>(327,095)</u>

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At September 30, 2010, the deferred tax liability resulting from the difference between the tax base and the carrying amount of fixed assets for Bs 203.5 million includes Bs 194 million for the effect of the difference between the value of fixed assets determined using the GPL method and the Mixed method against the equity account Result from holding nonmonetary assets (Note 2-g).

At September 30, 2010, the deferred tax liability resulting from the difference between the tax base and the carrying amount of the investment in companies under “nationalization” of Bs 265.3 million includes Bs 168.7 million and Bs 54.0 million recorded in the equity accounts Difference between fair value and cost of shares of subsidiary and Net effect of combination (merger) of subsidiaries, respectively.

The movement in the deferred tax asset (liability) is summarized below:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Inventories	Fixed assets	Investments	Allowances and provisions	Total deferred
Deferred tax asset					
At September 30, 2008	47,064	-	-	16,620	63,684
Effect of inflation	(11,576)	-	-	(2,702)	(14,278)
Charged to result from holding nonmonetary assets	-	-	-	(4,461)	(4,461)
Credited (charged) to the income statement	<u>10,204</u>	<u>-</u>	<u>-</u>	<u>(3,161)</u>	<u>7,043</u>
At September 30, 2009	45,692	-	-	6,296	51,988
Effect of inflation	(9,120)	-	-	(1,258)	(10,378)
Credited to the income statement	<u>11,652</u>	<u>-</u>	<u>-</u>	<u>10,644</u>	<u>22,296</u>
At September 30, 2010	<u>48,224</u>	<u>-</u>	<u>-</u>	<u>15,682</u>	<u>63,906</u>

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Inventories	Fixed assets	Investments	Provisions	Accounts receivable	Total deferred
Deferred tax liability						
At September 30, 2008	-	456,999	21,311	-	-	478,310
Effect of inflation	-	(102,462)	(4,778)	-	-	(107,240)
(Credited) charged to results of continuing operations	-	(3,823)	(6,197)	-	-	(10,020)
Credited to result from holding nonmonetary assets	-	102,112	-	-	-	102,112
(Credited) charged to results of discontinued operation	-	-	15,501	-	-	15,501
Reclassification of deferred tax	-	(233,388)	(23,210)	-	-	(256,598)
Charged to other equity accounts	<u>-</u>	<u>-</u>	<u>105,030</u>	<u>-</u>	<u>-</u>	<u>105,030</u>
At September 30, 2009	-	219,438	107,657	-	-	327,095
Effect of inflation	-	(43,803)	(21,490)	-	-	(65,293)
Credited (charged) to the income statement	-	(11,557)	61,455	-	10,002	59,900
Credited to result from holding nonmonetary assets	-	39,467	-	-	-	39,467
Charged to other equity accounts	<u>-</u>	<u>-</u>	<u>117,731</u>	<u>-</u>	<u>-</u>	<u>117,731</u>
At September 30, 2010	<u>-</u>	<u>203,545</u>	<u>265,353</u>	<u>-</u>	<u>10,002</u>	<u>478,900</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 is 12% (9% from July 2007 to March 2009). The Law provides a special zero tax rate for exporters, granting them the right to

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recover tax credits from the purchase or import of goods and services based on the ratio of export sales to total sales.

In 2002 the Venezuelan government designated public entities and taxpayers considered “special” by the Tax Authorities as value added tax withholding agents beginning January 1, 2003. These taxpayers must withhold 75% of value added tax paid.

VAT withholdings are in respect of VAT withheld by Sidetur’s clients. At September 30, 2010, the Company has VAT withheld in excess of Bs 41.4 million (Bs 38.2 million in 2009 - Bs 30.6 million in nominal amounts). According to the Venezuelan Value Added Tax Law, taxes withheld in excess may be recovered from the Tax Authorities for sale or offsetting against VAT or other Venezuelan tax liabilities. At September 30, 2010, the Company has made VAT reimbursement requests of Bs 41.4 million (Bs 19.3 million in 2009 - Bs 15.5 million in nominal amounts).

The subsidiary Sidetur filed a tax appeal against Administrative Resolutions No. 1080023004, 1080023006 and 1080023014 of April 15, 2010, issued by the Capital Region’s Special Taxpayers Office of the National Integrated Customs and Tax Administration Service (SENIAT). The aforementioned resolutions disallowed VAT reimbursements totaling Bs 22,558,347, supported and undiscounted by Sidetur and filed with SENIAT on December 1, 2009, which reference back to VAT reimbursement request No. 0000898 filed by Sidetur on January 22, 2009. Sidetur management and its external legal advisors believe that the amount requested and denied will be recovered in full by the Company and, therefore, have not set aside a provision in this connection.

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, 2009, 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 2010 study will be made during 2011; however, management estimates no effects on taxable income for 2010 since there are no significant changes to the companies’ operations with related parties abroad.

14. Other operating income (expense), net

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

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Gain (loss) on sale of securities, net	(15,967)	289,587
Loss on sale and disposal of fixed assets	(1,570)	(16,824)
Other expenses, net	(21,822)	(14,554)
Gain on sale of Tax Reimbursement Certificates	-	424
Income from IBH commercialization activities	20,509	44,097
Income from sales of scrap metal and spare parts, net	<u>1,477</u>	<u>519</u>
	<u>(17,373)</u>	<u>303,249</u>

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15. Interest and other financial expenses, net

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

<i>(Thousands of constant bolivars at September 30, 2010)</i>	2010	2009
Interest on loans (Notes 10 and 11)	(56,536)	(70,786)
Amortization of expenses and commissions related to financial debt (Note 10)	-	(785)
Prompt payment discounts	1,104	1,048
Other financial expenses and commissions	<u>(7,427)</u>	<u>(12,154)</u>
	(62,859)	(82,677)
Interest income from accounts receivable from companies under “nationalization” (Note 21)	32,100	-
Interest income from bank deposits (Note 5)	<u>18,826</u>	<u>8,735</u>
	<u>(11,933)</u>	<u>(73,942)</u>

16. Equity

a) Capital stock

At September 30, 2010, Sivensa’s capital stock amounts to Bs 105,048,752, represented by 52,524,376 shares with a par value of Bs 2 each (Bs 105,889,970, represented by 52,944,985 shares with a par value of Bs 2 each in 2009). At September 30, 2009, there were 52,521,441 outstanding shares and 423,544 treasury shares, representing 0.8% of capital stock, mainly resulting from the Stock Repurchase Program approved at the Shareholders’ Meeting on July 28, 2008. At September 30, 2010, Sivensa consolidated equity amounts to Bs 3,209,435,000 (Bs 3,496,653,000 in 2009).

At a Special Shareholders’ Meeting on July 13, 2010, the shareholders resolved, by virtue of the powers conferred upon them by the Special Shareholders’ Meeting of July 28, 2008, to redeem and void the 420,609 treasury shares acquired during the first phase of the Stock Repurchase Program. As a result, capital stock was reduced to Bs 841,218 in nominal amounts. The remaining treasury shares were sold in July 2010 and the results of this transaction are recorded under Share premium.

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) Stock repurchase program

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 a Special Shareholders’ Meeting on December 5, 2008, the second phase of the Company’s share repurchase program was approved. In this phase, it was resolved to acquire common shares representing up to 15% of its subscribed and paid-in capital stock, including treasury stock. The share

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price will be subject to market conditions and shall not exceed Bs 80 per share. This second phase was carried out from January 29, 2009 to June 4, 2009.

At a Special Shareholders' Meeting on September 1, 2009, the third phase of the Company's share repurchase program was approved. In this phase, it was resolved to acquire common shares representing up to 15% of its subscribed and paid-in capital stock, including treasury stock. The share price will be subject to market conditions and shall not exceed Bs 50 per share. The period for carrying out this third phase shall be extended until February 28, 2010.

During the Stock Repurchase Program, Sivensa acquired 420,609 shares (0.8% of capital stock) at an average share price of Bs 37.57, totaling Bs 15.8 million in constant amounts (Bs 9.6 million in nominal amounts) from repurchase program commencement up to September 30, 2010.

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.

c) Difference between fair value and cost of shares of subsidiary

During 2005 and 2008, IBH de Venezuela acquired its shareholding in Venprecar from prior shareholders. At September 30, 2010, this transaction was recorded as a transaction between shareholders (Note 2-d), giving rise to an increase of Bs 1,559 million, net of minority interests and deferred tax (Bs 1,608 million in 2009), in the equity account Difference between fair value and cost of shares of subsidiary.

d) Net effect of combination (merger) of subsidiaries

During 2005, the assets and liabilities of Orinoco Iron, C.A. and Venprecar were merged and absorbed by the latter as the surviving company. Since these shareholding movements 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.

e) Dividends

At a Regular Shareholders' Meeting on November 24, 2009, it was resolved to declare cash dividends of Bs 248,258,347 (Bs 204,833,620 in nominal amounts at Bs 3.90 per share) out of retained earnings for the year ended September 30, 2009. These dividends were paid after December 11, 2009.

At a Regular Shareholders' Meeting on December 5, 2008, it was resolved to declare cash dividends of Bs 304,151,437 (Bs 202,207,547 in nominal amounts at Bs 3.85 per share) out of retained earnings for the year ended September 30, 2008. These dividends were paid on December 19, 2008. The Stock Market Law allows the management boards of listed companies to share profits not exceeding 10% of the company's total net profit for any given year, provided that the shareholders have received a cash dividend of at least 25% of income for that same year, after tax and appropriation to legal reserves. In conformity with CNV (currently SNV) rules, the basis for distribution of dividends and statutory equity does not include equity in the results of subsidiaries. Accordingly, for the year ended September 30, 2010, Sivensa (unconsolidated parent company) has determined that it has profits of Bs 295 million available for dividend distribution.

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f) 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.

17. Foreign currency

At September 30, the Company has the following balances in foreign currency (mainly in U.S. dollars), at the exchange rates shown in Note 2-s:

<i>(Millions of U.S. dollars)</i>	2010	2009
Assets		
Cash and cash equivalents	42	34
Trading investments	-	6
Accounts receivable		
Trade and other	11	4
Companies under “nationalization”	54	47
Advances to suppliers	<u>13</u>	<u>31</u>
Total assets	<u>120</u>	<u>122</u>
Liabilities		
Bonds payable and current portion of bonds payable	(86)	(95)
Accounts payable		
Suppliers and other liabilities	<u>(24)</u>	<u>(39)</u>
Total liabilities	<u>(110)</u>	<u>(134)</u>

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 the Commission for the Administration of Foreign Currency (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).

Exchange agreement No. 14

On January 8, 2010, the Venezuelan government and the BCV published Exchange Agreement No. 14 in Official Gazette No. 39,342, effective as from January 11, 2010.

Exchange Agreement No. 14 establishes a two-tiered exchange rate system: Bs 2.60/US\$1 for certain goods and Bs 4.30/US\$1 for others. According to this agreement, foreign currency for the following goods and services will be purchased at an exchange rate of Bs 2.60/US\$1.

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- a) Imports of goods required by the food, health, education, machinery and equipment, and science and technology sectors, according to the commercial policy established by the Venezuelan government.
- b) Remittances to relatives residing abroad.
- c) Payment of student expenses abroad.
- e) Payment of health recovery, sports, culture and science expenses, as well as other cases of special urgency, as deemed appropriate by CADIVI.
- e) Payments to retirees and pension holders residing abroad.
- f) Purchase of foreign currency by diplomatic and consular missions, their officers and foreign officers of international organizations duly accredited by the Venezuelan government.

Exchange Agreement No. 14 establishes that the exchange rate applicable to foreign currency purchases other than those listed above will be Bs 4.30/US\$1.

Foreign currency requests for trade transactions submitted to BCV before the Agreement became effective will be liquidated at Bs 2.15/US\$1. At the date the Agreement was enacted, the Company had requested liquidation of assets and liabilities from BCV of US\$174,520 and €36,420.

Based on the foreign currency positions reported at December 31, 2009 and on the items that management considers will be settled at the new exchange rates of Bs 4.30/US\$1 and Bs 2.60/US\$1, it is estimated that the financial effect of the Agreement was a Bs 265.06 million increase in monetary assets denominated in foreign currency (in a currency other than the bolivar), a Bs 246.27 million increase in monetary liabilities denominated in foreign currency (in a currency other than the bolivar) and a net exchange gain of Bs 18.79 in nominal amounts (Bs 23.4 million in constant amounts at September 30, 2010).

Reform of the Exchange Offenses Law

A Reform of the Exchange Offenses Law was published in the Official Gazette on May 17, 2010 to expand the legal definition of foreign currency as coins, bills, bank checks and any other form of money denominated in a currency other than the bolivar, which is the currency of legal tender of the Bolivarian Republic of Venezuela, as well as securities denominated in foreign currency or which can be traded in such.

The Reform also grants the BCV exclusive control over foreign currency trading, regardless of the amount of the transaction, whether through money or the purchase of securities that are intended to be sold prior to their maturity date.

The Reform establishes penalties for violators of twice the amount of the transaction or its equivalent in bolivars. Likewise, individuals who through either one or several transactions in a calendar year purchase, sell or otherwise offer, transfer or receive from US\$10,000 to US\$20,000, or their equivalent amount in another foreign currency, without the mediation of the BCV shall be fined with twice the amount of the transaction or its equivalent in bolivars. The penalties for transactions exceeding US\$20,000 or its equivalent amount in another foreign currency shall be jail for two to six years and a fine in bolivars of twice the amount of the transaction.

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Exchange Agreement No. 18

Exchange Agreement No. 18 was published on June 1, 2010 to establish that: 1) the BCV will determine which securities denominated in foreign currency may be traded in bolivars through the System for Transactions with Securities in Foreign Currency (SITME); 2) the BCV will publish a minimum and maximum band for securities trading on a daily basis; 3) the minimum transaction amount for both individuals and corporations is US\$1,000, and trading may only be conducted through commercial and universal banks, and savings and loan institutions and; 4) duly authorized currency exchange brokers operating at the border may only trade Colombian pesos or Brazilian reais.

On June 10, 2010, the BCV published the guidelines for the purchase of securities in foreign currency through SITME, which, among other things, establish the following:

- 1) Individuals or corporations purchasing the securities must present an affidavit stating that all requirements for such purchase have been met and that the funds resulting therefrom will be used only for the purposes indicated in the request.
- 2) Corporations domiciled in Venezuela may purchase securities through SITME up to a maximum of US\$50,000 per day, further limited to US\$350,000 per month (non-cumulative), when they fall into the following categories:
 - a) Importers of goods and services not included in CADIVI lists 1 and 2.
 - b) Importers of goods and services included in CADIVI lists 1 and 2 who have not purchased foreign currency through CADIVI over the last 90 days.
 - c) Importers of capital goods and inputs.
- 3) Individuals may purchase securities through SITME up to a maximum of US\$1,000 per month; US\$6,000 per year for family remittances; US\$5,000 per year for travel, education and service delivery and; US\$10,000 for special cases (health, education, culture and sports).

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 10).

18. Accounts and transactions with related companies

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

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Balances with related companies at September 30 comprise the following:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Receivables		
Fundación Sivensa	568	-
CVG Ferrominera Orinoco, C.A.	692	437
Fundamental	241	291
Other	<u>440</u>	<u>229</u>
	<u>1,941</u>	<u>957</u>
Payables		
Smith International	3,440	2,149
Rutedis Finance	-	4,478
CVG Ferrominera Orinoco, C.A.	-	3,272
Other	<u>21</u>	<u>840</u>
	<u>3,461</u>	<u>10,739</u>

During the year ended September 30, 2010, remunerations paid to executives and directors amount to Bs 4.13 million in nominal amounts (Bs 6 million in nominal amounts in 2009). These payments will be notified to the SNV in order to comply with CNV-FG-010 form requirements.

Sidetur provides electricity and water services to Venprecar under 10-year agreements signed with utility suppliers. These agreements are automatically renewable for like periods. Venprecar reimburses Sidetur for the cost of these services. In addition, Sidetur and Venprecar share certain common expenses.

In May 1997, Orinoco Iron, C.A. signed an agreement with Brifer International, Ltd. (Brifer), whereby it would pay an annual royalty of US\$3 million, payable quarterly as of December 2001, for the technology used in Orinoco Iron’s plant. During the year ended in October 2003, Orinoco Iron, C.A. signed an amendment to the aforementioned agreement with Brifer establishing the deferment of its obligation to Brifer under the technology use agreement.

19. Main subsidiaries

The subsidiaries with the most significant operations at September 30, 2010 are the following:

Name	Participation %	Country	Segment
Siderúrgica del Turbio, S.A. “Sidetur” and its subsidiaries	100.00	Venezuela	Steel
International Briquettes Holding (IBH)	68.54	Cayman Islands	Briquettes

20. Discontinued operation

Until July 14, 2009, the Company controlled 68.54% of the shares of Venprecar and Orinoco Iron, companies under “nationalization” together with all other private domestic briquette companies (Note 1).

The results of the operations and cash flows of Venprecar and Orinoco Iron until June 30, 2009, when they were classified as investment in companies under “nationalization,” have been presented in the

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consolidated financial statements as a discontinued operation in conformity with International Financial Reporting Standard No. 5, “Non-current assets held for sale and Discontinued operations” (Note 2-x).

A breakdown of available-for-sale investment in companies under “nationalization” at September 30, 2010 and 2009 is shown below:

*(Thousands of constant bolivars
at September 30, 2010)*

	2010	2009
Breakdown of net assets of companies under “nationalization”		
Current assets		
Cash and cash equivalents	21,093	21,070
Accounts receivable	246,465	250,996
Inventories	46,604	45,568
Prepaid expenses and other current assets	<u>16,181</u>	<u>16,175</u>
Total current assets	330,343	333,809
Property, plant and equipment	3,306,609	3,270,245
Other non-current assets	<u>32,692</u>	<u>32,693</u>
Total assets	<u>3,669,644</u>	<u>3,636,747</u>
Loans and accounts payable (Note 21)	(513,571)	(465,974)
Deferred income tax	<u>(129,569)</u>	<u>(129,569)</u>
Total liabilities	<u>(643,140)</u>	<u>(595,543)</u>
Investment in companies under “nationalization”	<u>3,026,504</u>	<u>3,041,204</u>

Below is the movement of the investment in companies under “nationalization”:

*(Thousands of constant bolivars
at September 30, 2010)*

Balance at September 30, 2009	3,041,204
Collections and loans	(24,046)
Reclassifications	(26,159)
Operaciones RDI	<u>35,505</u>
Balance at September 30, 2010	<u>3,026,504</u>

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Below is a summary of discontinued operation accounts in the consolidated income statement for the nine-month period ended June 30, 2009:

*(Thousands of constant bolivars
at September 30, 2010)*

Discontinued operation	
Net sales	739,600
Cost of sales	<u>(871,603)</u>
Gross loss	(132,003)
General and administrative expenses	(143,570)
Other operating expenses, net	<u>(22,813)</u>
Loss before full financing income	<u>(298,386)</u>
Full financing income	
Interest and other financial expense, net	(14,081)
Exchange loss, net	(430)
Gain from net monetary position	<u>198,896</u>
	<u>184,385</u>
Loss before tax and minority interests in subsidiaries	<u>(114,001)</u>
Taxes	
Deferred income tax	<u>87,868</u>
	<u>87,868</u>
Loss before minority interests in subsidiaries	(26,133)
Minority interests in subsidiaries	<u>12,025</u>
Net loss from discontinued operation	<u>(14,108)</u>

Value added tax (in nominal amounts)

At June 30, 2009, the companies under “nationalization” Venprecar and Orinoco Iron had non-interest-bearing net value added tax (VAT) credits of Bs 110.6 million. This balance includes Bs 12.9 million in respect of requests for Special Tax Reimbursement Certificates approved in connection with resolutions issued by the National Integrated Customs and Tax Administration Service (SENIAT) during 2008 and 2009 for the tax periods of March, May, June, August, September, October and December 2008 and January 2009. Additionally, this balance includes Bs 79.7 million not yet approved and Bs 5.2 million for the June 2009 tax period that has not been requested.

At June 30, 2009, the company under “nationalization” Orinoco Iron had recorded Bs 11.9 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 Orinoco Iron management and its legal advisors, there is reason to believe that the final decision will be in favor of Orinoco Iron. In the opinion of Orinoco Iron management and its legal advisors, these tax credits are fully recoverable. Therefore, at June 30, 2009, no provision has been set aside in this connection. In addition, Venprecar and Orinoco Iron have recorded VAT withholdings made by local clients of Bs 0.9 million.

During 2009, the managements of Venprecar and Orinoco Iron recorded provisions for Bs 28.1 million to present VAT credits at their estimated realizable value. At June 30, 2009, the net balance of tax credits of the companies under “nationalization” was Bs 82.5 million, shown under Investment in companies under “nationalization” (Note 9).

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Litigations and other claims

In early June 2009, a maritime transportation company notified Orinoco Iron, subsidiary under “nationalization,” that an arbitration proceeding had been initiated in New York, U.S.A. under the Rules of the Society of Maritime Arbitrators Inc., headquartered in New York, for breach of the Contract of Affreightment dated November 25, 2007 and Charter Party dated September 19, 2008. These claims were for US\$10,773,000 and US\$336,434, respectively. In addition, the transportation company, seeking security for its claims, sought and obtained an attachment for US\$11,109,434 (under a special procedure applicable to maritime cases) before a U.S. Federal Court sitting in New York. At September 30, 2009, the transportation company and Orinoco Iron had appointed their respective arbitrators. However, these arbitrators had not appointed the Chairman of the arbitration panel, so the arbitration panel could not hear the plaintiff’s or the defendant’s allegations. In addition, the transportation company had not submitted any document or evidence to support any aspect of its claim. Until September 30, 2009, the transportation company had attached less than US\$50,000 in liquid funds which had been transferred by Orinoco Iron through banks branched in New York specified in the attachment order. Since this order had not yet been revoked, it would be possible for the transportation company to further encumber funds transferred by Orinoco Iron through these banks. Orinoco Iron’s external legal advisors believed it was impossible and premature to give any opinion or advice about the strength or weaknesses of claims or defenses of either party. Therefore, at September 30, 2009, Orinoco Iron management was unable to determine if a quantifiable obligation, to be settled in the future, existed. Since conditions for recognizing a provision had not been met, management had not set aside a provision in this connection.

During 2009, a lawsuit for Bs 44.2 million, in nominal amounts, was filed against Orinoco Iron for breach of the plant maintenance shutdown agreement. This claim was filed with the Business Conciliation and Arbitration Center (CEDCA) and at September 30, 2009, the arbitrators had been appointed and the Chairman had been recommended. Management and its external legal advisors believed there was a reasonable expectation of obtaining a favorable outcome for Orinoco Iron and, therefore, did not set aside a provision in this connection.

Tax matters

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 withhold 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 in nominal amounts, of which approximately Bs 5.4 million, in nominal amounts, 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. At June 30, 2009, Venprecar management and its legal advisor believed there was a reasonable expectation of obtaining a favorable outcome for Venprecar, especially regarding the amount of overdue interest on withholdings not paid within the legal timeframe.

21. Accounts receivable from companies under “nationalization”

In June 2008, Venprecar issued a promissory note for US\$76.63 million to the order of Invermetal Inc. guaranteed by Orinoco Iron and IBH, which was subsequently assigned to the subsidiary Rutedis Finance B.V. According to this promissory note, Venprecar undertook to pay principal and accrued interest under the following terms:

- i) To pay every December 31, March 31, June 30, and September 30 one twentieth (1/20) of the promissory note’s principal in U.S. dollars;

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- ii) The promissory note bears interest at 12% per annum during the first year and 14% per annum as of the second year;
- iii) Venprecar has the right to prepay, at any time and with no penalty, all or a portion of the principal together with accrued interest;
- iv) If there were a change in control, defined by a drop below 50% of the issuer or guarantor’s voting rights, Venprecar is obligated to prepay 105% of remaining principal and accrued interest within 10 days after the date on which control changed.

At September 30, 2010, the balance of this debt amounts to US\$53.8 million (Bs 231.34 million) (US\$47.2 million in 2009 (Bs 126.79 million in constant amounts at September 30, 2010)). The subsidiary is making the necessary collection arrangements and believes that the debt will be recovered; therefore, no provision has been set aside in this connection.

22. 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, 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, in nominal amounts, 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 in nominal amounts (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, 2010, based on the opinion of its legal advisors, Sivensa management did not set aside an additional provision to cover this contingent liability.

Environmental regulations

The Company is subject to Venezuelan environmental laws and regulations. To date, the Company is not involved in any environmental-related claims or litigations with Venezuelan environmental and health authorities.

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23. Analysis of monetary result for the year

An analysis of the monetary result for the year for continuing operations is provided below:

<i>(Thousands of constant bolivars at September 30, 2010)</i>	Years ended September 30,	
	2010	2009
Net monetary asset position at the beginning of the year	433,564	602,984
Transactions that decreased net monetary liability position		
Net sales	1,459,965	1,956,584
Other operating income (expense), net	(19,598)	282,415
Exchange gain (loss), net	23,398	(1,972)
Transactions that increased net monetary liability position		
Inventory purchases	(1,047,831)	(1,405,937)
Operating expenses	(178,976)	(181,921)
Dividends declared	(248,258)	(304,151)
Interest and other financial expense, net	(11,933)	(73,942)
Additions to fixed assets and prepaid expenses	(29,211)	(28,045)
Sale (purchase) of treasury stock	29	(3,713)
Investment in companies under “nationalization”	(483,769)	-
Deferred income tax recorded against equity	(157,197)	(219,722)
Tax expense	(89,125)	(74,990)
Estimated net monetary asset (liability) position at the end of the year	(348,942)	547,590
Net monetary asset (liability) position at the end of the year	<u>(285,822)</u>	<u>433,564</u>
Gain (loss) from net monetary position	<u>63,120</u>	<u>(114,026)</u>

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24. Supplementary consolidated financial statements expressed in nominal bolivars

The consolidated balance sheet and income statement expressed in nominal bolivars under the historic cost convention, which, except for the revaluation of fixed assets and related deferred tax, served as the basis for the preparation of the inflation-adjusted consolidated financial statements, are provided below as supplementary information (Note 2-y):

Supplementary consolidated balance sheet
September 30, 2010 and 2009

<i>(Thousands of nominal bolivars)</i>	2010	2009
Assets		
Current assets		
Cash and cash equivalents	285,418	349,934
Trading investments	-	21,680
Accounts receivable		
Trade and other	205,287	166,819
Related companies	1,941	766
Advances to suppliers	62,461	70,374
Inventories	202,094	176,229
Prepaid expenses and other current assets	<u>19,969</u>	<u>1,563</u>
Total current assets	777,170	787,365
Property, plant and equipment, net	1,141,108	1,003,197
Available-for-sale investments		
Investments in preferred shares	21,750	47,350
Investment in companies under “nationalization”	2,263,180	2,295,336
Accounts receivable from companies under “nationalization”	282,333	120,286
Deferred income tax	63,906	41,610
Other non-current assets	<u>2,207</u>	<u>2,622</u>
Total assets	<u>4,551,654</u>	<u>4,297,766</u>
Liabilities and Equity		
Current liabilities		
Short-term bank loans	20,000	59,613
Current portion of bonds payable	21,500	10,750
Accounts payable		
Suppliers	81,734	113,561
Related companies	3,461	8,595
Profit sharing, vacation and other employee accruals	58,864	42,769
Income tax	2,323	38,559
Other liabilities and accruals	<u>105,538</u>	<u>64,321</u>
Total current liabilities	293,420	338,168
Bonds payable	345,868	181,302
Accrual for employee termination benefits, net of advances and loans to employees	23,247	23,800
Other long-term liabilities and accruals	87,957	91,581
Deferred income tax	<u>445,130</u>	<u>261,802</u>
Total liabilities	<u>1,195,622</u>	<u>896,653</u>
Minority interests in subsidiaries	<u>649,387</u>	<u>703,759</u>
Equity	<u>2,706,645</u>	<u>2,697,354</u>
Total liabilities, minority interests and equity	<u>4,551,654</u>	<u>4,297,766</u>

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Supplementary consolidated income statement
Years ended September 30, 2010 and 2009

<i>(Thousands of nominal bolivars)</i>	2010	2009
Continuing operations		
Net sales	1,315,807	1,391,291
Cost of sales	<u>(1,021,635)</u>	<u>(1,070,460)</u>
Gross income	294,172	320,831
General and administrative expenses	(166,725)	(129,897)
Other operating income (expense), net	<u>(10,739)</u>	<u>207,387</u>
Income before full financing income (expense)	<u>116,708</u>	<u>398,321</u>
Full financing income (expense)		
Interest and other financial expense, net	(11,364)	(53,009)
Exchange gain (loss), net	<u>18,788</u>	<u>(1,590)</u>
	<u>7,424</u>	<u>(54,599)</u>
Income before tax and minority interests in subsidiaries	<u>124,132</u>	<u>343,722</u>
Income tax		
Current	(46,443)	(66,850)
Deferred	<u>(3,834)</u>	<u>13,657</u>
	<u>(50,277)</u>	<u>(53,193)</u>
Income before minority interests in subsidiaries	73,855	290,529
Minority interests in subsidiaries	<u>17,332</u>	<u>(9,923)</u>
Net income from continuing operations	91,187	280,606
Discontinued operation		
Net loss from discontinued operations	<u>-</u>	<u>(95,029)</u>
Net income	<u>91,187</u>	<u>185,577</u>