

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

**Report of Independent Accountants and Supplementary
Consolidated Financial Statements in U.S. Dollars
September 30, 2006**

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Report of Independent Accountants

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

We have audited the accompanying supplementary consolidated balance sheet of Siderúrgica Venezolana "Sivensa", S.A. (Sivensa) and its subsidiaries (Sivensa or the Group) at September 30, 2006, and the related supplementary consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, presented in U.S. dollars and prepared in conformity with the accounting bases described in Note 2. The preparation of these supplementary consolidated 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 audit. The accompanying consolidated financial statements include the accounts of the 50.002%-owned subsidiary Vicson, S.A. (Vicson), which show total consolidated assets of approximately US\$168 million at September 30, 2006 and consolidated net income of approximately US\$8.5 million for the year ended September 30, 2006. The consolidated financial statements of this subsidiary were audited by other independent accountants whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts and disclosures included for such subsidiary, is based solely on the report of the other independent accountants.

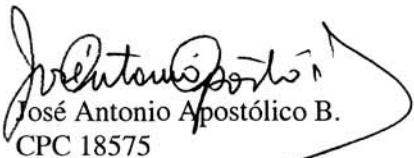
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis,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

As described in Note 2, Sivensa is regulated by the Comisión Nacional de Valores (CNV) of the Bolivarian Republic of Venezuela and, therefore, must present its legal and statutory consolidated financial statements in bolivars (Bs), in accordance with the rules for the preparation of financial statements of entities regulated by the CNV. In addition, for reporting purposes, Sivensa presents its supplementary consolidated financial statements in U.S. dollars in conformity with the accounting bases described in Note 2.

ESPIÑEIRA, SHELDON Y ASOCIADOS

In our opinion, based on our audit and the report of the other independent accountants, the accompanying supplementary 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, 2006, and the results of their operations and their cash flows for the year then ended, in conformity with the accounting bases described in Note 2.

Espiñeira, Sheldon y Asociados


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CPC 18575

December 12, 2006

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Balance Sheet
September 30, 2006 and 2005

<i>(Thousands of U.S. dollars)</i>	2006	2005
Assets		
Current assets		
Cash and cash equivalents (Notes 3 and 11)	124,645	84,103
Trading securities (Note 7)	10,668	123
Accounts receivable		
Trade and other (Note 4)	208,407	151,494
Related companies (Notes 8 and 20)	563	274
Advances to suppliers	11,700	11,017
Inventories (Note 5)	96,050	96,797
Prepaid expenses and other current assets (Note 15)	<u>9,810</u>	<u>12,309</u>
Total current assets	461,843	356,117
Revalued property, plant and equipment, net (Notes 6 and 10)	1,358,032	1,267,268
Investments available for sale (Notes 7 and 10)	78,282	30,000
Accounts with related companies (Notes 8 and 20)	161	161
Deferred income tax (Note 15)	15,179	22,699
Deferred charges and other non-current assets (Note 9)	<u>4,434</u>	<u>6,420</u>
Total assets	<u>1,917,931</u>	<u>1,682,665</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term bank loans (Note 11)	19,499	4,722
Current portion of long-term loans (Note 10)	2,677	9,424
Accounts payable		
Suppliers	132,369	101,086
Related companies (Note 20)	92,371	23,628
Profit sharing, vacation bonus and other personnel accruals	19,323	15,847
Taxes (Note 15)	12,360	2,750
Other current liabilities	<u>21,251</u>	<u>11,760</u>
Total current liabilities	299,850	169,217
Long-term loans (Note 10)	358,868	458,848
Bonds payable (Note 10)	97,078	-
Accounts payable to related companies (Note 20)	16,263	27,960
Long-term supplier (Note 12)	2,838	7,937
Accrual for employee termination benefits, net of advances and loans to employees	15,870	11,178
Other long-term liabilities and accruals (Note 13)	53,041	49,161
Deferred income tax (Notes 2-q and 15)	<u>206,419</u>	<u>179,699</u>
Total liabilities	1,050,227	904,000
Shareholders' equity, see accompanying statement (Note 16)	<u>867,704</u>	<u>778,665</u>
Total liabilities and shareholders' equity	<u>1,917,931</u>	<u>1,682,665</u>

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Statement of Income
Years ended September 30, 2006 and 2005

(Thousands of U.S. dollars, except average outstanding shares and income per share amounts)

	2006	2005
Net sales		
Exports	475,285	555,709
Domestic	<u>440,978</u>	<u>324,223</u>
	916,263	879,932
Cost of sales (Note 23)	<u>(782,780)</u>	<u>(639,249)</u>
Gross income	133,483	240,683
General and administrative expenses (Note 23)	(61,389)	(54,940)
Other operating expenses, net (Note 14)	<u>(20,752)</u>	<u>(1,840)</u>
Income before the following items	<u>51,342</u>	<u>183,903</u>
Interest and other financial expense, net (Notes 8, 10, 11 and 24)	(58,122)	(58,000)
Translation adjustment, net (Note 2-b)	(1,265)	32,681
Adjustment in present value of liabilities for put option (Note 8)	1,663	(21,172)
Adjustment in value of long-term loans with financial institution (Note 10)	-	(36,463)
Provision for investments (Note 7)	<u>-</u>	<u>(3,491)</u>
	<u>(57,724)</u>	<u>(86,445)</u>
Gain from exchange of shares available for sale (Note 7)	<u>26,709</u>	<u>-</u>
Income before taxes	20,327	97,458
Income tax for the year (Note 15)	(15,290)	(7,573)
Deferred income tax (Note 15)	<u>16,851</u>	<u>27,409</u>
Net income	<u>21,888</u>	<u>117,294</u>
Attributable to		
Sivensa shareholders, net of interest in IBH subject to put option	49,189	129,158
Minority interests in subsidiaries	<u>(27,301)</u>	<u>(11,864)</u>
	<u>21,888</u>	<u>117,294</u>
Net income per share attributable to Sivensa shareholders (in US\$)	<u>0.009</u>	<u>0.032</u>
Weighted average of outstanding shares (in thousands)	<u>5,457,506</u>	<u>4,083,502</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 Shareholders’ Equity
Years ended September 30, 2006 and 2005

<i>(Thousands of U.S. dollars)</i>	Capital stock	Share premium (discount)	Revaluation of fixed assets	Unrealized gain on investments	Net effect of combination (merger) of subsidiaries	Difference between fair value and cost of shares of subsidiary	Unappropriated earnings		Effect from translation of Proalco	Total shareholders’ equity	Minority interests	Total
							Legal reserve	(Deficit)				
Balances at September 30, 2004												208,233
	298,532	27,296	118,527	-	-	-	44,480	(358,384)	(1,536)	128,915	79,318	
Capital stock increase (Note 16)	20,605	(3,091)	-	-	-	-	-	-	-	17,514	-	17,514
Net income for 2005	-	-	-	-	-	-	-	129,158	-	129,158	(11,864)	117,294
Dividends declared in subsidiary	-	-	-	-	-	-	-	-	-	-	(600)	(600)
Change in revaluation	-	-	(11,424)	-	-	-	-	(1,865)	-	(13,289)	3,117	(10,172)
Effect from translation of foreign subsidiary	-	-	-	-	-	-	-	-	126	126	513	639
Unrealized gain on investments available for sale	-	-	-	11,880	-	-	-	-	-	11,880	-	11,880
Net effect of combination (merger) of subsidiaries (Note 21)	-	-	(4,478)	-	119,483	-	-	-	-	115,005	318,872	433,877
Call option (Note 10)	-	-	-	-	-	130,029	-	-	-	130,029	(130,029)	-
Balances at September 30, 2005												778,665
	319,137	24,205	102,625	11,880	119,483	130,029	44,480	(231,091)	(1,410)	519,338	259,327	
Capital stock reduction	(8,017)	(15,983)	-	-	-	-	-	-	-	(24,000)	-	(24,000)
Net income for 2006	-	-	-	-	-	-	-	49,189	-	49,189	(27,301)	21,888
Legal reserve reduction	-	-	-	-	-	-	(14,112)	14,112	-	-	-	-
Dividends declared in subsidiary	-	-	-	-	-	-	-	-	-	-	(8,277)	(8,277)
Realized gain from exchange of shares available for sale (Note 7)	-	-	-	(11,880)	-	-	-	-	-	(11,880)	-	(11,880)
Change in revaluation	-	-	73,022	-	-	-	-	(1,509)	-	71,513	10,883	82,396
Effect from translation of foreign subsidiary	-	-	-	-	-	-	-	-	(102)	(102)	(168)	(270)
Unrealized gain on investments available for sale	-	-	-	29,182	-	-	-	-	-	29,182	-	29,182
Balances at September 30, 2006												867,704
	<u>311,120</u>	<u>8,222</u>	<u>175,647</u>	<u>29,182</u>	<u>119,483</u>	<u>130,029</u>	<u>30,368</u>	<u>(169,299)</u>	<u>(1,512)</u>	<u>633,240</u>	<u>234,464</u>	

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

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Consolidated Statement of Cash Flows
Years ended September 30, 2006 and 2005

<i>(Thousands of U.S. dollars)</i>	2006	2005
Cash flows from operating activities		
Net income	21,888	117,294
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for investments and accounts receivable from associates	-	3,491
Depreciation and amortization	70,824	55,294
Exchange gain (loss)	1,265	(32,574)
Gain from exchange of shares available for sale	(26,709)	-
Unpaid accrued interest	28,675	15,987
Settlement with BHP-Billiton	(1,663)	21,172
Deferred income tax	(16,851)	(25,428)
Provision for slow-moving inventories	394	194
Allowance for doubtful accounts	258	448
Decrease in market value of investments	-	914
Adjustment in value of long-term loans with financial institution	-	36,463
Net change in operating assets and liabilities		
Trade accounts receivable	(57,171)	24,466
Related companies and other accounts receivable	49,694	(12,807)
Inventories	353	13,918
Advances to suppliers and other assets	4,006	(1,100)
Prepaid expenses	2,499	(6,860)
Employee termination benefits	4,692	6,125
Accounts payable, accrued expenses, deferred income tax and other liabilities	<u>31,788</u>	<u>(8,355)</u>
Net cash provided by operating activities	<u>113,942</u>	<u>208,642</u>
Cash flows from investing activities		
Additions to property, plant and equipment, net	(37,100)	(29,532)
Withdrawals of property, plant and equipment	24,388	-
Additions to investments	<u>(10,173)</u>	<u>-</u>
Net cash used in investing activities	<u>(22,885)</u>	<u>(29,532)</u>
Cash flows from financing activities		
Short-term loans received (paid), net	14,777	(11,131)
Long-term loans received	33,656	290,576
Long-term loans paid	(69,784)	(438,069)
Restructuring expenses paid	(2,922)	(12,237)
Dividends paid	(1,214)	(600)
Capital stock increase (reduction)	<u>(24,000)</u>	<u>17,514</u>
Net cash used in financing activities	<u>(49,487)</u>	<u>(153,947)</u>
Exchange loss on cash and cash equivalents	<u>(1,028)</u>	<u>(1,620)</u>
Cash and cash equivalents		
Increase for the year	40,542	23,543
Contributed by new consolidated subsidiaries	-	14,672
Balance at the beginning of the year	<u>84,103</u>	<u>45,888</u>
Balance at the end of the year	<u>124,645</u>	<u>84,103</u>
Supplementary information		
Cash paid during the year for		
Interest	7,304	70,567
Taxes	21,394	14,918
Supplementary information on non-cash activities		
Revaluation of fixed assets, net	82,396	(10,172)
Effect from translation of Proalco	(270)	639

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, 2006 and 2005

1. Operations

Siderúrgica Venezolana “Sivensa”, S.A. (Sivensa) is a Venezuelan company established in 1948, domiciled in Caracas, Venezuela, whose shares are traded on the Caracas Stock Exchange. The business objective of Sivensa and its subsidiaries (Sivensa or the Group) is to manufacture and sell steel products, reduced iron in briquette form and wire products (Note 19). All of its plants are located in Venezuela, except those of its subsidiary Proalco, subsidiary of Vicson (Note 21) (37.5% indirectly owned by the Group), which are located in Colombia. At September 30, 2006 and 2005, the Group has approximately 3,622 and 3,269 employees, respectively.

The accompanying consolidated financial statements have been approved by the Board of Directors on December 12, 2006.

Operations of the subsidiary International Briquettes Holding

During the year ended September 30, 2006, the subsidiary International Briquettes Holding (IBH) incurred significant operating losses resulting from:

- a) A drop in international briquette prices that affected income from sales.
- b) Existence of a previous long-term (five-year) fixed-price sales contract. During 2006 prices established in the contract were lower than production costs for the same period.
- c) Significant increase in primary raw material prices (iron ore and iron ore pellets) (Note 20).
- d) Failure to obtain discounts on raw material purchases under the Agreements for Guaranteed Supply of Raw Materials and Semi-finished Iron and Steel Products (CAMP) between December 2005 and July 2006.
- e) Effect of US\$8 million under the settlement agreement with Ythan (Note 22).
- f) Decrease in expected production levels due to problems with the supply and quality of raw materials.
- g) Increase in Value Added Tax (VAT) credits to Bs 175,317 million (equivalent to US\$81.5 million at September 30, 2006) not yet approved by the National Integrated Customs and Tax Administration Service (SENIAT). These credits are interest-free (Note 15).
- h) Significant increase in debt with the main raw materials supplier. This debt amounts to Bs 177,160 million (equivalent to US\$82.4 million) at September 30, 2006 (Bs 37,814 million, equivalent to US\$17.6 million in 2005) (Note 20). The Company is currently negotiating payment options with this supplier. This debt bears interest on overdue balances at between 13.83% and 15.85% during 2006 (Note 20).

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September 30, 2006 and 2005

Reorganization of subsidiaries and bank debt in process of restructuring

As described in Note 8, on November 5, 2004, BHP-Billiton, owner of 50% of Orinoco Iron’s capital stock, agreed to terminate the Joint Venture with IBH and to assign: 1) 2% of its shares in Orinoco Iron (representing 1% of that company’s capital stock) to IBH, and 2) the remainder of its shares, as well as its creditor rights regarding a loan to Orinoco Iron, C.A. of approximately US\$382 million (subordinated debt) to certain financial creditors of Orinoco Iron, C.A. Consequently, as of November 5, 2004, IBH owns 51% of Orinoco Iron’s capital stock. IBH assumed control of Orinoco Iron, C.A. operations and management. BHP-Billiton also assigned all of its shares in Operaciones RDI, C.A. (Operaciones RDI), International Briquette Marketing Services (IBMS) and Brifer to IBH. As a result, IBH now directly or indirectly owns all of the capital stock of these companies.

As described in Note 21, the merger by absorption of assets and liabilities of the subsidiary Orinoco Iron, C.A. into the subsidiary Venprecar became effective in August 2005. On August 18, 2005, prior to the merger process, it was agreed that IBH and the shareholders of Orinoco Iron, C.A. would contribute a portion of IBH’s equity in Venprecar and all of the shares of Orinoco Iron, C.A. to a new entity, IBH de Venezuela, C.A. Furthermore, as described in Note 8, in August 2005 Orinoco Iron, C.A. received contributions of approximately US\$477 million from its shareholder, recorded under Contributions pending capitalization, to offset accrued losses. These transactions increased IBH’s shareholding in Orinoco Iron, C.A. and reduced IBH’s shareholding in Venprecar.

As described in Note 10, once negotiations with BHP-Billiton and other agreements were completed and IBH subsidiaries were reorganized, IBH and its subsidiaries signed an agreement with creditor banks to maintain the current status of bank debt in process of restructuring (Standstill Agreement). This Agreement established new minimum debt repayment requirements including option contracts (put and call) on 39.14% of the shares held by creditor banks in the subsidiary IBH de Venezuela, C.A. Based on the terms of this agreement, the consolidated financial statements of IBH reflect 39.14% of the shares covered under the aforementioned option and recognize the results of the aforementioned subsidiary as from September 1, 2005 (Note 10).

2. Basis of Preparation and Accounting Policies

Sivensa is regulated by the Comisión Nacional de Valores (CNV) of the Bolivarian Republic of Venezuela and, therefore, must present its legal and statutory financial statements in bolivars (Bs) in accordance with the rules for the preparation of financial statements of entities regulated by the CNV (Note 16-b).

In addition, for reporting purposes, the Group presents supplementary consolidated financial statements in conformity with the accounting bases described in this Note and in U.S. dollars (US\$), which it considers its functional currency for accounting purposes. These bases of preparation are similar to International Financial Reporting Standards (IFRS), except as they relate to the functional currency of the subsidiary Sidetur. These financial statements have been prepared under the historic cost convention, with modifications for revaluation of property, plant and equipment.

Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries
Notes to the Consolidated Financial Statements
September 30, 2006 and 2005

a) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with these bases of preparation requires the use of certain accounting estimates. It also requires management to exercise judgment in the application of Group accounting policies and to make estimates and assumptions that affect the amounts of assets and liabilities at the balance sheet date, the amounts of income, costs and expenses reported for the year ended on that date, and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Areas involving a higher degree of judgment or complexity or those where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2-f, l and q.

b) Translation into U.S. dollars

Functional and presentation currency

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

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

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

The translation adjustment is included in the results for the year. Exchange gains and losses arise mainly from the effect of exchange rate fluctuations on net monetary items denominated in bolivars (Note 17) and are included in the consolidated statement of income for the year.

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c) Consolidation

Subsidiaries

Subsidiaries are all entities in which the Group has the power to control the financial and operating policies, including special-purpose entities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group (Note 21).

Increases in equity of subsidiaries are accounted for by the purchase method. Cost is measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair value of net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income (Note 5 and 9).

Business combinations under common control

Business combinations between commonly controlled subsidiaries are recorded by the economic entity method, which considers book values of subsidiaries at the transaction date (Note 21). The net effect of changes in equity in subsidiaries is directly recorded under the equity account Net effect of combination (merger) of subsidiaries. In addition, subsequent increases in shareholding are recorded at the fair value of net assets at the acquisition date. The difference between book value and cost is directly shown in equity under Difference between fair value and cost of shares of subsidiary (Note 8).

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

Transactions and minority interests

Minority interests represent third-party interests in the results and equity of partially owned subsidiaries.

d) Trade receivables

Trade receivables are carried at original invoice amount, which approximates fair value. The carrying value of trade receivables is reduced to their recoverable amount, via an allowance for doubtful accounts. The allowance for doubtful accounts is determined based on a review of all balances receivable at year-end closing and the amount so determined is included in the results for the year. Significant financial difficulties of the debtor, the likelihood that the debtor will undergo financial reorganization or enter bankruptcy, and default or delinquency in payments are indicators of impairment of trade receivables. Uncollectible accounts are written off as identified.

e) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of finished products, work in progress and raw materials are determined by the average cost method. The cost of finished products and work in progress includes raw materials, direct labor and other direct production overhead costs, but excludes borrowing costs. Net realizable value is the estimated selling price less completion costs and selling expenses. Spare parts and supplies, except for a subsidiary abroad, are expensed during the period they are purchased.

f) Property, plant and equipment

Buildings, machinery and equipment and land are shown at amounts determined by independent appraisers in 2003, 2004 and 2006, which represent fair values of these assets. All other property, plant and equipment is stated at historic cost. Historic cost includes expenses that are directly

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September 30, 2006 and 2005

attributable to the acquisition of the assets. Additions, renewals and improvements are included in the asset's carrying amount only when it is probable that future economic benefits associated with the asset will flow to the Group and can be measured reliably. The carrying value of replaced parts is disposed of. All other repairs and maintenance are included in the statement of income in the period 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 repair the asset for its intended use is capitalized.

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

The Group reviews for impairment its long-lived assets whenever events indicate that their carrying amount may not be recoverable. If the recoverable amount of an asset is considered to be lower than its carrying amount, an impairment loss is recognized immediately.

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

	Estimated useful lives (Years)
Buildings	10 to 50
Machinery and equipment	7 to 35
Tools	5 to 10
Vehicles	5 to 10
Furniture and fixtures	3 to 5

Land is not depreciated.

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

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

g) Intangible assets

Goodwill represents the excess in cost over the fair value of the Group's share in net identifiable assets of a subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under Other assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. At September 30, 2006, no impairment has been determined.

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Financial assets

The Group classifies financial assets according to the following categories: financial assets at fair value with changes in results, investments held to maturity, loans and accounts receivable, and financial assets available for sale. Classification is based on management's intention when purchasing assets. Management classifies financial assets upon purchase and revalues this classification at the presentation date of its financial statements.

Fair value with changes in results

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

Held to maturity

Investments with no fixed maturity, that management has the firm intention and ability to hold to maturity, are classified as held-to-maturity and shown at amortized cost using the effective interest rate method. At September 30, 2006 and 2005, the Group does not maintain investments in this category.

Loans and accounts receivable

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

Available for sale

Investments acquired with the intention of holding them for an indefinite period of time, as well as those not classified under any other category, are classified as available-for-sale. These investments are recorded at cost and subsequently carried at fair value. Unrealized gains and losses resulting from differences between cost and fair value are recognized in shareholders' equity under Unrealized gain on investments, net of deferred tax.

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

Fair values of investments are determined based on market values of shares at the presentation date of the financial statements (based on the Company's discounted cash flows since market values were not available in 2005).

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

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i) Capitalizable lease

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

j) Loans

Bank loans are initially recognized at fair value; they are subsequently shown at amortized cost by the effective interest method.

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 11).

Changes in loan terms and conditions are assessed to determine the effects on the accounting treatment given to the loan and the related costs incurred. If changes in conditions are accounted for as an extinguishment, all costs or commissions incurred are recognized as part of any income or loss derived from the extinguishment, if not, all costs or commissions incurred are adjusted to the book value of liabilities to be amortized over the remaining useful life of the modified loan (Note 10).

The Group 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.

k) Accrual for employee termination benefits

The Group accrues for its liability in respect of employee termination benefits, which are a vested right of employees, based on the provisions of the Venezuelan Labor Law and the prevailing collective labor agreement. This liability is presented net of advances granted to employees. Among other aspects, the Law provides for an indemnity equal to a minimum of 45 days of salary per year (up to a maximum of 90 days, depending on employee seniority), without retroactive adjustments.

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. Distribution ranges from a minimum 15-days' salary to a 120-day maximum. The Group accrued and paid a profit-sharing bonus to its employees of 120 days of salary in 2006 and 2005.

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

l) Provisions

Provisions must be recognized when the Group 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. Provisions are not recognized for future operating losses.

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

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m) Basic and diluted net income per share

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

n) Capital stock

Common shares are classified as equity. At September 30, 2006 and 2005, Sivensa has no preferred shares.

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

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

o) Revenue recognition

Revenue comprises the fair value of rights received from sale of goods in the normal course of the Group's activities. Income is shown net of returns, rebates and discounts after eliminating sales transactions to Group companies. Income from sales of goods is recorded as follows:

Sales of goods

Sales of goods are recorded when goods sold by the Group are dispatched and accepted by clients. Sales are shown net of discounts.

p) Cost of sales

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

q) Deferred income tax

The Group uses the asset and liability method of accounting for income tax. Under this method, deferred income tax reflects the net effect of the expected future tax consequences of: (a) temporary differences arising from application of enacted statutory tax rates applicable to future years to differences between the financial statement amounts and the tax bases of existing assets and liabilities, and (b) tax credits and tax loss carryforwards. In addition, the effect on deferred taxes of changes in statutory tax rates is recognized. A deferred tax asset is not recognized when such a deferred asset is not likely to be realized, in whole or in part.

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

The Group does not recognize a deferred income tax liability for temporary differences arising on investments in subsidiaries and associates when: a) Sivensa is able to control the reversal of the

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temporary difference, and b) it is likely that the temporary difference will not be reversed in the foreseeable future.

r) Cash equivalents

For purposes of the consolidated statement of cash flows, the Group considers as cash equivalents all highly liquid short-term investments maturing within three months as from the balance sheet date.

s) Fair value of financial instruments

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

t) Concentration of credit, foreign exchange and market risk

Group activities are exposed to certain financial risks: concentration of credit, foreign exchange, interest fluctuation and market risks.

Financial instruments exposed to concentration of credit risk consist primarily of cash equivalents and trade accounts receivable. Group cash is placed with a diversified group of financial institutions and trade accounts receivable of certain subsidiaries are concentrated in a small number of clients. The Group regularly assesses the financial condition of its clients.

In 2006 and 2005, Sivensa exported 52% and 63%, respectively, of its annual sales, mainly denominated in U.S. dollars. A portion of its costs and expenses is denominated in bolivars (Note 2-b). As a result, variations between local inflation rates and local currency devaluation could affect operating margin (Notes 2-b and 17).

The Group is exposed to interest rate fluctuation risks. Long-term loans and other financial obligations at variable interest rates, susceptible to market fluctuations, approximate their fair value. Loans and other financial obligations at fixed interest rates are shown at their amortized cost.

The Group is also exposed to the risk of steel price fluctuation on international markets, as well as interest rate fluctuations.

u) Accounting for derivative instruments and hedging activities

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

The Group does not engage in hedging activities and has identified no derivative instruments; except for hedging activities made by a Group subsidiary (Proalco in Colombia).

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 the Group operates in business segments described in Note 19 and operates basically in one country.

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w) Distribution of dividends

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

3. Cash and Cash Equivalents

Cash and cash equivalents at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Cash on hand and at bank	52,348	83,080
Short-term deposits	43,974	1,023
Non-negotiable bill of exchange	14,431	-
Bank deposits (Note 11)	<u>13,892</u>	<u>-</u>
	<u>124,645</u>	<u>84,103</u>

A foreign subsidiary of IBH has a US\$14,431,000 deposit with a foreign financial institution. The deposit is supported by a non-negotiable bill of exchange issued by the financial institution on behalf of the subsidiary. It earns interest at a fixed annual market rate and matures in December 2006. Interest will be paid at maturity.

The subsidiary Sidetur has a US\$13,800,000 deposit with a foreign financial institution earning interest at the annual market rate and maturing in December 2006. This deposit guarantees a short-term loan in bolivars (Note 11). In addition, Sidetur has a short-term deposit of US\$5 million guaranteeing two interest payments on bonds payable (Note 10).

Short-term deposits and placements earned interest at between 0.5% and 10% during 2006 (2% and 11% in 2005); these deposits mature between October and December 2006.

4. Accounts Receivable

Accounts receivable at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Trade (Note 10)	112,334	80,477
Provision for doubtful accounts	<u>(1,185)</u>	<u>(1,443)</u>
	111,149	79,034
Value added tax (VAT) and client withholdings (Note 15)	93,465	49,674
Export incentives and import duty drawbacks, net of provision	-	-
Insurance claim	-	17,929
Other	<u>3,793</u>	<u>4,857</u>
	<u>208,407</u>	<u>151,494</u>

Trade receivables of certain subsidiaries are highly concentrated in a small number of clients. In addition, certain accounts receivable are provided as bank loan guarantees (Note 10).

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At September 30, 2006 and 2005, amounts subject to reimbursement in respect of export incentives and import duty drawbacks established in the Venezuelan Customs Law amount to approximately US\$19.2 million and US\$12.7 million, respectively. It is Group policy to set aside provisions for the full carrying amounts and recognize income upon collection. During 2006 and 2005, approximately US\$1.3 million and US\$3.3 million, respectively, were collected in this connection.

In October 2004 a claim was made in respect of damage to a gas heating furnace in one of the four production trains at Orinoco Iron’s plant which led to the cessation of operations of this train for 166 days. Material damages of US\$3.6 million and loss of profit of US\$20 million were recognized by the plant’s insurance company. These amounts were paid by the insurance company in October and November 2005.

Below are the movements in the provision for doubtful accounts:

<i>(Thousands of U.S. dollars)</i>	Years ended	
	September 30,	
	2006	2005
Balance at the beginning of the year	1,443	1,957
Allowance for the year	-	448
Effect of exchange rate fluctuations and reductions	<u>(258)</u>	<u>(962)</u>
Balance at the end of the year	<u>1,185</u>	<u>1,443</u>

5. Inventories

Inventories at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Finished products	28,950	45,908
Work in progress	23,377	13,986
Raw materials and direct supplies (Note 20)	31,660	22,843
Materials in transit	12,115	13,818
Spare parts	598	765
Inventory provision	<u>(650)</u>	<u>(523)</u>
	<u>96,050</u>	<u>96,797</u>

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6. Property, Plant and Equipment

Property, plant and equipment comprises the following:

<i>(Thousands of U.S. dollars)</i>	Buildings, machinery and equipment	Tools	Vehicles	Land	Furniture and fixtures	Work in progress	Land and other assets available for sale	Total
At September 30, 2004	237,375	1,112	4,402	21,923	1,582	5,991	7,485	279,870
Effect of consolidation of new subsidiaries	883,311	-	939	-	1,150	3,676	4,279	893,355
Additions	22,159	244	1,371	3,680	717	12,627	-	40,798
Withdrawals, net	(11,395)	(3)	(192)	(631)	(19)	(6,389)	-	(18,629)
Depreciation expense	(51,639)	(179)	(526)	-	(699)	-	(7)	(53,050)
Translation adjustment	1,543	-	6	3	22	-	-	1,574
Revaluation	<u>83,276</u>	<u>-</u>	<u>94</u>	<u>39,304</u>	<u>35</u>	<u>-</u>	<u>641</u>	<u>123,350</u>
Net balance at the end of the year	<u>1,164,630</u>	<u>1,174</u>	<u>6,094</u>	<u>64,279</u>	<u>2,788</u>	<u>15,905</u>	<u>12,398</u>	<u>1,267,268</u>
At September 30, 2005								
Cost	1,592,443	4,605	13,083	24,494	9,876	15,905	10,000	1,670,406
Accumulated depreciation	(577,915)	(3,532)	(7,704)	-	(7,386)	-	-	(596,537)
Revaluation	<u>150,102</u>	<u>101</u>	<u>715</u>	<u>39,785</u>	<u>298</u>	<u>-</u>	<u>2,398</u>	<u>193,399</u>
Net balance	<u>1,164,630</u>	<u>1,174</u>	<u>6,094</u>	<u>64,279</u>	<u>2,788</u>	<u>15,905</u>	<u>12,398</u>	<u>1,267,268</u>
<i>(Thousands of U.S. dollars)</i>	Buildings, machinery and equipment	Tools	Vehicles	Land	Furniture and fixtures	Work in progress	Land and other assets available for sale	Total
Balance at the beginning of the year	1,164,630	1,174	6,094	64,279	2,788	15,905	12,398	1,267,268
Additions	37,879	300	1,821	392	886	9,407	89	50,774
Withdrawals, net	(4,678)	(2)	(153)	(2,106)	(31)	(17,418)	-	(24,388)
Depreciation expense	(63,417)	(108)	(883)	-	(696)	-	-	(65,104)
Translation adjustment	(672)	-	(6)	-	(6)	-	-	(684)
Adjustments for impairment	(521)	-	-	(1,154)	-	-	-	(1,675)
Revaluation	<u>121,162</u>	<u>(101)</u>	<u>6</u>	<u>11,072</u>	<u>(298)</u>	<u>-</u>	<u>-</u>	<u>131,841</u>
Net balance at the end of the year	<u>1,254,383</u>	<u>1,263</u>	<u>6,879</u>	<u>72,483</u>	<u>2,643</u>	<u>7,894</u>	<u>12,487</u>	<u>1,358,032</u>
At September 30, 2006								
Cost	1,624,451	4,903	14,745	21,626	10,725	7,894	10,089	1,694,433
Accumulated depreciation	(641,332)	(3,640)	(8,587)	-	(8,082)	-	-	(661,641)
Revaluation	<u>271,264</u>	<u>-</u>	<u>721</u>	<u>50,857</u>	<u>-</u>	<u>-</u>	<u>2,398</u>	<u>325,240</u>
Net balance	<u>1,254,383</u>	<u>1,263</u>	<u>6,879</u>	<u>72,483</u>	<u>2,643</u>	<u>7,894</u>	<u>12,487</u>	<u>1,358,032</u>

Depreciation expense for the years ended September 30, 2006 and 2005 was US\$65 million and US\$53 million, respectively, charged mainly to cost of sales.

During the years ended September 30, 2006 and 2005, the Group did not capitalize interest in property, plant and equipment.

Most property, plant and equipment of the subsidiary IBH of US\$1,004 million is pledged to secure bank loans of the subsidiary (Note 10).

In February 2006 the screening and drying plant was started-up by the subsidiary Orinoco Iron, S.C.S. The cost of the project was approximately US\$11.8 million.

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7. Investments

Investments at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Trading securities		
National Public Debt Bonds issued by the Bolivarian Republic of Venezuela, denominated in bolivars	10,000	-
Trust rights and Tax Reimbursement Certificates (TIDIS) issued by the Republic of Colombia	-	123
Tax Reimbursement Certificates (CERTs) issued by the Bolivarian Republic of Venezuela	<u>668</u>	<u>-</u>
	<u>10,668</u>	<u>123</u>
Investments available for sale		
Ternium, S.A., 1.64% of capital stock	78,282	-
Consorcio Siderurgia Amazonia, Ltd. (Amazonia), 3.4% of capital stock	<u>-</u>	<u>30,000</u>
	<u>78,282</u>	<u>30,000</u>

Trading securities

These investments are mainly National Public Debt Bonds denominated in bolivars issued by the Bolivarian Republic of Venezuela, which are shown at fair value at September 30, 2006.

Investments available for sale

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

At September 30, 2005, Sidetur owned 3.4% of the capital stock of Consorcio Siderurgia Amazonia, Ltd. (Amazonia), with an estimated fair value at that date of US\$30 million. Sidetur shares in Amazonia were pledged as collateral in favor of Sidor, C.A. creditor banks. The US\$11.9 million increase in the estimated fair value of shares in Amazonia at September 30, 2005 is shown in shareholders' equity under Unrealized gain on investments, net of deferred income tax.

In November 2005 Sidetur exchanged its shares in Amazonia for 33.8 million shares of Ternium, with a par value of US\$1 each, equal to 2.36% of that company's capital stock at that date.

Under applicable accounting standards, the exchange of shares in Amazonia for Ternium shares is considered an exchange of financial assets. Therefore, Sidetur recorded income of approximately US\$26.7 million at the exchange date, which includes settlement of the US\$4.64 million liability with Amazonia and the difference between the estimated value of Ternium at the exchange date and the book value of its equity in Amazonia, and a waiver of the aforementioned account.

In January 2006 Ternium made a public offer of shares as American Depositary Receipts (ADRs) and Sidetur's equity in the capital stock of Ternium decreased from 2.36% to 1.64%. Original Ternium shares were converted into 3.38 million ADRs provided as collateral to a foreign bank for a loan of US\$19 million taken out by the subsidiary Sidetur (Note 10).

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Under applicable accounting standards, the investment in Ternium has been classified as an investment available for sale since management intends to hold it for an indefinite period of time. To date, there are no plans to dispose of these shares. These shares may not be sold while they guarantee the aforementioned bank loan maturing in November 2007.

The US\$29.2 million increase in the fair value of the investment in Ternium at September 30, 2006 is shown in shareholders' equity under Unrealized gain on investments, net of deferred income tax.

8. Background of the Joint Venture with BHP-Billiton and Settlement Agreement

Background

In May 1997 Fior, a shareholder of IBH, transferred: i) most of the assets and agreements related to its briquette plant located in Ciudad Guayana, Venezuela and a portion of the liabilities related to this plant to its subsidiary Operaciones RDI; ii) all of the assets and agreements related to the construction of a briquette plant located in Ciudad Guayana, Venezuela, to its subsidiary Orinoco Iron, C.A. (Orinoco Iron), and iii) patents, intellectual property and proprietary rights to the technology involved in improved fluid bed iron-ore fines reduction process (the Improved Fior Process) to its subsidiary Brifer International Ltd. (Brifer). All of the aforementioned transfers were made in exchange for shares in each of these companies. Upon completion of these transactions, Fior contributed all of these shares to IBH.

In September 1997 IBH agreed with the Australian company BHP-Billiton to develop, construct and jointly operate the new plant as well as to operate the plant and net assets transferred by Fior to Operaciones RDI. Furthermore, at that same date, BHP-Billiton subscribed capital stock increases of Operaciones RDI and Orinoco Iron (Fior subsidiaries), giving BHP-Billiton a 50% share in these companies. BHP-Billiton also bought 50% of the shares in Brifer from IBH.

In August 2000 Orinoco Iron began partial commercial operations; however, certain equipment failures delayed start-up and production build-up and increased construction and plant start-up costs. Furthermore, Operaciones RDI incurred recurring operating losses and in March 2001 shut down its plant due to maintenance requirements and unfavorable market conditions. To date, no decision has been made as to how long this plant will be closed. At September 30, 2006, Operaciones RDI has assets of US\$2.7 million and a shareholders' equity deficit of US\$6.4 million (US\$3 million and US\$5.8 million, respectively, at September 30, 2005). Since 2001, Orinoco Iron has been unable to meet its obligations under the agreements originally signed with creditor banks and, hence, the related liability is overdue (default).

During 2002 IBH set aside a provision for loss in value of its investment in companies subject to the Joint Venture with BHP-Billiton, equivalent to its total net book value, due to recurrent losses incurred by these companies and Orinoco Iron's inability to restructure its overdue debt or obtain additional funding required. At September 30, 2004, the net book value of the IBH investment was reduced to zero. Since the shareholders' equity deficit of the companies subject to the Joint Venture with BHP-Billiton at September 30, 2004 was US\$42 million and IBH had guaranteed a portion of Orinoco Iron's financial debt, IBH set aside an additional provision of US\$21 million to recognize its share in the aforementioned deficit. This effect was considered for consolidation purposes of IBH with Orinoco Iron as from November 2004.

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Below is a summary of combined financial information at September 30, 2004 for the companies that until November 2004 were part of the Joint Venture with BHP-Billiton and were accounted for by the equity method:

(Thousands of U.S. dollars)

Combined balance sheet data at the end of the year

Current assets (liabilities), net - negative working capital	(779,026)
Property, plant and equipment, net	909,880
Total assets	1,120,221
Financial debt	467,175
Debt with BHP-Billiton	382,356
Total liabilities	1,162,654
Shareholders' equity deficit	(42,433)

Combined statement of income data

Net sales	139,678
Gross loss	(14,067)
Operating loss	(30,066)
Financing costs, net	(43,193)
Net loss for the year	(78,909)

Settlement with BHP-Billiton

On November 5, 2004, BHP-Billiton, owner of 50% of Orinoco Iron's capital stock until that date, agreed to terminate the Joint Venture with IBH and to assign: (1) 2% of its shares in Orinoco Iron to IBH (representing 1% of that company's capital stock), and (2) the remainder of its shares (representing 49% of that company's capital stock), as well as its creditor rights regarding a loan to Orinoco Iron of approximately US\$382 million (subordinated debt) to certain financial creditors of Orinoco Iron. At that date, the outstanding amount of this subordinated financial debt remained unchanged, as well as the net amount and conditions of the outstanding privileged financial debt at that date (senior debt) of US\$290 million with Orinoco Iron's creditor banks, which was overdue.

BHP-Billiton also assigned all of its shares in Operaciones RDI, International Briquette Marketing Services (IBMS) and Brifer to IBH. As a result, IBH now directly or indirectly owns all of the capital stock of these three companies. As part of this agreement, Orinoco Iron undertook to pay BHP-Billiton a US\$30 million settlement to be paid once creditor banks receive payment of principal and interest of US\$240 million (henceforth, for every US\$0.65 paid to banks, BHP-Billiton will receive US\$0.35). In addition, the matter of an outstanding royalty that BHP-Billiton owed Brifer was resolved (Note 18).

Consequently, as of November 5, 2004, IBH owns 51% of Orinoco Iron's capital stock and has assumed control of Orinoco Iron operations and management. Under applicable accounting standards, IBH began to consolidate Orinoco Iron's results for accounting purposes.

At September 30, 2005, based on the aforementioned agreements, Orinoco Iron recorded the following transactions: i) a debt with BHP-Billiton for the aforementioned amount of US\$30 million at its present net estimated value of approximately US\$20 million at September 30, 2006, considering that this liability will be paid between 2009 and 2012 (US\$21 million in 2005, considering that this liability would be paid between 2008 and 2009), all of which was recorded in the results for the respective years (Notes 13 and 14), and ii) a contribution to equity of the long-term debt with a financial institution kept in Orinoco Iron's books amounting to approximately US\$477 million

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recorded under Contributions pending capitalization to offset Orinoco Iron’s accrued losses, the effect of which is shown under Net effect of combination (merger) of subsidiaries in shareholders’ equity (Note 21).

Below is the combined financial information of the entities acquired at the acquisition date under the aforementioned agreements:

<i>(Thousands of U.S. dollars)</i>	Book value	Fair value
Combined balance sheet data at October 31, 2004		
Current assets, net	153,296	153,296
Property, plant and equipment, net	906,801	905,501
Other assets	97,966	96,966
Total assets	1,158,063	1,156,763
Current liabilities, net	768,657	768,657
Financial debt	361,411	361,411
Other liabilities	108,311	108,311
Total liabilities	1,238,379	1,238,379
Shareholders’ equity deficit	(80,316)	(81,616)

9. Deferred Charges and Other Non-current Assets

Deferred charges and other non-current assets comprise the following:

<i>(Thousands of U.S. dollars)</i>	Costs of debt restructuring (Note 10)	Goodwill	Other	Total
Balance at September 30, 2004	5,552	1,223	1,932	8,707
Additions	-	-	188	188
Withdrawals	-	-	(150)	(150)
Amortization	(1,621)	-	(704)	(2,325)
Balance at September 30, 2005	3,931	1,223	1,266	6,420
Additions	-	-	2,497	2,497
Withdrawals and/or reclassifications	-	-	334	334
Amortization	(3,931)	-	(886)	(4,817)
Balance at September 30, 2006	<u>-</u>	<u>1,223</u>	<u>3,211</u>	<u>4,434</u>

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10. Long-term Bonds and Bank Loans

Bonds payable at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Bonds payable	100,000	-
Cost of bonds issued	<u>(2,922)</u>	<u>-</u>
	<u>97,078</u>	<u>-</u>

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

<i>(Thousands of U.S. dollars)</i>	Sidetur	IBH	Vicson	Total
Balance at September 30, 2004	216,822	30,719	7,363	254,904
New indebtedness	-	301,497	4,217	305,714
Effect of combination (merger) (Note 8)	-	320,836	-	320,836
Amortizations	(59,055)	(376,703)	(2,311)	(438,069)
Exchange difference	<u>(115)</u>	<u>36,463</u>	<u>776</u>	<u>37,124</u>
	157,652	312,812	10,045	480,509
Restructuring expenses	<u>(903)</u>	<u>(11,334)</u>	<u>-</u>	<u>(12,237)</u>
Balance at September 30, 2005	156,749	301,478	10,045	468,272
Capitalization of interest	-	28,675	-	28,675
Amortizations	(57,652)	-	(12,132)	(69,784)
New indebtedness	19,000	-	14,656	33,656
Offsetting of amended and restated loan with participation acquired	(100,000)	-	-	(100,000)
Amortization of restructuring expenses	903	-	-	903
Exchange difference	<u>-</u>	<u>-</u>	<u>(177)</u>	<u>(177)</u>
Balance at September 30, 2006	<u>19,000</u>	<u>330,153</u>	<u>12,392</u>	<u>361,545</u>

Maturities of debt at September 30, 2006 are shown below:

<i>(Thousands of U.S. dollars)</i>	Sidetur	IBH	Vicson	Total
Years				
2007	-	-	2,677	2,677
2008	19,000	-	2,023	21,023
2009	-	4,640	7,301	11,941
2010 and beyond	<u>-</u>	<u>336,847</u>	<u>391</u>	<u>337,238</u>
	19,000	341,487	12,392	372,879
Restructuring expenses	<u>-</u>	<u>(11,334)</u>	<u>-</u>	<u>(11,334)</u>
	19,000	330,153	12,677	361,545
Current portion	<u>-</u>	<u>-</u>	<u>(2,677)</u>	<u>(2,677)</u>
Long-term portion	<u>19,000</u>	<u>330,153</u>	<u>9,715</u>	<u>358,868</u>

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Maturities of debt at September 30, 2005 are shown below:

<i>(Thousands of U.S. dollars)</i>	Sidetur	IBH	Vicson	Total
Years				
2006	5,486	400	3,538	9,424
2007	9,975	6,300	3,565	19,840
2008	11,670	7,560	2,939	22,169
2009 and beyond	<u>130,521</u>	<u>298,552</u>	<u>3</u>	<u>429,076</u>
Total	157,652	312,812	10,045	480,509
Restructuring expenses	<u>(903)</u>	<u>(11,334)</u>	<u>-</u>	<u>(12,237)</u>
	156,749	301,478	10,045	468,272
Current portion	<u>(5,486)</u>	<u>(400)</u>	<u>(3,538)</u>	<u>(9,424)</u>
Long-term portion	<u>151,263</u>	<u>301,078</u>	<u>6,507</u>	<u>458,848</u>

Sidetur

Refinancing of long-term restructured debt and bond issues

During 2006 Sidetur and Sivensa refinanced their 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, respectively, authorized a private issue of bonds of US\$100 million on the international market, maturing in 2016. Bonds were issued on May 3, 2006, and a fixed annual interest rate of 10% was set upon placement. All funds obtained were used to refinance the long-term debt described in this note.

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

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

At September 30, 2006, the consolidated financial statements of Sivensa show a balance of US\$100 million in respect of bonds issued in May 2006, net of issue costs of approximately US\$2.9 million.

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Amended and Restated Loan Agreement

In March 2006 Sidetur was notified by the Commission for the Administration of Foreign Currency (CADIVI) that its request for a creditor change in respect of the restructured long-term debt 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 and Sivensa's long-term debt (Amended and Restated Loan Agreement). Under this agreement, Sidetur agreed to release Sivensa from all obligations under the loan agreement in effect at that date and the creditor bank accepted Sidetur as the agreement's sole debtor. At the transaction date, the amount owed by Sidetur in respect of the long-term debt was US\$113 million. Long-term debt of Sidetur and Sivensa at September 30, 2005 amounted to approximately US\$158 million. Furthermore, under the refinancing agreement, Sivensa acquired 15% of Sivensa's capital stock from creditor banks of the long-term debt, owned by these banks as a result of the long-term debt restructuring agreements of May 2002 (Note 16).

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

- a) The debt will be repaid in “A” and “B” Tranches, with initial balances of US\$100 million and US\$13 million, respectively. Tranche “A” is repayable in 32 quarterly installments of US\$1,250,000 each as from the second quarter of 2008, and the final balance of US\$60 million will be repaid in the second quarter of 2016. Tranche “B” was paid at maturity on May 31, 2006. The annual interest rate for Tranche “A” will be 10.10%, payable on a quarterly basis beginning June 2006; the interest rate for Tranche “B” was LIBOR plus 4.10%, fully paid on May 31, 2006 along with principal.
- b) Occurrence of an event of default under the loan agreement will relate to an event of default under the bond issue agreement of May 3, 2006.
- c) The number of guarantees provided under the original loan agreement was reduced. Under the Amended and Restated Loan Agreement, only Sidetur's export accounts receivable and the bank account for export collections are pledged as guarantee for debt repayment (both existing under the original loan). The following are the remaining guarantees under the original loan agreement that were released: i) existing pledges on the shares of Sidetur, Vicson, Torcar and other subsidiaries, as well as commitments to pledge IBH shares in the future; ii) chattel and conventional mortgages on all of Sidetur's assets and certain assets of Sivensa and other subsidiaries, and iii) guarantees on local accounts receivable of Sidetur.
- d) Sidetur will pay a commission for Tranche “A” debt service. The amount paid in this connection during the year ended September 30, 2006 was approximately US\$87,500.

Under applicable accounting standards, the restructured long-term debt of Sivensa and Sidetur was recorded as debt repayment and the balance of costs incurred of approximately US\$4.8 million at May 3, 2006, in respect of the restructured long-term debt, was recognized as part of the result of such repayment (Notes 2-j and 9).

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On May 3, 2006, the subsidiary 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, 2006 include offsetting of the balance of the amended and restated loan owed by Sidetur with the participation acquired by its subsidiary.

At September 30, 2006, maturities of these obligations are shown below:

(Thousands of U.S. dollars)

Years	
2008	2,500
2009	5,000
2010	5,000
2011	5,000
2012 and beyond	<u>82,500</u>
	100,000
Costs of bonds issued	<u>(2,922)</u>
Long-term portion	<u>97,078</u>

Interest on debt incurred for issuing bonds amounts to approximately US\$4 million in 2006, of which approximately US\$2.1 million has been paid at September 30, 2006, and approximately US\$1.9 million is pending payment.

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).

Sidetur long-term loan

In May 2006 Sidetur took out a loan from the Deutsche Bank London Branch for US\$19 million, maturing in November 2007 at LIBOR per annum, plus 5%, calculated monthly. This loan is guaranteed by Ternium shares (Note 7). Funds obtained from this loan were used to purchase common shares representing 15% of Sivensa’s fully subscribed and paid-in capital stock at that date, as well as the Golden Share upon conversion into a common share (Note 16).

Long-term debt of Sivensa and Sidetur at September 30, 2005

In December 2001 creditor banks and Sivensa agreed on the terms of a new debt restructuring, which were approved by Sivensa’s shareholders at a Special Meeting held on January 25, 2002. In May 2002 Sivensa and its subsidiary Sidetur completed and executed the agreement with their creditor banks to restructure financial debt of approximately US\$255 million at that date.

In March 2005 Sivensa and its creditor banks modified the loan agreement. The modifications are mainly in respect of: a) sale of identified assets for contractual payment of US\$17 million scheduled for June 30, 2005, b) incorporation of mechanisms for payment with funds obtained from the issue of Sivensa’s common shares instead of sale of identified assets, c) extension of the loan repayment deadline from September 30, 2007 to December 31, 2009, d) transfer of US\$30 million from Tranche “B” to Tranche “A” on April 1, 2005 and US\$20 million at US\$5 million on a biannual basis as from

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October 1, 2005 until April 1, 2007, e) change of the interest rate applicable to Tranche “A” and Tranche “B,” f) change in the application of mandatory payments for cash flow surplus, and g) elimination of mandatory and optional debt conversion at maturity date. As a condition of this modification agreement, Sivensa paid US\$9.7 million of Tranche “A” of the loan agreement and was required to pay at least US\$15 million of Tranche “A” before June 30, 2005 using funds received from a capital increase.

Based on this modification, at a Special Shareholders’ Meeting held on April 15, 2005 it was resolved to increase capital stock through public trading of Sivensa shares. In addition, in June 2005 Sivensa issued common shares and paid US\$17 million of the mandatory payment scheduled for June 30, 2005. This payment allowed elimination of all obligations related to the sale of assets according to which all funds obtained from the sale of certain assets up to US\$17 million, including the shares of certain subsidiaries and real property, would be applied to the installment maturing on June 30, 2005 and payments of cash flow surplus over US\$17 million would be applied in inverse order of maturity. Also eliminated was the condition according to which Sivensa would have to: i) issue common shares for an amount that will allow it to deliver 20% of Sivensa shares to creditors after dilution (including 15% of the initial shares), and ii) transfer the assets to a trust fund on behalf of creditors, if required by the majority of creditors, in case Sivensa did not comply with the mandatory payment on the sale of identified assets.

The main terms and conditions of the loan agreement, after the aforementioned modifications, are summarized below:

- a) The restructured debt was repayable in two Tranches: Tranche “A” of US\$130 million and Tranche “B” of US\$125 million. Tranche “A” would be repaid in quarterly installments as from the third quarter of 2005, and the final balance would be repaid in the last quarter of 2009 or before that date using cash flow surplus. Tranche “B” would be repayable on December 31, 2009 or before that date using cash flow surplus. At September 30, 2005, Tranche “A” amounted to US\$65.5 million and Tranche “B” to US\$92 million. The interest rate for Tranche “A” would be LIBOR plus: a) 3.5%, until March 31, 2005; b) 4.5% until September 30, 2007, and c) 5.5% until December 31, 2009, payable on a quarterly basis. Tranche “B” would bear no interest until September 30, 2007; it would subsequently bear interest at LIBOR plus 5.5% until maturity.
- b) Conversion in the event of default would occur 90 days after noncompliance with a scheduled payment over US\$7.5 million. In this case, creditors could elect to convert the balance of the debt into Sivensa common shares. The conversion price would be determined by dividing the balance of the debt to be converted by the average price of a Sivensa share (the average price for a Sivensa share quoted on the Caracas Stock Exchange in the last three months before any determining date). Creditors will not hold more than 80% of Sivensa’s total common shares.
- c) As part of the restructuring agreement, Sivensa issued common shares to banks representing 15% of its outstanding shares. Creditors were issued a “Golden Share” of Sivensa and its subsidiary Sidetur granting them special voting rights regarding certain agreed-upon matters (subject to CNV rules) and the right to appoint one Director and Alternate to the Board of Directors of Sivensa and its subsidiary Sidetur with special rights as set out in the bylaws. A Golden Share would convert automatically into a common share, and directors appointed under the rights attaching to a Golden Share would become common directors once the loan had been fully repaid (either in cash or through share conversion). On June 30, 2005, Sivensa issued 332,291,932 common shares with a

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par value of Bs 20 each to banks, in order to maintain its 15% interest in Sivensa’s capital stock (Note 16).

- d) Obligations with respect to the restructured debt were guaranteed as follows: shares of the subsidiaries Siderúrgica del Turbio, S.A. “Sidetur”, Vicson, S.A., Tornillos Carabobo, C.A. (Torcar), Smith Brocas, Valvuvensa, Sidetur Holding Company, Sanchón Unico, C.A., C.A. Inversiones Siderúrgicas (Inverside), C.A. Simalla and Inversora Industrial del Centro, C.A.; Sidetur’s local and export accounts receivable; a chattel and conventional mortgage on Sidetur’s current and future unmortgaged assets, and certain shares of IBH as agreed.
- e) As part of the pledge structure of Sidetur’s shares, shares held by Sivensa were transferred to Tenedora de Acciones de Compañías Siderúrgicas “TECOSIDE” S.A., incorporated in Venezuela and formerly wholly owned by Sivensa. Sivensa gave a pledge in favor of creditors on its shares in TECOSIDE which, in turn, gave a pledge in favor of creditors on Sidetur’s shares. In addition, TECOSIDE issued Platinum Shares in favor of its creditors, which represented 49% of its capital stock. These shares would have the same rights and characteristics as Sivensa’s Golden Share and would be convertible into common shares representing 51% of TECOSIDE’s common shares in the event of noncompliance with the loan agreement. Prior to conversion into common shares, Platinum Shares had no economic rights in respect of dividends and liquidation. If Platinum Shares were not converted into common shares, they would be returned to Sivensa for mandatory conversion of loans. TECOSIDE would be allowed only to hold shares in Sidetur and could not contract debt.

In May 2006, and under the terms of the refinancing agreements of Sidetur and Sivensa’s long-term debt, at a Special Shareholders’ Meeting of TECOSIDE it was resolved to convert Platinum Shares into common shares and to transfer them to Sivensa.

During the year ended September 30, 2006, Sidetur and Sivensa paid US\$18.9 million of Tranche “A” principal and US\$38.7 million of Tranche “B” principal, and US\$3.3 million interest (US\$55.4 million of principal and US\$6.2 million interest in 2005), in respect of existing bank loans. In 2006 interest rates ranged between 6.7% and 9.5% (5.3 % and 8% in 2005).

Long-term debt of IBH and its subsidiaries

Orinoco Iron’s debt in process of restructuring and other

Background

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

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

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agreements on two bank accounts of Venprecar, and (9) an unconditional guarantee by Operaciones RDI.

In May 2001 BHP-Billiton paid creditor banks of Orinoco Iron US\$314 million in respect of its percentage (50%) of the secured debt. After this payment, BHP-Billiton became an Orinoco Iron creditor for this amount, subject to the same rights of its initial creditors and subordinated to debt settlement with creditor banks. In November 2004 BHP-Billiton assigned on its rights this debt to Orinoco Iron's creditor banks. This debt was subject to the settlement agreement with BHP-Billiton (Note 8).

During 2004 creditor banks began foreclosing certain guarantees set out in the loan agreement. At September 30, 2005, foreclosures include cash balances of US\$26.6 million and accounts receivable of US\$458 million (US\$23.2 million and US\$68.2 million, respectively, until September 30, 2004).

During 2006 interest payable to banks was calculated based on the terms of the original debt agreements at between 11.75% and 6.25% (10.25% and 6.67% at September 30, 2005), including additional interest charges on late payments of 2% beginning May 2001. At September 30, 2006, the balance of debt under restructuring process is US\$296 million and unpaid accrued interest is US\$44.6 million (US\$16 million at September 30, 2005).

Standstill Agreement

In August 2005, upon completion of negotiations and agreements described in Notes 8 and 20, and the restructuring agreements in respect of overdue commercial debt with subsidiaries of Corporación Venezolana de Guayana (CVG) mentioned in Notes 12 and 20, creditor banks of Orinoco Iron, C.A. (subsequently merged into Venprecar) and IBH and its subsidiaries signed an agreement to maintain the existing status of the bank debt in process of restructuring (Standstill Agreement). According to this agreement, default conditions in respect of the debt in process of restructuring still exist. Furthermore, the agreement shall not be construed as a waiver of the aforementioned default or as a novation of the debt and its original terms. Therefore, Venprecar is required to pay at least US\$304 million in principal and interest, fees and other amounts to which creditor banks are entitled. Under this agreement, financial institutions maintain all of the rights related to the guarantees originally subscribed in 1997 and creditor banks reserve the right to take any necessary legal action against the responsible parties in case Venprecar defaults on the aforementioned payments. Based on the terms of the agreement and during the standstill period, creditor banks shall forbear from enforcing their rights and/or take any other action in connection with the debt in process of restructuring provided that no new events of default have occurred in connection with the new obligations arising from the agreement as described below, except for action that, at their sole discretion, creditor banks may exercise in respect of accounts receivable from and revenues of Venprecar, Operaciones RDI and Orinoco Iron S.C.S. Based on the above, IBH presents the aggregate debt as a long-term liability, less estimated payments to be made for 12 months after the balance sheet date. In addition, put and call option contracts were signed by IBH or Venprecar in respect of 39.14% of shares in IBH de Venezuela, C.A. (indirectly 30% of Venprecar's shares) owned by creditor banks. Venprecar will have the necessary resources to conduct normal business operations, including those required for investments in fixed assets.

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The Standstill Agreement will remain in effect until a financial restructuring agreement is reached, provided that the following conditions are met:

a) Payment by IBH of an amount equivalent to US\$180 million and the equivalent of minimum interest calculated at LIBOR, plus 4.5%, payable quarterly. Under the loan agreement, the subsidiary IBH is required to pay the aggregate sum of minimum quarterly payments established in the agreement. At September 30, 2006, the loan balance amounts to US\$144 million (including minimum interest of US\$14.4 million). Minimum future payments are shown below:

(Thousands of U.S. dollars)

Years	
2007	-
2008	-
2009	4,640
2010 and beyond	124,920

During the year ended September 30, 2006, no minimum payments were made because cash balances and accounts receivable foreclosed by creditor banks during 2004 and 2005 exceeded the aggregate sum of minimum payments set out in the agreement.

- b) Payment of US\$194 million on October 1, 2014 and the equivalent at 6% interest. Unpaid accrued interest may be capitalized annually. The balance at September 30, 2006 is US\$192 million.
- c) Compliance with debt restructuring agreements with CVG’s subsidiaries described in Notes 12 and 20.
- d) Transfer by the subsidiary IBH de Venezuela, C.A. of 3% of Venprecar’s shareholding to CVG, upon approval and request of the latter.
- e) Compliance with call option contracts in favor of IBH and/or Venprecar on 39.14% of IBH de Venezuela, C.A. shares. Compliance with the put option in favor of creditor banks. The most significant terms and conditions are summarized below:
- i) The call option may be exercised once the bank debt balance in process of restructuring reaches US\$187,267,420, provided that no event of default of the terms of the Standstill Agreement has occurred. The call option may not be exercised after October 1, 2014.
 - ii) The put option may be exercised by creditor banks: a) as of October 1, 2014 at an exercise price of US\$80 million; b) if the bank debt in process of restructuring is paid in full before the agreed-upon date, or c) if an amount equivalent to the exercise price of the put option is available in a trust fund set up for this purpose. The put option may not be exercised after October 1, 2024.
 - iii) Banks will deposit 20% of funds received in excess of minimum payments in a trust fund to be used to guarantee any future purchase of IBH de Venezuela, C.A. shares by IBH or one of its subsidiaries.
 - iv) The exercise price for both put and call options will be in the range of US\$34 million to US\$80 million, depending on the exercise date.

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- v) Put and call options may only be exercised once a year, on the total number of shares or on one or more tenths of the shares covered under the options, at the established price for the periods as specified above. Once the company has bought all of the shares subject to the options, banks will deliver the Golden Share, which will become a common share.

Considering the terms of the aforementioned agreement and future estimates made by management, at September 30, 2005, IBH recorded a liability in respect of the present value of the exercise option price under Other long-term liabilities and accruals, which is expected to be exercised in 2010. At September 30, 2006, this liability amounts to US\$22,556,000 (US\$22,567,000 in 2005, which was expected to be exercised in 2009). Furthermore, IBH has consolidated 39.14% of the shares covered under the aforementioned option, and the results of the subsidiary of IBH de Venezuela C.A. are fully recognized as from September 1, 2005 even though the aforementioned option has not been legally exercised. The difference between the liability recorded in respect of the option and the equity value of the related shareholding is shown under Difference between fair value and cost of shares of the subsidiary in shareholders' equity. Management believes that expectations regarding possible exercise of the put option described herein are reasonable. However, management cannot guarantee future results since they depend on estimates involving known and unknown risks, uncertainties and other factors that may cause future actual results to vary substantially.

Approximately US\$11 million, in respect of expenses and commissions paid to third parties, directly associated with this agreement, is shown net in the book balance of bank debt in process of restructuring and will be amortized over the term of the loan.

Vicson

Long-term loans

Long-term financial obligations of the subsidiary Vicson at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Financial lease contracts with fixed interest rate at between 4.75% and 4.90% and 5.25%, maturing in 2007 (7.57% and 7.56% in 2005)	53	122
Promissory notes at variable interest rates (DTF) plus 2%, 2.75% and 3.25% in 2006, maturing in 2007, 2008 and 2009	8,363	4,673
Other liabilities (trustee rights purchase agreement), maturing in 2008	-	1,042
Financial obligations composed of four financial instruments of US\$1 million each, with interest at LIBOR plus 2%, 3.5%, 3.45% and 3.6265%, respectively, maturing in 2007 and 2008	<u>3,976</u>	<u>4,208</u>
	12,392	10,045
Less current portion	<u>(2,677)</u>	<u>(3,538)</u>
	<u>9,715</u>	<u>6,507</u>

Long-term obligations are guaranteed by mortgages for US\$4.7 million on the land where the Muña plant is located and pledge contracts on wiredrawing machines of the consolidated Colombian subsidiary for US\$3.7 million in 2006 and 2005, respectively.

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11. Short-term Bank Loans

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

<i>(Thousands of U.S. dollars)</i>	<u>2006</u>				<u>2005</u>		
	<u>Sidetur</u>	<u>Vicson</u>	<u>Proalco</u>	<u>Total</u>	<u>Vicson</u>	<u>Proalco</u>	<u>Total</u>
Promissory notes	13,857	-	-	13,857	-	-	-
Lines of credit	-	4,400	-	4,400	1,400	-	1,400
Letters of credit and financial overdrafts	-	-	<u>1,242</u>	<u>1,242</u>	-	<u>3,322</u>	<u>3,322</u>
	<u>13,857</u>	<u>4,400</u>	<u>1,242</u>	<u>19,499</u>	<u>1,400</u>	<u>3,322</u>	<u>4,722</u>

Sidetur

In June 2006 Sidetur signed a promissory note denominated in bolivars for Bs 29,793 million (equivalent to US\$13.8 million) with Citibank NV, maturing in December 2006. This promissory note, guaranteed by a bank deposit of US\$13.8 million with the aforementioned financial institution, bears interest at variable rates per annum at between 9% and 11.25%, payable monthly. The interest rate during 2006 was 9%, giving rise to interest expense of US\$345,581.

Vicson

The subsidiary Vicson has a short-term line of credit with several banks of US\$31.5 million and US\$33.9 million at September 30, 2006 and 2005, respectively, of which US\$5.6 million and US\$4.7 million, respectively, have been used. The difference is available for loans or to finance discounted documents. Interest was calculated at the rate of 7.37%, 9.07% and LIBOR plus 1% in 2006 and 6.95% in 2005 for loans in U.S. dollars, and at between 15% and 19% for loans in bolivars in 2005. One of the lines of credit is guaranteed by a bank deposit of US\$3 million and another line of credit is guaranteed by one of the shareholders up to US\$4 million. Vicson has letters of credit with a local bank in favor of a foreign supplier to guarantee purchases of raw materials amounting to US\$131,826, maturing on October 10, 2006.

12. Long-term Supplier

Long-term supplier at September 30 represents the following:

<i>(Thousands of U.S. dollars)</i>	<u>2006</u>	<u>2005</u>
CVG Electrificación del Caroní, C.A. (EDELCA)	<u>2,838</u>	<u>7,937</u>

On May 26, 2005, Orinoco Iron signed an agreement with EDELCA to restructure its accumulated commercial debt at April 30, 2004. Pursuant to the agreement, the debt was divided into two tranches: i) the first amounts to US\$7.1 million; principal bears interest at 90-day LIBOR plus 4%, which must be paid 30 days after principal has been paid in full; otherwise, accrued interest will become principal and bear interest. Amortization of principal will be in bolivars at the official exchange rate published by the Central Bank of Venezuela (BCV). The repayment schedule depends on the generation of excess cash by Orinoco Iron; ii) the second amounts to Bs 4,432 million (equivalent to US\$2.1 million); outstanding principal bears monthly interest at the weighted average lending rate agreed upon by the six main banks in the country published by BCV, which Orinoco Iron was required to pay within 30 days after principal was fully repaid; otherwise, accrued interest would become principal and accrue interest.

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During 2006 IBH amortized principal in respect of the first tranche by assigning Tax Reimbursement Certificates (CERTs) of approximately US\$5.7 million to the creditor, and recorded interest expense of approximately US\$353,000 in the first tranche. The second tranche, of Bs 4,432 million, was fully paid in June 2005.

13. Other Long-term Liabilities and Accruals

Other long-term liabilities and accruals at September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Cost of call option (Note 10)	22,556	22,567
Broken Hill Proprietary Company Limited (BHP-Billiton) (Note 8)	19,509	21,173
Environmental liabilities (Note 22)	5,258	-
Purchase agreement for fixed assets (Note 22)	-	3,151
Other (Note 22)	<u>5,718</u>	<u>2,270</u>
	<u>53,041</u>	<u>49,161</u>

14. Other Operating Expenses, Net

Other operating expenses, net for the year ended September 30 comprise the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Gain (loss) on sale of securities, net	(7,027)	1,471
Provision for settlement agreement with MV-Ythan (Note 22)	(8,000)	-
Other expenses, net	(5,336)	(622)
Impairment in value of investments and other assets	-	(2,156)
Adjustment in the value of fixed assets	(937)	(803)
Gain on sale of Tax Reimbursement Certificates	235	-
Income from sale of finmet, scrap metal and spare parts, net	<u>313</u>	<u>270</u>
	<u>(20,752)</u>	<u>(1,840)</u>

During the year ended September 30, 2006, the subsidiaries Sidetur, Vicson and IBH traded securities issued by the Bolivarian Republic of Venezuela for U.S. Treasury Bonds, resulting in a net loss of approximately US\$7 million (net gain of approximately US\$1.5 million in 2005).

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15. Taxes

The estimated tax benefit (expense) for the year ended September 30 comprises the following:

<i>(Thousands of U.S. dollars)</i>	2006	2005
Income tax, net of benefit from utilization of tax loss carryforwards	(15,290)	(7,573)
Deferred income tax	<u>16,851</u>	<u>27,409</u>
Total tax benefit (expense)	<u>1,561</u>	<u>19,836</u>

Income tax

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

	Years ended	
	September 30,	
	2006	2005
	%	%
Statutory tax rate	(34.00)	(34.00)
Reduction in the statutory tax rate resulting from		
Effect of exchanging Amazonia shares	57.20	-
Effect from variation in the tax bases of fixed assets and inventories	210.04	-
Translation into U.S. dollars for accounting purposes and the effect of taxes assessed in bolivars	-	(57.10)
Inflation adjustment for tax purposes	3.69	13.10
Tax loss carryforwards	(54.11)	65.30
Provisions	(168.10)	4.60
Deferred income tax	-	26.10
Other, net	<u>(7.04)</u>	<u>2.40</u>
Effective income tax rate	<u>7.68</u>	<u>20.40</u>

Venezuelan Income Tax Law requires an annual inflation adjustment of certain assets and liabilities, as well as net shareholder's equity, to compute taxable income. This adjustment represents an increase or reduction of taxable income. The annual inflation adjustment for tax purposes calls for a method of calculation that differs from that used for accounting purposes; the calculation is made by indexing all nonmonetary assets and liabilities, and initial fiscal shareholders' equity, based on changes in the Consumer Price Index (CPI) for the related tax year or for the period from the date of acquisition of the nonmonetary assets, assumption of nonmonetary liabilities, or increase or decrease in the initial fiscal shareholders' 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 and investment tax credits not offset or used to be carried forward for three years to reduce and offset tax expense. At September 30, 2006, Sivensa and certain subsidiaries have tax loss carryforwards of Bs 198,808 million (equivalent to US\$92 million), which may be used to offset future taxable income for the years ended 2007 and 2009 of approximately Bs 11,297 million

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(equivalent to approximately US\$5 million) and Bs 187,511 million (equivalent to approximately US\$87 million), respectively.

The components of the deferred income tax assets (liabilities) are shown below:

<i>(Thousands of U.S. dollars)</i>	<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>
Tax loss carryforwards	351	15,930
Difference in tax base of inventories	7,069	4,570
Difference in tax base of investments	1,887	-
Allowances and provisions not deductible until paid	<u>5,872</u>	<u>2,583</u>
	<u>15,179</u>	<u>23,083</u>
Included in		
Deferred income tax asset (long-term portion)	<u>15,179</u>	<u>22,699</u>
Exchange difference taxable when collected	(22,869)	(21,339)
Difference in tax base of fixed assets	(167,473)	(151,017)
Difference in tax base of investments	(15,034)	(6,163)
Allowances and provisions not deductible until paid	<u>(1,043)</u>	<u>(1,180)</u>
Deferred income tax liability (long-term portion)	<u>(206,419)</u>	<u>(179,699)</u>
Included in		
Deferred income tax liability (long-term portion)	<u>206,419</u>	<u>(179,699)</u>

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

	Tax loss carryforwards	Other accruals	Adjustments of fixed assets	Adjustments of inventories	Adjustments of investments	Provisions	Total deferred
Deferred income tax asset							
At September 30, 2004	-	-	-	312	-	3,815	4,127
Credits (charges) to the statement							
of income	<u>15,930</u>	-	-	<u>4,258</u>	-	(1,232)	<u>18,956</u>
At September 30, 2005	15,930	-	-	4,570	-	2,583	23,083
Credits (charges) to the statement							
of income	<u>(15,579)</u>	-	-	<u>2,499</u>	<u>1,887</u>	<u>3,289</u>	<u>(7,904)</u>
At September 30, 2006	<u>351</u>	-	-	<u>7,069</u>	<u>1,887</u>	<u>5,872</u>	<u>15,179</u>
Deferred income tax liability							
At September 30, 2004	-	19,279	44,694	-	-	-	63,973
Charges (credits) to the statement							
of income	-	2,060	(11,736)	-	43	1,180	(8,453)
Charges to revaluation	-	-	118,059	-	-	-	118,059
Charges (credits) to unrealized gain from investment	-	-	-	-	<u>6,120</u>	-	<u>6,120</u>
At September 30, 2005	-	21,339	151,017	-	6,163	1,180	179,699
Charges (credits) to the statement							
of income	-	1,530	(26,105)	-	(43)	(137)	(24,755)
Charges to revaluation	-	-	42,561	-	-	-	42,561
Charges (credits) to unrealized gain from investment	-	-	-	-	<u>8,914</u>	-	<u>8,914</u>
At September 30, 2006	-	<u>22,869</u>	<u>167,473</u>	-	<u>15,034</u>	<u>1,043</u>	<u>206,419</u>

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Value 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 VAT rate is set annually in the Venezuelan Budget Law. The tax rate was set at 14% (15% from September 1, 2004 to July 2005). The Law sets out special zero tax rate for exporters, granting them the right to recover tax credits from the purchase or import of goods and services based on the ratio of export sales to total sales.

At September 30, 2006, IBH subsidiaries have non-interest-bearing value added tax (VAT) credits of Bs 175,317 million (equivalent to US\$81,543,000). This balance includes Bs 13,732 million (equivalent to US\$6,387,000) from 2005 in respect of tax reimbursement requests approved in accordance with the resolution issued by SENIAT during 2006 for tax periods between February and April 2005. In addition, Bs 122,547 million (equivalent to US\$56,999,000) is in respect of tax periods between March 2005 and August 2006 in connection with tax reimbursement requests that have not been approved. Furthermore, Bs 39,038 million (equivalent to US\$18,157,000) comprise tax credits to be requested at September 30, 2006 as follows: Bs 15,701 million (equivalent to US\$7,303,000) between May and July 2006 for Venprecar (Venprecar's last exports took place in July 2006) and Bs 23,337 million (equivalent to US\$10,854,000) for Orinoco Iron in September 2006.

During October and November 2006, IBH requested tax credits from SENIAT for May and July 2006 for Venprecar amounting to Bs 8,499 million (equivalent to US\$3,953,000) and tax credits for Orinoco Iron S.C.S. for September 2006 amounting to Bs 14,315 million (equivalent to US\$6,658,000). Requests for the remaining tax credit balance of Bs 16,224 million (equivalent to US\$7,546,000) are yet to be made.

In the opinion of IBH management, these tax credits are fully recoverable. Therefore, at September 30, 2006, it has not set aside a loss provision in this connection.

During 2006 tax credits requested during 2005 were recovered through tax reimbursement certificates (CERTs).

Bank debit tax

In March 2002 the Venezuelan government enacted the Bank Debit Tax Law. This tax is levied upon debits or withdrawals made from current and savings accounts, custody deposits, or any other type of demand deposit, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by individuals or corporations with Venezuelan banks and other financial institutions over Bs 1,176,000. The bank debit tax rate was set at 0.5% from January 2004.

The National Assembly approved Decree No. 38,375 repealing the bank debit tax, published in the Official Gazette on February 8, 2006, effective two days thereafter.

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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, 2005, the Company made the transfer-pricing study and prepared all the documentation needed to file a transfer pricing return for information purposes. The results of this study determined that computation of transfer prices had no significant effect on taxable income. The study for 2006 is in process.

16. Shareholders' Equity

a) Capital stock

At September 30, 2006, Sivensa's subscribed and paid-in capital stock is represented by 4,883,031,334 common shares with a par value of Bs 20 each (5,744,742,855 common shares and one Golden Share with a par value of Bs 20 each at September 30 2005). The Company's authorized capital stock is Bs 141,190,196,480.

At a Special Shareholders' Meeting on April 7, 2006, Sivensa was authorized to purchase common shares representing 15% of the Company's subscribed and paid-in capital stock, as well as a Golden Share upon its conversion into a common share. These shares were owned by the financial creditors of Sidetur and Sivensa, assigned under the terms and conditions of the long-term debt restructuring of the Company and its subsidiary Sidetur agreed to in May 2002. The amount set for the purchase of these shares was US\$24 million, partially financed by a loan of US\$19 million granted by a foreign bank to Sidetur and guaranteed by Ternium shares (Notes 7 and 10).

Furthermore, at the Special Shareholders' Meeting in April 2006 it was resolved to reduce Sivensa's capital stock by an amount equivalent to the par value of the shares acquired from creditor banks, and Sivensa's Board of Directors, was designated to execute this capital reduction. At a Sivensa Board of Directors' Meeting on May 12, 2006, it was resolved to reduce Sivensa's capital stock by an amount equivalent to the sum of the par value of all acquired shares amounting to Bs 17,234,230,440 (equivalent to US\$8 million), representing 15% of Sivensa's capital stock at that date. The difference between the par value of the shares and their cost of approximately US\$16 million, in net amounts, is shown under the equity account Share premium (discount).

At a Special Shareholders' Meeting on April 15, 2005, it was resolved to increase Sivensa's capital stock between a minimum of Bs 32,250,000,000 and a maximum of Bs 40,312,000,000, through a public offer of company shares.

The public offer was completed on June 15, 2005. Sivensa's capital stock increased by 2,214,987,944 common shares, of which 1,882,696,011 were fully subscribed and paid-in as a result of the public offer and 332,291,932 were fully subscribed and paid-in through capitalization of debt derived from commissions on the amended long-term loan agreement in effect at that date (Note 10). In addition, the incorporation document and bylaws were amended.

At a Special Shareholders' Meeting on January 25, 2002, the shareholders approved the issue of the Golden Share with a par value of Bs 20 to be subscribed by creditor financial institutions. The

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following matters, among others, were also approved at the aforementioned Special Shareholders' Meeting:

- a) The statutory system applicable to the Golden Share and future capitalization of debt, both mandatory and optional, by creditor financial institutions under the terms and conditions of the restructuring through capital stock increases by the Board of Directors and/or Shareholders' Meeting through issuance of new common shares to be subscribed by the financial institutions.
- b) Temporary suspension of cash dividends by Sivensa.
- c) Reorganization of subsidiaries and Sivensa's investment in these subsidiaries.
- d) All guarantees to be granted for financial debt restructuring.
- e) The amendment to the incorporation document and bylaws in order to adjust them to the debt restructuring requirements.

With the refinancing of Sidetur and Sivensa debt, the Golden Share system mentioned above in a), temporary suspension of dividends mentioned in b), and guarantees granted in d) of this Note were rendered without effect (Note 10).

The Shareholders' Meeting on April 7, 2006 also authorized Sivensa's Board of Directors to modify the Company's charter to adapt it to the terms agreed upon in the Amended and Restated Loan Agreement, mainly to eliminate the Golden Share system and the restriction on dividend payments.

Under Sivensa's bylaws, except for the special voting rights granted to the Golden Share, 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.

The bylaws established that the Golden Share would be legally converted into a common share when obligations under the debt restructuring agreement for Sidetur and Sivensa had been fully settled (through cash payments or share conversions). This conversion took place in 2006.

b) Dividends

Sivensa pays dividends in bolivars (Note 2-a). The Capital Markets Law requires companies with publicly traded shares to distribute to their shareholders at least 50% of their net profit (in bolivars) after income tax and appropriation to legal reserves. In addition, at least one-half of this dividend must be paid in cash. In conformity with the rules of CNV, the basis for distribution of dividends and statutory equity does not include equity in the results of subsidiaries.

During the year ended September 30, 2005, the restriction on dividend payments set out in the long-term debt restructuring agreements of May 2002 was in effect. In September 2001, based on requirements of creditor banks and as part of the negotiations for financial debt restructuring mentioned in Note 10, Sivensa made a request to CNV for exemption from the obligation to declare and pay minimum dividends for a six-year period as from the effective date of the aforementioned debt restructuring in Note 10. This request was approved by CNV on October 23, 2001 through Resolution No. MF-CNV-CJ-138, and approved at the Special Shareholders' Meeting of January 25, 2002.

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c) Legal reserve

The legal reserve is a requirement whereby Venezuelan companies must set aside 5% of their net income until the reserve reaches the equivalent of at least 10% of their capital stock, based on the Company's primary financial statements (Note 2).

17. Foreign Currency

At September 30, the Group has the following balances in foreign currency other than the U.S. dollar (bolivars) at the dates indicated below:

<i>(Millions of bolivars)</i>	<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	138,608	54,905
Trading securities	22,936	-
Trade accounts receivable and related companies	29,713	158,553
Advances to suppliers	5,280	11,995
Deferred income tax	32,635	49,628
Deferred charges and other non-current assets	<u>700</u>	<u>-</u>
Total monetary assets	<u>229,872</u>	<u>275,081</u>
Liabilities		
Bank loans and current portion of long-term loans	18,212	19,356
Suppliers and other liabilities	374,084	273,748
Deferred income tax	<u>196,340</u>	<u>386,353</u>
Total monetary liabilities	<u>588,636</u>	<u>679,457</u>
Total net monetary (liabilities), in bolivars	<u>(358,764)</u>	<u>(404,376)</u>
Total net monetary (liabilities), equivalent in millions of U.S. dollars	<u>US\$166.87</u>	<u>(US\$188.08)</u>

The Group does not engage in hedging activities in connection with its balances and transactions in bolivars, except for hedging transactions conducted by the subsidiary Vicson.

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

	<u>Years ended</u>	
	<u>September 30,</u>	<u>September 30,</u>
	<u>2006</u>	<u>2005</u>
Year-end exchange rate (Bs/US\$1)	2,150	2,150
Average exchange rate for the year (Bs/US\$1)	2,150	2,035
Increase in the Consumer Price Index (%)	15	15

On January 21, 2003, the Venezuelan government announced the closure of the foreign exchange market and, on February 5, 2003, the Ministry of Finance and BCV began to publish the legal instruments regulating the exchange control regime, one of which established initial official exchange rates of Bs 1,596/US\$1 (purchase) and Bs 1,600/US\$1 (sale). On that same date, the government

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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 of all incoming currency to BCV. BCV now 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, as from that date, of Bs 2,144.60/US\$1 (purchase) and Bs 2,150/US\$1 (sale).

Sivensa and Sidetur complied with certain requirements set out in the regulations of CADIVI 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. Until September 30, 2006, Sidetur has received US\$149 million from CADIVI. 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).

Orinoco Iron, C.A. (currently merged into Venprecar) complied with requirements set out in regulations issued by CADIVI for registration of its foreign debt of US\$728 million at January 22, 2003. In connection with that amount, Orinoco Iron, C.A. received approval to purchase foreign currency and Authorizations for Currency Liquidation of approximately US\$147 million, which were not used. At September 30, 2006, the balance of that debt recorded by the subsidiary Venprecar after foreclosures by creditor banks (Note 10) is approximately US\$341 million. These foreclosures were notified to CADIVI.

18. Royalties

Brifer and VAI entered into an agreement to market the Finmet process (iron-ore direct reduction process) giving Brifer and VAI exclusive promotion and selling rights on the Finmet process and its improvements in certain countries. Under this agreement, Brifer is entitled to receive from VAI a minimum amount of US\$6 per metric ton on the nominal design capacity of any new Finmet plant built within VAI jurisdiction. Brifer, or a subsidiary of Brifer, will receive 50% of this royalty once assembly of electromechanical installations begins. The remaining 50% shall be paid on the date of the provisional acceptance of the plant. As of 2002 between 75% and 85% of royalties will be payable 30 days following signature of the agreement, and the remaining amount will be payable following provisional acceptance of the plant. Finmet process patents and rights are jointly owned by Brifer and VAI.

In 1996 the Australian company BHP-Billiton began assembly of the electromechanical installations of a plant in Port Hedland, Australia, with a designed annual capacity of 2 million metric tons, representing total royalties of US\$12 million for Fior. Brifer (a wholly owned subsidiary of Fior at that date) earned US\$6 million in 1996 in income from royalties paid on this process. In 1999 plant capacity was determined to be higher than originally estimated; therefore, Brifer recognized US\$1 million in additional income from royalties during 1999. The remaining US\$6 million payable

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to Brifer and recognized as income upon provisional acceptance of the plant was negotiated by IBH and BHP-Billiton (Note 8). It was agreed that BHP-Billiton does not owe Brifer in this connection.

19. Business Segment Reporting

Group operations are divided into three business segments as follows:

Briquettes

Iron briquettes are produced at IBH plants. Most briquette production is exported and the remainder is used at certain of Siderur's steel mills.

Steel (Siderur)

Siderur produces steel bars and other long-rolled products mainly for sale on the local market and the rest is exported.

Steel wire (Vicson)

Vicson produces wire and wire products used in construction, agriculture and manufacturing. Vicson's main products are barbed wire, mattress-coil wire, wire for beaded ends for tires, galvanized wire, nails, cyclone and chicken-wire fencing.

Relevant data is provided below for each market segment:

Segment results for the year ended September 30, 2006 are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
Net sales								
Exports	351,405	68,688	55,192	-	-	475,285	-	475,285
Local market	<u>72,733</u>	<u>342,161</u>	<u>87,432</u>	<u>10,067</u>	<u>-</u>	<u>512,393</u>	<u>(71,415)</u>	<u>440,978</u>
	<u>424,138</u>	<u>410,849</u>	<u>142,624</u>	<u>10,067</u>	<u>-</u>	<u>987,678</u>	<u>(71,415)</u>	<u>916,263</u>
Operating income (loss)	<u>(54,837)</u>	<u>103,085</u>	<u>13,732</u>	<u>663</u>	<u>10,055</u>	<u>72,698</u>	<u>(21,356)</u>	<u>51,342</u>
Interest and other financial income (expense), net	<u>(34,949)</u>	<u>(17,552)</u>	<u>(2,362)</u>	<u>18</u>	<u>(3,277)</u>	<u>(58,122)</u>	<u>-</u>	<u>(58,122)</u>
Income before taxes	(89,786)	113,098	10,913	680	6,778	41,683	(21,356)	20,327
Taxes	<u>164</u>	<u>14,986</u>	<u>(2,808)</u>	<u>(749)</u>	<u>2,111</u>	<u>13,704</u>	<u>(12,143)</u>	<u>1,561</u>
Net income (loss)	<u>(89,622)</u>	<u>128,084</u>	<u>8,105</u>	<u>(69)</u>	<u>8,889</u>	<u>55,387</u>	<u>(33,499)</u>	<u>21,888</u>
Minority interests	<u>(3,318)</u>	<u>6</u>	<u>(440)</u>	<u>-</u>	<u>-</u>	<u>(3,752)</u>	<u>(23,549)</u>	<u>(27,301)</u>

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Segment results for the year ended September 30, 2005 are as follows:

<i>Thousands of U.S. dollars</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
Net sales								
Exports	407,235	96,904	51,570	-	-	555,709	-	555,709
Local market	<u>31,214</u>	<u>243,925</u>	<u>71,039</u>	<u>9,615</u>	<u>-</u>	<u>355,793</u>	<u>(31,570)</u>	<u>324,223</u>
	<u>438,449</u>	<u>340,829</u>	<u>122,609</u>	<u>9,615</u>	<u>-</u>	<u>911,502</u>	<u>(31,570)</u>	<u>879,932</u>
Operating income (loss)	<u>112,547</u>	<u>62,119</u>	<u>9,114</u>	<u>1,056</u>	<u>(1,212)</u>	<u>183,624</u>	<u>279</u>	<u>183,903</u>
Interest and other financial expense, net	<u>(44,811)</u>	<u>(9,581)</u>	<u>(2,218)</u>	<u>(1,382)</u>	<u>-</u>	<u>(57,992)</u>	<u>(8)</u>	<u>(58,000)</u>
Adjustment in value of long-term loans	<u>36,463</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,463</u>	<u>-</u>	<u>36,463</u>
Provision for investments	<u>3,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,491</u>	<u>-</u>	<u>3,491</u>
Income before taxes	36,329	48,380	6,918	1,085	35,570	128,282	(30,824)	97,458
Taxes	<u>17,955</u>	<u>(6,474)</u>	<u>(3,187)</u>	<u>(543)</u>	<u>(168)</u>	<u>7,583</u>	<u>12,253</u>	<u>19,836</u>
Net income (loss)	<u>54,284</u>	<u>41,906</u>	<u>3,731</u>	<u>542</u>	<u>35,402</u>	<u>135,865</u>	<u>(18,571)</u>	<u>117,294</u>
Minority interests	<u>(45,775)</u>	<u>(1)</u>	<u>(219)</u>	<u>-</u>	<u>-</u>	<u>(45,995)</u>	<u>34,131</u>	<u>(11,864)</u>

Other segment amounts at September 30, 2006 included in the statement of income are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
Depreciation (Note 5)	37,495	20,093	5,905	649	1,185	65,327	(223)	65,104
Amortization (Note 9)	-	4,834	886	-	-	5,720	-	5,720

Other segment amounts at September 30, 2005 included in the statement of income are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
Depreciation (Note 5)	35,633	12,368	4,195	733	49	52,978	(9)	52,969
Amortization (Note 9)	-	240	704	-	1,381	2,325	-	2,325

Segments of assets and liabilities at September 30, 2006 and capital disbursements for the year then ended are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
Assets	1,234,268	571,834	167,927	190,599	147,630	2,312,258	(394,327)	1,917,931
Liabilities	708,427	266,955	80,020	15,547	64,124	1,135,073	(84,846)	1,050,227
Additions to fixed assets	29,872	4,023	2,833	372	-	37,100	-	37,100

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Segments of assets and liabilities at September 30, 2005 and capital disbursements for the year then ended are as follows:

<i>(Thousands of U.S. dollars)</i>	Briquettes	Steel	Steel wire	Other	Corporate	Combined total	Consolidation elimination entry	Total
	1,230,64					2,081,556		
Assets	6	439,998	117,783	125,064	168,065		(398,891)	1,682,665
Liabilities	615,184	282,761	42,722	18,851	71,657	1,031,175	(127,175)	904,000
Additions to fixed assets	17,010	9,875	2,963	356	-	30,204	-	30,204

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

<i>(Thousands of U.S. dollars)</i>	<u>September 30,</u>	
	2006	2005
Sales		
North America	130,009	193,386
South America, Central America and the Caribbean	140,040	131,032
Asia	51,281	113,293
Europe	<u>153,955</u>	<u>117,998</u>
Total export sales	<u>475,285</u>	<u>555,709</u>

20. Accounts and Transactions with Related Companies

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

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

<i>(Thousands of U.S. dollars)</i>	2006	2005
Accounts receivable		
Other	<u>563</u>	<u>274</u>
Long-term accounts receivable		
CVG Ferrominera Orinoco, C.A.	<u>161</u>	<u>161</u>
Accounts payable		
CVG Ferrominera Orinoco, C.A.	98,683	45,548
Consorcio Siderurgia Amazonia, Ltd. (Note 7)	-	4,643
Bekaert Engineering	7,723	285
Other	<u>2,228</u>	<u>1,112</u>
	108,634	51,588
CVG Ferrominera Orinoco, C.A., long-term portion	<u>(16,263)</u>	<u>(27,960)</u>
	<u>92,371</u>	<u>23,628</u>

The account payable to CVG Ferrominera Orinoco, C.A. accrues interest on past due amounts. During the year ended September 30, 2006, interest rates ranged between 13.83% and 15% per annum.

Accounts with other related companies are interest-free.

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II. Significant transactions with related companies comprise the following:

<i>(Thousands of U.S. dollars)</i>	Years ended	
	September 30,	
	2006	2005
Purchases of iron ore and other raw materials		
CVG Ferrominera Orinoco, C.A.	184,037	98,204
Orinoco Iron, C.A.	-	30,782
Royalty expenses	916	432

The balance payable to Grupo Beakert mainly includes dividends payable of US\$7 million declared by a consolidated subsidiary and royalties payable.

Iron ore supply agreements

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

In September 2005 the Venezuelan government issued the Decree for Guaranteed Supply of Local Raw Materials and Semi-finished Products through the Official Gazette to guarantee the supply of raw materials and semi-finished products for the Venezuelan industrial transformation sector. This Decree requires companies to sign an Agreement for Guaranteed Supply of Raw Materials and Semi-finished Iron and Steel Products (CAMP) with the Ministry of Basic Industries and Mining (MIBAM) (through CVG Ferrominera Orinoco, C.A. in the case of Venprecar and Orinoco Iron S.C.S.). Many companies within the transformation sector signed the aforementioned agreement in October 2005. However, restrictions established in their original bank debt contracts prevented Venprecar and Orinoco Iron from signing without prior approval from creditor banks; hence, they accepted changes in supply agreements under CAMP.

In November 2005, the Ministry of Basic Industries and Mining instructed CVG Ferrominera Orinoco, C.A. to begin applying the price representing the full international price of this raw material as from December 2005 and established as a condition for applying a minimum 20% discount that the companies sign the respective amendments to the aforementioned supply agreements in effect at that date, as well as the previously mentioned Agreement for Guaranteed Supply of Raw Materials and Semi-finished Iron and Steel Products (CAMP).

Subsequently, in January 2006 prices increased by 19% for fine iron ore and iron ore lumps and pellets decreased by 3% as a result of the adjustments that affected their international reference prices.

On July 31, 2006, with prior approval from creditor banks, the subsidiaries Venprecar and Orinoco Iron entered into an agreement to adhere to the terms and conditions set out in the CAMP and, only as from August 2006, started receiving a 20% discount on the raw material price as provided in this agreement.

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Commercial debt restructuring agreements with CVG Ferrominera Orinoco, C.A.

During 2003 and 2002, CVG Ferrominera Orinoco, C.A. extended its credit terms for billings.

On May 26, 2005, Orinoco Iron signed an agreement with CVG Ferrominera Orinoco, C.A. to restructure its accumulated commercial debt at April 30, 2004. Pursuant to the agreement, the debt was divided into two tranches: i) the first amounts to US\$23.3 million; principal bears interest at 90-day LIBOR plus 4% and must be paid 30 days after principal has been paid in full; otherwise, accrued interest will become principal and bear interest. Amortization of principal will be in bolivars at the official exchange rate in effect published by the Central Bank of Venezuela (BCV). The repayment schedule depends on the generation of excess cash by Orinoco Iron; ii) the second amounts to Bs 14,607 million (equivalent to US\$6.8 million); principal bears monthly interest on outstanding principal at the weighted average lending rate agreed upon by the six main banks in the country published by BCV and must be paid 30 days after principal has been paid in full; otherwise, accrued interest will become principal and bear interest.

During 2006 the subsidiary Orinoco Iron amortized principal in respect of the first tranche by assigning Tax Reimbursement Certificates (CERTs) to the creditor and offsetting ultra fine iron ore returns for approximately US\$5.3 million and US\$6.9 million, respectively, and recorded interest of US\$1 million.

All principal in bolivars of the second tranche was paid in June 2005. During 2006 the subsidiary Orinoco Iron paid all accrued interest of approximately Bs 2,625 million (equivalent to US\$1.2 million) on the second tranche by assigning Tax Reimbursement Certificates to the creditor.

On May 26, 2005, Venprecar also signed an agreement with CVG Ferrominera Orinoco, C.A. to restructure its accumulated commercial debt of US\$18.8 million at April 30, 2004. Interest on outstanding principal is calculated monthly at 90-day LIBOR plus 4% and must be paid 30 days after principal has been paid in full; otherwise, accrued interest will become principal and bear interest. Amortization of principal is subject to the same conditions as the tranche in U.S. dollars of Orinoco Iron's aforementioned commercial debt. During 2005 Venprecar made payments on principal of US\$10.5 million. During 2006 Venprecar recorded interest expense of approximately US\$671,000.

Other transactions with related companies

The subsidiary Vicson entered into a technical assistance agreement with its related company Bekaert Engineering, equivalent to 0.75% of Vicson sales, excluding those related to wires, net of discounts and commissions on sale, freight and taxes.

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21. Main Subsidiaries

Subsidiaries with the most significant operations are the following:

Name	Participatio n %	Country	Segment
Siderúrgica del Turbio, S.A. “Sidetur” and its subsidiaries	100	Venezuela	Steel
Tornillos Carabobo, C.A. “Torcar”	100	Venezuela	Other
International Briquettes Holding (IBH) (and its main subsidiary Venezolana de Prerreducidos Caroní “Venprecar”, C.A. (Venezuela) 98.4%	67.8	Cayman Islands	Briquettes
Vicson, S.A. and its main subsidiary Productora de Alambres Colombianos, S.A. “Proalco” (Colombia), 75%	50.002	Venezuela	Steel wire

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

At Special Shareholders’ Meetings of IBH’s subsidiaries, Orinoco Iron, C.A. and Venprecar, on May 24, 2005, the shareholders approved the merger by absorption of the assets and liabilities of Orinoco Iron, C.A. by the surviving company Venprecar. A public announcement was made on May 27, 2005.

Prior to the merger process, on August 18, 2005, it was agreed that IBH and the shareholders of Orinoco Iron, C.A. would contribute a portion of IBH’s equity in Venprecar and all of the shares of Orinoco Iron, C.A. to a new entity, IBH de Venezuela, C.A. These transactions gave rise to an increase in IBH’s shareholding in Orinoco Iron, C.A. of 9.86% and a reduction of IBH’s shareholding in Venprecar of 23.17%. Consequently, at that date, direct and indirect shareholdings of IBH in Orinoco Iron, C.A. and Venprecar were 60.86% and 74.67%, respectively.

The merger became effective on August 27, 2005 and, after the legal deadlines had been met, was ratified by the Shareholders’ Meeting of the subsidiary Venprecar on August 29, 2005. Consequently, as from that date, the direct and indirect shareholding of IBH in the surviving merged subsidiary Venprecar is 67.75%. As a result of the merger, certain rights of creditor banks originally related to Orinoco Iron are now represented by a Golden Share in Venprecar.

On August 29, 2005, creditor banks, as indirect minority shareholders of the subsidiary IBH de Venezuela, C.A., IBH and its subsidiaries signed put and call option contracts in respect of the minority shareholder’s shares in the aforementioned subsidiary (Note 10).

Since these exchange transactions in the shareholdings of subsidiaries constitute a combination of commonly controlled entities, they were accounted for using book values at the transaction date. The difference between equity values exchanged is shown under Net effect of combination (merger) of subsidiaries in shareholders’ equity.

22. Commitments and Contingencies

Operating lease

In June 2004 Sidetur entered into a lease contract and a purchase option agreement on land, buildings and spare parts.

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Rent was fixed at US\$250,000 until the quarter ending November 18, 2005. A final rent payment of US\$1,750,000 is due in seven quarterly installments of US\$250,000 each, as from the quarter ending February 18, 2006.

The agreement has two purchase options, which were exercised in two terms, the first on August 18, 2004 and the second term on May 18, 2006.

On August 18, 2004, Sidetur exercised the first option for US\$3,750,000 through completion of the purchase-sale transaction of machinery and equipment and paid the first special installment of US\$1,750,000. The remaining balance of US\$2,000,000 will be interest-free and paid as follows: five quarterly installments of US\$50,000 from November 18, 2004 to May 18, 2005 and from November 18, 2005 to February 18, 2006, and a special installment of US\$1,750,000 paid on August 18, 2005.

In September 2005 Sidetur exercised the second option in advance and shall pay US\$4,050,000 as follows: an installment of US\$50,000 on May 18, 2006, two installments of US\$1,850,000 each, the first installment on August 18, 2006 and the second installment on August 18, 2007, and three quarterly installments of US\$100,000 each from the quarter ending November 18, 2006 to the quarter ending August 18, 2007.

At September 30, 2006, Sidetur owes approximately US\$5.2 million.

Litigation and other claims

The Group 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 Group management, based on the opinion of the Sivensa's legal counsel, these matters should not have a material adverse effect on the Group's consolidated financial position or consolidated results of its operations.

These claims include an arbitration request filed against Orinoco Iron, C.A. (currently merged with Venprecar) by the owners of the MV-Ythan vessel that sank in February 2004 with its Finmet cargo. In addition, the vessel owners filed a petition for an attachment on Orinoco Iron's assets in the U.S. and England of approximately US\$20 million to guarantee the outcome of the arbitration process. Orinoco Iron, C.A. opposed preventive measures agreed to by the Royal London Court; a ruling in September 2004 went in favor of Orinoco Iron. In September 2004 an Ohio Court (U.S.) issued a ruling for release of the attachment against Orinoco Iron issued in June 2004. The vessel owners appealed the above decision in September 2004, but the appeal was denied by the Court.

In mid-2005, the owners of the vessel MV-Ythan proposed a mediation process between all disputing parties. The Company accepted as agreed in writing in November 2005.

In October 2006 Ythan Limited, Venprecar and all other parties signed a settlement agreement in which Venprecar agreed to pay US\$8 million no later than December 28, 2006 in order to release Venprecar of any legal actions taken against Orinoco Iron, C.A. for the MV-Ythan accident. This amount was recorded in the results for 2006. The settlement agreement establishes that in the event that Venprecar does not pay within the established deadline, Ythan could: i) charge Venprecar interest on late payments, or ii) renew legal actions against Venprecar. Management of Venprecar is currently taking the necessary actions for timely payment of the amount agreed, as well as the insurance claim.

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Environmental regulations

The Group is subject to Venezuelan environmental laws and regulations. The Group is not involved in any environmental-related claims or litigation with Venezuelan environmental and health regulatory authorities, except for a claim filed by the Ministry of Environment against the subsidiary Vicson in 2002 and the subsidiary Casima. The subsidiary Vicson presented its adequacy plan in respect of this claim.

Sidetur

On June 17, 2002, the Ministry of the Environment reviewed operations of Sidetur’s Casima plant. As a result of this review, Sidetur must install an emissions and dust control system to comply with Venezuelan environmental regulations. Sidetur will install the emissions control system in two stages: the first stage was to be completed before August 2005 and the second stage before June 2006. The first calls for installation of a dust filter system in the electric-arc furnace; the second calls for installation of a hood vent over the arc furnace to treat secondary emissions. The system will be installed at an estimated cost of US\$11 million.

In January 2006 the Ministry of Environment approved an extension for these deadlines. The new terms require the first stage to be completed before August 2007 and the second stage before June 2008. At September 30, 2006, the present value of discounted future cash flows related to the environmental adequacy plan amounted to US\$10 million.

Vicson

A lawsuit of approximately US\$4.6 million was filed against the subsidiary Vicson for alleged moral and material damages to a transportation company by allegedly pollutant residues generated by the subsidiary’s plant. Management of the subsidiary is unable to anticipate the outcome of this matter. However, based on the opinion of management and its legal counsel, defense evidence will be presented to mitigate the lawsuit’s allegations; therefore, a favorable outcome is expected for the subsidiary.

23. Expenses by Nature

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

<i>(Thousands of U.S. dollars)</i>	2006	2005
Raw materials	341,945	280,022
Materials	73,657	48,731
Spare parts	40,570	41,102
Depreciation	65,104	52,969
Labor	84,778	84,570
Electricity, gas and water	89,718	83,365
Other production costs	52,716	40,367
Freight and other exporting expenses	37,996	21,909
Shutdowns	24,243	23,963
Costs of leasing of plant	-	3,000
Uncapitalized investments	1,232	1,079
Taxes and contributions	4,023	6,431
Professional fees and advisory	13,505	6,682
Surveillance and maintenance	3,262	3,494
Insurance settlements (Note 4)	-	(20,201)
Other	<u>11,420</u>	<u>16,706</u>
Total cost of sales and general and administrative expenses	<u>844,169</u>	<u>694,189</u>

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24. Interest and Other Financial Expense, Net

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

<i>(Thousands of U.S. dollars)</i>	2006	2005
Interest on loans	(40,219)	(39,221)
Amortization of deferred charges	(4,817)	(1,626)
Other financial expenses and commissions	<u>(14,682)</u>	<u>(18,435)</u>
	(59,718)	(59,282)
Interest income (Note 3)	<u>1,596</u>	<u>1,282</u>
	<u>(58,122)</u>	<u>(58,000)</u>

25. Subsequent Events

On October 31, 2006, SENIAT notified Sivensa of tax assessments in respect of 2001-2002, 2002-2003, 2003-2004 and 2004-2005 income tax returns amounting to approximately Bs 17,400 million (equivalent to US\$8 million). Sivensa and its legal advisors plan to appeal these tax assessments within the legal timeframe and expect a favorable outcome.

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