

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

**Report of Independent Accountants  
and Consolidated Financial Statements  
September 30, 2009 and 2008**

**Espiñeira, Sheldon y Asociados**  
Avenida Principal de Chuao  
Edificio Del Río  
Apartado 1789  
Caracas 1010-A Venezuela  
Teléfono: (0212) 700 6666  
Fax: (0212) 991 5210  
www.pwc.com

## **Report of Independent Accountants**

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

We have audited the consolidated balance sheets of Siderúrgica Venezolana "Sivensa", S.A. (Sivensa or the Company) and its subsidiaries at September 30, 2009 and 2008, and the related consolidated income statements, statements of changes in equity and cash flow statements for the years then ended, expressed in constant bolivars at September 30, 2009. The preparation of these financial statements and their notes is the responsibility of Sivensa management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

Siderúrgica Venezolana "Sivensa", S.A. is regulated by the Comisión Nacional de Valores (CNV) and, therefore, Sivensa and its subsidiaries present their consolidated financial statements in accordance with the rules for the preparation of financial statements established by this regulatory agency and not in conformity with accounting principles generally accepted in Venezuela. As described in Note 2, CNV rules differ from accounting principles generally accepted in Venezuela. The differences between CNV rules and accounting principles generally accepted in Venezuela could have significant effects on the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements audited by us present fairly, in all material respects, the financial position of Siderúrgica Venezolana "Sivensa", S.A. and its subsidiaries at September 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with the rules for the preparation of financial statements of entities regulated by the Comisión Nacional de Valores (CNV).

As described in Notes 1 and 20, on May 21, 2009, the President of the Bolivarian Republic of Venezuela announced the "nationalization" of Sivensa's subsidiaries Venezolana de Prerreducidos Caroní (Venprecar), C.A. and Orinoco Iron, S.C.S. (Orinoco Iron), together with all other domestic private briquette companies. On May 25, 2009, the People's Power Ministry for Basic Industries and



**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Consolidated balance sheet**  
**September 30, 2009 and 2008**

(Thousands of constant bolívars  
at September 30, 2009)

	Notes	2009	2008 (•)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	5	349,934	594,622
Trading investments	9	21,680	-
Accounts receivable			
Trade and other	6	166,819	314,922
Related companies	18	766	257
Advances to suppliers		70,374	74,156
Inventories	7	181,348	387,503
Prepaid expenses and other current assets		<u>1,574</u>	<u>7,583</u>
Total current assets		792,495	1,379,043
Property, plant and equipment, net	8	1,003,197	4,250,208
Available-for-sale investments			
Investments in preferred stock	9	47,350	61,034
Investments in companies under “nationalization”	1, 9 and 20	2,554,417	-
Accounts receivable from related company	18	-	446
Deferred income tax	13	41,610	50,971
Other non-current assets		<u>3,598</u>	<u>36,319</u>
Total assets		<u>4,442,667</u>	<u>5,778,021</u>
<b>Liabilities and Equity</b>			
Current liabilities			
Short-term bank loans	11	59,613	103,072
Current portion of bonds payable	10	10,750	13,857
Accounts payable			
Suppliers		132,057	407,887
Related companies	18	8,595	147,142
Profit sharing, vacation and other employee accruals		42,769	82,288
Income tax	13	38,559	12,354
Other liabilities and accruals	12	<u>45,825</u>	<u>60,268</u>
Total current liabilities		338,168	826,868
Bonds payable	10	181,302	246,746
Accrual for employee termination benefits, net of advances and loans to employees		23,800	48,681
Other long-term liabilities and accruals	12	91,581	83,605
Deferred income tax	13	<u>261,802</u>	<u>382,832</u>
Total liabilities		<u>896,653</u>	<u>1,588,732</u>
Minority interests in subsidiaries		<u>747,349</u>	<u>1,072,826</u>
Equity	16		
Capital stock			
Nominal		105,890	105,890
Treasury stock		(12,667)	(9,707)
Inflation adjustment		914,811	914,811
Share premium		109,634	109,646
Result from holding nonmonetary assets		(655,793)	(449,723)
Difference between fair value and cost of shares of subsidiary		1,286,768	1,330,408
Net effect of combination (merger) of subsidiaries		412,097	421,477
Unappropriated earnings			
Legal reserve		102,069	102,069
Available		<u>535,856</u>	<u>591,592</u>
Total equity		<u>2,798,665</u>	<u>3,116,463</u>
Total liabilities, minority interests and equity		<u>4,442,667</u>	<u>5,778,021</u>

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

(•) Restated for comparative purposes (Note 2-y)

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Consolidated income statement**  
**Years ended September 30, 2009 and 2008**

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*(Thousands of constant bolivars  
at September 30, 2009,  
except net income per share)*

	Notes	2009	2008 (•)
<b>Continuing operations</b>			
Net sales		1,609,681	1,889,089
Cost of sales		<u>(1,257,863)</u>	<u>(1,480,065)</u>
Gross income		351,818	409,024
General and administrative expenses		(146,033)	(135,252)
Other operating income (expense), net	14	<u>207,421</u>	<u>(12,246)</u>
Income before full financing income (expense)		<u>413,206</u>	<u>261,526</u>
<b>Full financing income (expense)</b>			
Interest and other financial expense, net	15	(59,182)	(51,828)
Exchange gain (loss), net		(1,578)	2,112
Gain (loss) from net monetary position	22	<u>(91,265)</u>	<u>150,390</u>
		<u>(152,025)</u>	<u>100,674</u>
Net loss on valuation of investments	9	-	<u>(10,634)</u>
Income before tax and minority interests in subsidiaries		<u>261,181</u>	<u>351,566</u>
<b>Income tax</b>			
Current	13	(73,678)	(68,028)
Deferred	13	<u>13,657</u>	<u>31,908</u>
		<u>(60,021)</u>	<u>(36,120)</u>
Income before minority interests in subsidiaries		201,160	315,446
Minority interests in subsidiaries		<u>29,833</u>	<u>(22,382)</u>
Net income from continuing operations		230,993	293,064
<b>Discontinued operation</b>			
Net income (loss) from discontinued operation	20	<u>(11,292)</u>	<u>383,350</u>
Net income		<u>219,701</u>	<u>676,414</u>
Net income per share (in bolivars)	2-n	<u>4.18</u>	<u>13.40</u>
Weighted average of outstanding shares (in thousands)		<u>52,521</u>	<u>50,446</u>

The accompanying notes are an integral part of the consolidated financial statements  
(•) Restated and reclassified for comparative purposes (Notes 2-y and 20)

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Consolidated statement of changes in equity**  
**Years ended September 30, 2009 and 2008**

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<u>Capital stock</u>			Share premium	Result from holding nonmonetary assets	Difference between fair value and cost of shares of subsidiary	Net effect of combination (merger) of subsidiaries	<u>Unappropriated earnings</u>		Total
	Nominal	Treasury stock	Inflation adjustment					Legal reserve	Available	
<b>Balances previously reported at September 30, 2007</b>	97,661	-	914,674	109,646	205,655	720,277	421,477	101,234	451,419	3,022,043
Restatement (Note 2-y)	-	-	-	-	-	-	-	-	(22,981)	(22,981)
<b>Restated balances at September 30, 2007 (•)</b>	97,661	-	914,674	109,646	205,655	720,277	421,477	101,234	428,438	2,999,062
Capital increase (Note 16)	2,000	-	(2,000)	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	-	676,414	676,414
Appropriation to legal reserve	-	-	-	-	-	-	-	835	(835)	-
Amortization of the result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	130,353	-	-	-	(130,353)	-
Result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	(785,731)	-	-	-	-	(785,731)
Repurchased shares (Note 16)	-	(9,707)	-	-	-	-	-	-	-	(9,707)
Difference between fair value and cost of shares of subsidiary (Notes 16 and 20)	-	-	-	-	-	610,131	-	-	-	610,131
Dividends declared (Note 16)	-	-	-	-	-	-	-	-	(373,706)	(373,706)
Capital increase through dividends declared (Note 16)	<u>6,229</u>	-	<u>2,137</u>	-	-	-	-	-	<u>(8,366)</u>	-
<b>Balances at September 30, 2008 (•)</b>	105,890	(9,707)	914,811	109,646	(449,723)	1,330,408	421,477	102,069	591,592	3,116,463
Net income	-	-	-	-	-	-	-	-	219,701	219,701
Amortization of the result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	31,999	-	-	-	(31,999)	-
Result from holding nonmonetary assets (Notes 2-g, 8 and 13)	-	-	-	-	(238,069)	-	-	-	-	(238,069)
Repurchased shares (Note 16)	-	(2,960)	-	(12)	-	-	-	-	-	(2,972)
Dividends declared (Note 16)	-	-	-	-	-	-	-	-	(243,438)	(243,438)
Deferred tax on shares of companies under “nationalization” (Note 13)	-	-	-	-	-	(43,640)	(9,380)	-	-	(53,020)
<b>Balances at September 30, 2009</b>	<u>105,890</u>	<u>(12,667)</u>	<u>914,811</u>	<u>109,634</u>	<u>(655,793)</u>	<u>1,286,768</u>	<u>412,097</u>	<u>102,069</u>	<u>535,856</u>	<u>2,798,665</u>

The accompanying notes are an integral part of the consolidated financial statements  
(•) Restated for comparative purposes (Note 2-y)

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Consolidated cash flow statement**  
**Years ended September 30, 2009 and 2008**

*(Thousands of constant bolívars  
at September 30, 2009)*

	<b>2009</b>	<b>2008 (•)</b>
<b>Cash flows from operating activities</b>		
Net income	219,701	676,414
Adjustments to reconcile net income to net cash provided by operating activities		
Gain (loss) from net monetary position	91,265	(150,390)
Minority interests in subsidiaries	(29,833)	22,382
Equity in the results of the discontinued operation, net of minority interest	2,813	(232,682)
Loss on valuation of investments	-	10,634
Deferred income tax	(13,657)	(31,908)
Depreciation	78,919	237,124
Increase (decrease) in the provision for doubtful accounts	(971)	335
Amortization of loan expenses and commissions	628	809
Adjustment to fair value of debt with BHP-Billiton	-	19,582
Adjustment to fair value of share purchase option cost	-	1,761
Accrual for employee termination benefits	<u>3,625</u>	<u>3,292</u>
	352,490	557,353
Net change in operating assets and liabilities		
Receivables-trade, related companies and other	(71,566)	(222,321)
Inventories	10,440	39,343
Advances to suppliers, prepaid expenses, deferred charges and other assets	(25,995)	(1,776)
Accounts payable, accrued expenses and other liabilities	55,224	18,574
Cash flows from operating activities of the discontinued operation	<u>-</u>	<u>372,201</u>
Net cash provided by operating activities	<u>320,593</u>	<u>763,374</u>
<b>Cash flows from investing activities</b>		
Net purchase of investments	(21,680)	(26,205)
Additions to property, plant and equipment, net	(20,513)	(128,271)
Cash flows from investing activities of the discontinued operation	<u>-</u>	<u>(91,302)</u>
Net cash used in investing activities	<u>(42,193)</u>	<u>(245,778)</u>
<b>Cash flows from financing activities</b>		
New loans	203,831	128,852
Short-term loans repaid	(224,662)	(27,552)
Long-term loans repaid and bonds payable in cash	(10,750)	(73,950)
Shares repurchased	(2,972)	(9,707)
Dividends paid	(243,438)	(373,706)
Cash flows from financing activities of the discontinued operation	<u>-</u>	<u>(182,678)</u>
Net cash used in financing activities	<u>(277,991)</u>	<u>(538,741)</u>
Effect of inflation on the purchasing power of cash and cash equivalents	<u>(84,388)</u>	<u>(162,137)</u>
Cash from discontinued operation	<u>(160,709)</u>	<u>36,604</u>
<b>Cash and cash equivalents</b>		
Decrease for the year	(244,688)	(146,678)
At the beginning of the year	<u>594,622</u>	<u>741,300</u>
At the end of the year	<u>349,934</u>	<u>594,622</u>

The accompanying notes are an integral part of the consolidated financial statements  
(•) Restated and reclassified for comparative purposes (Notes 2-y and 20)

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

## Notes to the consolidated financial statements

### September 30, 2009 and 2008

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#### 1. Activities

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

Sivensa was established in 1948. The business objective of Sivensa and its subsidiaries is to manufacture and sell steel products and, until June 2009, reduced iron in briquette form (Note 20). Most of the products manufactured by the Company are sold in Venezuela. All of its plants are located in Venezuela. At September 30, 2009 and 2008, the Company has 1,785 and 2,843 employees (includes 989 employees from the discontinued operation in 2008), respectively.

The accompanying consolidated financial statements were approved by the Board of Directors on November 6, 2009 (November 17, 2008 in 2008).

#### **“Nationalization” of IBH’s operating subsidiaries**

On May 21, 2009, the President of the Bolivarian Republic of Venezuela announced the “nationalization” of Sivensa’s then subsidiaries Venezolana de Prerreducidos Caroní (Venprecar), C.A. and Orinoco Iron, S.C.S. (Orinoco Iron) together with all other domestic private briquette companies. On May 25, 2009, the People’s Power Ministry for Basic Industries and Mining notified Venprecar and Orinoco Iron managements that a “Transition Committee” had been appointed for each company. Subsequently, Decree No. 6,796 was published in the Official Gazette on July 14, 2009 mandating, among other things: i) the acquisition of Venprecar’s and Orinoco Iron’s assets and ii) the appointment of: 1) “Transition Committees” that will immediately assume operating control to ensure the transfer and continuity of these companies’ operations and 2) a “Technical Committee” made up of company and government representatives to determine, within 60 days, extendable for a like period by agreement of the parties, asset fair value. The managements of Venprecar and Orinoco Iron, based on the provisions of the Law on Expropriation for Public or Social Purposes dated July 1, 2002, which provides guidelines for determining the fair value of private assets declared of social interest by the Venezuelan government, hired duly certified independent appraisers to assess their machinery and facilities with a view to determining these assets’ depreciated replacement value at June 30, 2009. In addition, Venprecar and Orinoco Iron managements calculated the value in use of each company’s property, plant and equipment, which is the present value of the discounted future cash flows expected to be derived from asset use or disposal. As a result of these calculations, which represent different methods of determining the fair value of a company’s assets, it was determined that the appraisal value and value in use at June 2009 are higher than the book value of these companies’ net assets at September 30, 2009. Based on the above, Venprecar and Orinoco Iron managements and their internal legal advisors believe that the fair value of these companies’ assets should approximate what the Venezuelan government will determine to be their indemnity value. However, changes in the business environment or operating conditions may result in changes to assumptions and, therefore, estimates made by management. Until September 30, 2009, there were no indicators that the calculations made by management would change substantially. In this light, the Company has not recognized any effects on its financial statements in relation to the net assets of the companies under “nationalization” Venprecar and Orinoco Iron.

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

## **Notes to the consolidated financial statements**

### **September 30, 2009 and 2008**

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The Law on Expropriation for Public or Social Purposes sets forth that should the parties fail to reach a friendly agreement, expropriation will take place by process of law, after which the owners of the assets under “nationalization” may file the respective appeals.

Sivensa and IBH managements consider that, as a result of the measures taken by the Venezuelan government, they have lost the autonomy to direct the financial and operating policies of Venprecar and Orinoco Iron; therefore, they consolidated these companies’ assets, liabilities and results of operations until June 30, 2009, the closing date closest to the date when the Decree granting the operating control of the companies to the Venezuelan government was published. The carrying value of the investment at the date when the companies were deconsolidated was considered as cost and was shown as an available-for-sale investment. The operating results until that date and for all periods were reclassified and presented under Net income (loss) from discontinued operation (Note 20). At September 30, 2009, the net consolidated assets of the companies under “nationalization” amount to Bs 2,554 million (Notes 9 and 20).

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

During 2008 the subsidiary International Briquettes Holding (IBH) reduced its financial debt to US\$76.6 million after financial creditors foreclosed certain guarantees set out in the loan agreements. This gave rise to the following transactions: i) capital increase through receivables and securities proportionally contributed by shareholders of the subsidiary IBH de Venezuela, C.A. and ii) amendment and execution of the purchase option agreement on shares of IBH de Venezuela, C.A. In return for these capitalizations, IBH agreed to exercise the purchase option for US\$76.6 million using a long-term loan for this amount obtained from another Sivensa subsidiary (Note 16).

#### **New regulations**

On April 30, 2008, the Venezuelan government enacted the Decree-Law No. 6,058 regulating the steel sector activities in the Guayana Region. Given the relation of the steel sector with strategic activities for the country’s development, this Decree reserves to the Venezuelan government the steel transformation industry in the Guayana region, where the country’s largest steel reservoir is located. Steel production is reserved to the Venezuelan government since 1975.

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

## **2. Basis of preparation and accounting policies**

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

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

## **Notes to the consolidated financial statements**

### **September 30, 2009 and 2008**

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

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

#### **a) Differences between the basis of preparation and VEN NIF**

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

#### ***Preparation of financial statements in accordance with CNV rules***

Entities governed by the CNV must present primary financial statements adjusted for the effects of inflation as required by DPC 10, which is applicable to all types of entities, whether for profit or otherwise, including those in the preoperating stage and, in general, to all entities domiciled in Venezuela that report individually or on a consolidated basis. IAS 29, “Financial Reporting in Hyperinflationary Economies” shall be applied to the financial statements (including consolidated financial statements) of any entity whose functional currency is the currency of a hyperinflationary economy, defined by this standard as an economy characterized, among other things, by a cumulative three-year inflation exceeding 100%. Company management has determined that the functional currency of certain subsidiaries, including the companies under “nationalization,” is the U.S. dollar. Under DPC 10 and, therefore, CNV rules, the financial statements of these Venezuelan subsidiaries must be presented in bolivars and adjusted for the inflation rate in Venezuela, whereas under IAS 29 they must be prepared in the functional currency and subsequently restated into bolivars following IAS 29 guidance.

#### ***Foreign currency transactions and balances***

Technical Bulletin No. 13 (PT-13), “Current exchange rate at closing date for conversion or translation of foreign currency items,” applicable to entities regulated by the CNV, sets forth that foreign

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

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### **September 30, 2009 and 2008**

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currency transactions and balances must be shown at the effective official exchange rate published by the Central Bank of Venezuela (BCV). Under VEN NIF, and for purposes of paragraph 26 of IAS 21, “The Effects of Changes in Foreign Exchange Rates,” the only exchange rate in Venezuela is that established by BCV. In addition, net monetary liability positions in a foreign currency, which are not reasonably expected to be settled with foreign currency purchased from the Venezuelan government at the official exchange rate, shall be measured on the basis of best estimates of future cash flows in bolivars expected to be required to settle these liabilities at the transaction or balance sheet date, using the exchange or settlement mechanisms permitted under Venezuelan law.

#### ***Result from holding nonmonetary assets and fixed asset revaluation***

CNV rules, DPC 10 and Technical Bulletin No. 17, “Value in use and impairment of long-lived assets” allow for the recognition of a loss from holding nonmonetary assets in equity, provided that no indications of asset impairment exist and, consequently, the recoverable amount of the fixed asset (value in use) exceeds its current value and restated cost. Under VEN NIF and IAS 16, “Property, Plant and Equipment,” if an asset carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss to the extent of any credit balance existing in the revaluation surplus in respect of that asset. To the extent that such decrease does not exceed the revaluation surplus, the impairment loss is recognized in equity.

VEN NIF are mainly based on International Financial Reporting Standards (IFRS), except for certain criteria concerning adjustments for inflation and the valuation of foreign currency assets.

#### **b) Accounting for inflation**

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

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

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

The inflation rates for the years ended September 30, 2009 and 2008, according to the CPI published by BCV, were 28.90% and 36.05%, respectively.

The consolidated financial statements for 2008 are expressed in constant bolivars at September 30, 2009 to enable comparison in currency of uniform purchasing power. Below is a summary of the main bases used in the preparation of the accompanying inflation-adjusted consolidated financial statements:

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**September 30, 2009 and 2008**

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***Nonmonetary assets***

These assets (inventories, property, plant and equipment, investments and deferred charges) have been restated by multiplying them by the factor obtained from dividing the CPI at September 30, 2009 by the CPI at their dates of acquisition or origin. Property, plant and equipment was subsequently adjusted based on its current market value (Note 2-g).

***Monetary assets and liabilities and result from monetary position***

Monetary assets and liabilities, including amounts in foreign currency, are shown in terms of purchasing power at September 30, 2009. The result from monetary position reflects the gain or loss resulting from maintaining a net monetary liability or net monetary asset position during an inflationary period. This result from monetary position is shown under Full financing income (expense).

***Capital stock, share premium and unappropriated earnings***

These equity accounts have been restated by multiplying them by the inflation factor obtained from their dates of origin until September 30, 2009. The effects of revaluation adjustments to the historic cost of property, plant and equipment, included in equity, were not considered when preparing the inflation-adjusted consolidated financial statements.

***Income statement***

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

**c) Use of estimates in the preparation of the consolidated financial statements**

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of certain accounting estimates. It also requires management to exercise judgment in the application of Company accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in g), h), m), t), u) and w) below.

**d) Consolidation**

***Subsidiaries***

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

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

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

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

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

Based on the above considerations and in conformity with IAS 27, “Consolidated and Separate Financial Statements,” the Company consolidated the assets, liabilities and results of the companies under “nationalization” Venprecar and Orinoco Iron until June 30, 2009, the closing date closest to the date when the Decree granting the operating control of these companies to the Venezuelan government was published (Notes 1 and 20), and presented its investments in these companies as an available-for-sale financial asset pursuant to paragraph 11 of IAS 32, “Financial Instruments: Disclosure and Presentation.” Management believes that these investments do not meet IAS 39, “Financial Instruments: Recognition and Measurement” recognition criteria and that the classification given is more suitable when accounting for involuntary asset disposal. The book value of the investment in Venprecar and Orinoco Iron at June 30, 2009 (the date on which the companies ceased to be subsidiaries) was considered as the cost for initial recognition according to IAS 39 and differences between the book value of Venprecar and Orinoco Iron and their fair value at each reporting date are directly recognized in equity. The balance sheet at September 30, 2008 includes the accounts of the former subsidiaries Venprecar and Orinoco Iron.

#### ***Business combinations under common control***

Since it is considered a business combination between commonly controlled subsidiaries, the merger in 2005 of the former subsidiaries Venprecar and Orinoco Iron, C.A., was recorded by the economic entity method, which considers book values of subsidiaries at the transaction date. The net effect of changes in equity in partially owned subsidiaries was directly recorded under the equity account Net effect of combination (merger) of subsidiaries, which shows the difference between the book value of net assets transferred and net assets received in combination. In addition, the increase in shareholding in the subsidiary IBH de Venezuela, C.A. was recorded at the book value of net assets at the acquisition date, since it is considered a transaction with minority interests. The difference between book value and cost is shown directly in equity under Difference between fair value and cost of shares of subsidiary (Notes 10 and 16).

#### ***Transactions and minority interests***

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

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

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

**e) Trade accounts receivable**

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

**f) Inventories**

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

**g) Property, plant and equipment**

At September 30, 2009, buildings, machinery and equipment, and land of continuing operations are recorded at amounts determined by independent appraisers in 2009. Appraisals for 2006 and 2007 were updated until September 30, 2008 using specific indices. Imported assets were updated using the official exchange rate. Appraisal values represent the assets' depreciated replacement values. The difference between the restated historic cost and current values is included directly under Result from holding nonmonetary assets. All other property, plant and equipment is shown at restated historic cost.

The difference between depreciation based on current values and that based on restated costs is transferred from Result from holding nonmonetary assets to Unappropriated earnings available.

Restated historic costs include expenses which are directly attributable to the acquisition of assets. Additions, renewals and improvements are included in the asset's carrying amount only when it is probable that future economic benefits will be obtained and can be measured reliably. The net carrying value of replaced parts is disposed of. All other repairs and maintenance are included in the consolidated income statement in the year in which they are incurred. The interest cost of loans to finance construction of property, plant and equipment, during the time required to complete and prepare the asset for its intended use is capitalized only by the portion exceeding inflation; the remaining interest is recognized as expenses for the year incurred.

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Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, except for the plants of the companies under “nationalization” Venprecar and Orinoco Iron, 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:

	<b>Years</b>
Buildings	10 to 44
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 of assets and their useful lives are reviewed and adjusted, if necessary, at each balance sheet date.

Gains and losses from the sale of fixed assets are determined by comparing the amount of cash flows received to the book value of assets sold at the transaction date, and are recorded in the income statement for the year. When fixed assets shown at current values are sold, amounts included in Result from holding nonmonetary assets are transferred to Unappropriated earnings available.

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

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

At September 30, 2009 and 2008, Company management considers, in conformity with applicable generally accepted accounting principles, that none of its long-lived assets is impaired. In addition, management considers that changes in future cash flow or fair value estimates arising from unforeseen changes in business assumptions could positively or negatively affect the valuation of long-lived assets.

**i) Investments**

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

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

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Investments with fixed maturity that management has the intention and ability to hold to maturity are classified as held-to-maturity. When there is evidence that the value of a held-to-maturity investment is impaired, the determined effect is recorded in the consolidated income statement.

Investments to be held for an indefinite period, or not classified in any of the aforementioned categories, 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 equity

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

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

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

**j) Loans**

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

Costs related to incurred debt are shown net of the related liability and amortized during the term of the debt, using the effective interest method (Notes 10, 11 and 15).

Changes in loan terms and conditions are assessed to determine the effects on the accounting treatment given to the loan and the related costs incurred. If changes in conditions are accounted for as an extinguishment, all costs or commissions incurred are recognized as part of any income or loss derived from the extinguishment; if not, all costs or commissions incurred are adjusted to the book value of liabilities to be amortized over the term of the loan (Notes 10 and 15).

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

Loans maturing within one year are classified as current liabilities, unless the Company has an unconditional right to defer repayment for a period of over twelve months after the balance sheet date (Note 11). All other loans are classified as long-term liabilities.

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**k) Accrual for employee termination benefits**

***Termination benefits***

Employee termination benefits are calculated and recorded in the Company's books as incurred based on the provisions of the Venezuelan Labor Law and its Reform. In accordance with the current Venezuelan Labor Law and the prevailing collective labor agreement, employees are entitled to a minimum indemnity of 5 days of salary per month, up to a maximum of 90 days per year, without retroactive adjustments. Severance payments are mandatory after 3 months of uninterrupted service and are accrued as incurred.

***Profit sharing and bonuses***

Venezuelan Labor Law also requires mandatory distribution to employees (profit-sharing bonus) of up to 15% of a company's pre-tax income. The established minimum and maximum amounts for distribution are 15 and 120 days of salary, respectively. The Company accrues and pays a profit-sharing bonus to its employees of 120 days of salary and sets aside a provision in this connection when it has a present legal obligation to do so as a result of past events.

***Vacation leave***

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

***Pension plans and other post-retirement benefits***

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

**l) Accounts payable**

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

**m) Provisions**

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

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

**n) Net income per share**

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

**o) Capital stock**

Common shares are classified as equity. At September 30, 2009 and 2008, Sivensa has no preferred shares.

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

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

**p) Revenue recognition**

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

***Sales of goods***

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

***Income from services***

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

***Interest income***

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

***Income from dividends***

Income from dividends is recognized when dividends are declared, when the Company acquires the right to receive payment.

**q) Costs and expenses**

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

**r) Cash and cash equivalents**

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

**s) Foreign currency balances and transactions**

Foreign currency transactions are recorded at the exchange rate in effect at the transaction date. Foreign currency balances at September 30, 2009 and 2008, mainly in U.S. dollars, are shown at the official exchange rate of Bs 2.15/US\$1 (Note 17). Exchange gains or losses arising from currencies other than the U.S. dollar are included in the income statement.

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

**t) Fair value of financial instruments**

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

**u) Accounting for derivative instruments and hedging activities**

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

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

**v) Segment reporting**

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. Management believes that at September 30, 2009 the Company operates in a single business segment (steel) and its manufacturing operations are mainly conducted in one country (Venezuela) (Note 1).

**w) Income tax for the year and deferred income tax**

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

The Company records deferred income tax in accordance with the balance sheet method based on Statement of Accounting Principles No. 3 (Revised DPC 3) “Accounting for Income Tax.” Under this method, deferred income tax reflects the net effect of future tax consequences resulting from:

a) temporary differences from application of statutory tax rates for future years to differences between the tax base of assets and liabilities and their amounts in the balance sheet, and b) tax credits and tax loss carryforwards. The effect on deferred taxes of changes in statutory tax rates is also recognized. Sivensa recognizes deferred tax assets only if their recoverability may be established beyond any reasonable doubt. If it is not likely that a portion or all of a deferred tax asset will be realized, it is not recognized.

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

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

#### **x) Consolidated financial statements expressed in nominal bolivars**

The consolidated financial statements expressed in nominal bolivars, which served as the basis for the preparation of the financial statements expressed in constant bolivars, are provided for purposes of additional analysis (Note 23). These consolidated financial statements constitute a presentation which differs from accounting principles generally accepted in Venezuela, insofar as they give no recognition to the effects of inflation and include revaluation of fixed assets.

#### **y) Restatement of consolidated financial statements**

Until 2008, supply inventories were shown as part of inventories and were recorded under Cost of sales as used. As from 2009, supplies purchased during the year are directly recorded under Cost of sales.

The consolidated financial statements at September 30, 2008 were restated for comparative purposes. Below is a comparison between the main restated financial data and data previously reported in the Company's consolidated financial statements for the year ended September 30, 2008:

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Restated balances</b>	<b>Previously reported balances</b>
Inventories	387,503	428,379
Deferred income tax asset	50,971	37,073
Total assets	5,778,021	5,804,999
Total equity	3,116,463	3,143,441
Net income	676,414	680,411

### **3. Nature and scope of risks from financial instruments**

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

#### **Concentration of credit risk**

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

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

At September 30, 2009 and 2008, cash and cash equivalents are placed with local and foreign financial institutions (Notes 5 and 17).

In 2008 trade accounts receivable of certain subsidiaries were concentrated in a small number of clients. Below is the classification of clients based on their collection experience at September 30:

	<b>Percentage of accounts receivable</b>	
	<b>2009</b>	<b>2008</b>
Clients with excellent payment experience	80.86	89.46
Clients with good payment experience	19.14	10.54

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

**Liquidity risk**

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

At September 30, 2009, the Company has short-term monetary liabilities (mainly financial obligations, accounts payable to suppliers, income tax payable and other) amounting to Bs 338 million. Short-term monetary assets (mainly cash and accounts receivable, advances to suppliers and inventories, among others) of Bs 792 million exceed short-term monetary liabilities.

**Foreign exchange risk**

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
Assets in bolivars	489,933	567,016
Assets in foreign currency	161,250	468,358
Liabilities in bolivars	(608,553)	(1,125,917)
Liabilities in foreign currency	(288,100)	(462,815)

Acquisition of foreign currency in the country is currently limited due to the exchange control regime in effect as from February 5, 2003. In March 2005, the Ministry of Finance and BCV set official exchange rates of Bs 2.14/US\$1 (purchase) and Bs 2.15/US\$1 (sale) (Note 17).

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Assets and liabilities in foreign currency are recorded at the official exchange rates published by BCV at September 30, 2009 and 2008, which represent values at which assets are expected to be realized and liabilities to be settled. Company management does not engage in hedging activities in connection with its monetary assets and liabilities in foreign currency.

**Interest rate risk**

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

	2009		2008	
	Effective rate	Average market rate	Effective rate	Average market rate
Promissory notes and letters of credit in foreign currency	4.78%	4.78%	12%	10.20%
Short-term promissory notes in local currency	18.32%	20.49%	19%	22.31%
Bonds payable in foreign currency	10.00%	10.30%	10%	10.30%
Other financial liabilities	Between 18.63% and 20.23%	20.49%	Between 12.10% and 18.63%	22.31%

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

Bonds payable at fixed interest and other short-term financial obligations at variable interest approximate their fair value.

All financial liabilities are shown at their balance payable.

**Market risk**

The Company is exposed to the risk of price fluctuation of supplies and finished products. At September 30, 2009 and 2008, Company management has not engaged in hedging activities in connection with the cost of its raw materials and prices of products sold on local and international markets.

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

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

In 2009 and 2008, the Company exported 4% and 3%, respectively, of its annual sales, mainly denominated in U.S. dollars. A portion of its costs and expenses is denominated in bolivars.

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**4. Classification of financial instruments**

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Cost</b>	<b>Unrealized gains</b>	<b>Unrealized loss</b>	<b>Book value (equivalent to market value)</b>
Investments in preferred shares	<u>47,350</u>	<u>-</u>	<u>-</u>	<u>47,350</u>
Investments in companies under “nationalization”	<u>2,554,417</u>	<u>-</u>	<u>-</u>	<u>2,554,417</u>

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

<i>(Thousands of constants bolivars at September 30, 2009)</i>	<b>Cost</b>	<b>Unrealized gain</b>	<b>Unrealized loss</b>	<b>Book value (equivalent to market value)</b>
Investments in preferred shares	<u>61,034</u>	<u>-</u>	<u>-</u>	<u>61,034</u>

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Amortized cost</b>	<b>Unrealized gain (loss)</b>	<b>Market value</b>
Bank deposits in bolivars	46,080	-	46,080
Bank deposits in U.S. dollars	13,527	-	13,527
Investments in trading securities	21,680	-	21,680
Trade and other accounts receivable in bolivars	158,219	-	158,219
Trade and other accounts receivable in U.S. dollars	8,600	-	8,600
Short-term bank loans in bolivars	47,169	-	47,169
Short-term bank loans in euros	12,444	-	12,444
Trade accounts payable	132,057	-	132,057
Bonds payable	192,052	-	192,052

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Amortized cost</b>	<b>Unrealized gain (loss)</b>	<b>Market value</b>
Bank deposits in bolivars	19,335	-	19,335
Bank deposits in U.S. dollars	16,326	-	16,326
Trade and other accounts receivable in bolivars	7,295	-	7,295
Trade and other accounts receivable in U.S. dollars	155,461	-	155,461
Letters of credit in euros	15,420	-	15,420
Short-term bank loans in bolivars	87,652	-	87,652
Trade accounts payable	407,887	-	407,887
Bonds payable	260,603	-	260,603

**5. Cash and cash equivalents**

Cash and cash equivalents at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
Cash on hand and at banks	290,327	558,961
Bank deposits	<u>59,607</u>	<u>35,661</u>
	<u>349,934</u>	<u>594,622</u>

At September 30, 2009, short-term bank deposits in local and foreign currency earn interest at between 3% and 19% (2.75% and 17% in 2008). These deposits mature between October and November 2009 (October and November 2008 in 2008).

At September 30, 2009, US\$7.6 million guarantees payment of principal and interest of bonds payable (US\$7.6 million in 2008) and bank deposits of US\$5.8 million guarantee a promissory note taken out by the subsidiary Sidetur (Notes 10 and 11).

**6. Accounts receivable**

Accounts receivable at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
Trade (Note 17)	112,433	162,756
Provision for doubtful accounts	<u>(1,069)</u>	<u>(2,630)</u>
	111,364	160,126
Value added tax (VAT) withholdings and credits (Note 13)	31,628	142,790
Accounts receivable (drawback)	-	-
Other accounts receivable	<u>23,827</u>	<u>12,006</u>
	<u>166,819</u>	<u>314,922</u>

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At September 30, 2008, trade accounts receivable of IBH’s former subsidiaries were concentrated in a small number of clients.

At September 30, 2009 and 2008, Bs 6.2 million and Bs 52.6 million (including Bs 41.2 million of the discontinued operation), respectively, are subject to reimbursement in respect of export incentives and import duty drawbacks established in the Venezuelan Customs Law. It is Company policy to set aside provisions for the full carrying amounts and recognize income upon collection. During 2009 the Company received drawback payments for Bs 2.6 million; no drawback payments were received during 2008.

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Maturities</b>		
Not due	91,541	149,910
30 to 60 days	10,329	4,417
61 to 90 days	1,084	4,024
91 to 120 days	3,730	2,484
Over 120 days	<u>5,749</u>	<u>1,921</u>
	<u>112,433</u>	<u>162,756</u>

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

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

	<b>Years ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<i>(Thousands of constant bolivars at September 30, 2009)</i>		
Balance at the beginning of the year	2,630	3,136
Effect of inflation	(590)	(831)
Provision (reversal) against selling expenses	(971)	335
Write-offs	<u>-</u>	<u>(10)</u>
Balance at the end of the year	<u>1,069</u>	<u>2,630</u>

At September 30, 2009 and 2008, trade accounts receivable in foreign currency are represented by accounts receivable mainly in U.S. dollars (Note 17).

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**7. Inventories**

Inventories at September 30 comprise the following:

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
Finished products	28,825	132,031
Work in progress	66,214	43,674
Raw materials	80,596	185,918
In-transit merchandise	6,893	28,351
Provision for inventory losses	<u>(1,180)</u>	<u>(2,471)</u>
	<u><b>181,348</b></u>	<u><b>387,503</b></u>

At September 30, 2008, finished products for Bs 8 million are shown at their net realizable values.

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>Years ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at the beginning of the year	2,471	2,122
Provision (reversal) against selling expenses	(1,291)	1,273
Write-offs	<u>-</u>	<u>(924)</u>
Balance at the end of the year	<u><b>1,180</b></u>	<u><b>2,471</b></u>

**8. Property, plant and equipment**

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
Buildings	386,486	784,656
Machinery and equipment	1,111,257	5,115,246
Tools	30,729	30,731
Vehicles	66,588	102,530
Furniture and fixtures	<u>46,749</u>	<u>69,825</u>
	1,641,809	6,102,988
Accumulated depreciation	<u>(1,033,764)</u>	<u>(2,273,277)</u>
	608,045	3,829,711
Land and improvements	385,891	390,945
Construction in progress, machinery in transit and other	<u>9,261</u>	<u>29,552</u>
	<u><b>1,003,197</b></u>	<u><b>4,250,208</b></u>
Depreciation expense for the year of continuing operations, included mainly under cost of sales (includes Bs 155 million of the discontinued operation in 2008)	<u><b>78,919</b></u>	<u><b>237,124</b></u>

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Buildings, machinery and equipment</b>	<b>Tools</b>	<b>Vehicles</b>	<b>Land and improvements</b>	<b>Furniture and fixtures</b>	<b>Construction in progress, machinery in transit and other</b>	<b>Total</b>
<b>At September 30, 2009</b>							
Net opening balance	3,783,495	2,395	23,559	390,945	20,262	29,552	4,250,208
Additions	1,372	-	919	-	65	18,175	20,531
Disposals, net	(274)	-	(1,210)	(14,617)	-	(693)	(16,794)
Reclassifications	18,156	-	2	(2)	-	(18,156)	-
Assets reclassified to investment in companies under “nationalization”	(3,245,026)	-	(7,770)	(61,428)	(12,321)	(19,617)	(3,346,162)
Depreciation expense	(71,961)	(47)	(4,813)	-	(2,098)	-	(78,919)
Revaluation	<u>103,340</u>	<u>-</u>	<u>-</u>	<u>70,993</u>	<u>-</u>	<u>-</u>	<u>174,333</u>
Net closing balance	<u>589,102</u>	<u>2,348</u>	<u>10,687</u>	<u>385,891</u>	<u>5,908</u>	<u>9,261</u>	<u>1,003,197</u>
<b>At September 30, 2008</b>							
Net opening balance	5,144,403	2,271	24,938	444,307	21,311	41,938	5,679,168
Additions	67,674	143	9,173	19,367	2,753	121,404	220,514
Disposals, net	(74,820)	-	(871)	(19,179)	(131)	-	(95,001)
Reclassifications	131,735	-	222	4	1,829	(133,790)	-
Depreciation expense	(221,702)	(19)	(9,903)	-	(5,500)	-	(237,124)
Revaluation	<u>(1,263,795)</u>	<u>-</u>	<u>-</u>	<u>(53,554)</u>	<u>-</u>	<u>-</u>	<u>(1,317,349)</u>
Net closing balance	<u>3,783,495</u>	<u>2,395</u>	<u>23,559</u>	<u>390,945</u>	<u>20,262</u>	<u>29,552</u>	<u>4,250,208</u>

During 2008, the subsidiary Sidetur completed construction of the smoke extraction system of its plant located in Guayana in order to comply with environmental commitments. An investment of US\$26.3 million (equivalent to Bs 81 million in constant amounts) was made in this connection. In September 2009, the subsidiary Sidetur received an environmental compliance certificate from the People’s Power Ministry for the Environment for having achieved the environmental adequation goals set by the Venezuelan government.

Application of the Mixed method in 2009 and 2008 resulted in a decrease in values of fixed assets and consolidated equity, mainly due to the fact that appraisals are updated using specific indices (Note 2-g). At September 30, 2009, the value of buildings, machinery and equipment determined by independent appraisers in 2009 is US\$438 million.

## 9. Investments

Investments at September 30 comprise the following:

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
<b>Trading</b>		
Investments in debt securities	<u>21,680</u>	<u>-</u>
<b>Available for sale</b>		
Preferred shares	75,000	96,675
Provision for impairment	<u>(27,650)</u>	<u>(35,641)</u>
	<u>47,350</u>	<u>61,034</u>
Investment in companies under “nationalization” (Notes 1 and 20)	<u>2,554,417</u>	<u>-</u>

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**Trading investments**

In September 2009, the Company acquired securities guaranteed by the Venezuelan government and PDVSA 2011 bonds at a cost of Bs 13.47 million, maturing in July 2011. In addition, the Company acquired commercial paper from Corporación Digitel at a cost of Bs 6.91 million, maturing in October 2009. Both investments are recorded at fair value. In addition, the Company has Tax Reimbursement Certificates for Bs 1.3 million resulting from import duty drawbacks.

**Investments in available-for-sale preferred shares**

In September 2008, Sidetur invested in 60 million preferred shares of a local shipping company with a par value of Bs 0.5 each. These shares grant a guaranteed, fixed and accrued dividend of 4% per annum, payable every six months. The holders of these shares have no rights to vote at meetings. These shares are not computed for purposes of the related quorum. Based on the difference between the fixed yield of shares and market yields, management estimated at Bs 21.75 million the present value of this investment, based on an effective interest rate of 20.23%. The difference between the amount paid and the present value of the investment of Bs 10.6 million was recorded in the consolidated income statement under Net loss on valuation of investments. Under the Aquatic Space Law, Sidetur is entitled to receive income tax credits in respect of 75% of the amount invested in the acquisition of these shares.

During 2007 Sidetur acquired 4,500 million preferred shares of another local shipping company with a par value of Bs 0.01 each. These shares grant a guaranteed, fixed and accrued dividend of 4% per annum, payable every six months. The holders of these shares have no rights to speak or vote at meetings. Based on the difference between the fixed yield of shares and market yields, management estimated at Bs 25.6 million the present value of this investment, based on an effective interest rate of 18.63%. Under the Aquatic Space Law, Sidetur is entitled to receive income tax credits in respect of 75% of the amount invested in the acquisition of these shares.

**10. Long-term bonds payable**

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
Bonds payable	196,188	266,744
Cost of bonds issued	<u>(4,136)</u>	<u>(6,141)</u>
Net amount of issue costs	192,052	260,603
Current portion	<u>(10,750)</u>	<u>(13,857)</u>
	<u>181,302</u>	<u>246,746</u>

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>Sidetur</b>	<b>IBH</b>	<b>Total</b>
<b>Balance at September 30, 2007</b>	439,226	1,368,022	1,807,248
Capitalization of interest	-	45,240	45,240
Effect of inflation	(105,482)	(362,499)	(467,981)
Payments through foreclosures of accounts receivable	-	(874,959)	(874,959)
Cash payments	(73,950)	-	(73,950)
Amortization of loan expenses and commissions	809	31,410	32,219
Debt from settlement with BHP-Billiton	-	83,141	83,141
New debt	-	682,188	682,188
Capitalization of debt in subsidiary	-	<u>(972,543)</u>	<u>(972,543)</u>
<b>Balance at September 30, 2008</b>	260,603	-	260,603
Effect of inflation	(58,429)	-	(58,429)
Cash payments	(10,750)	-	(10,750)
Amortization of loan expenses and commissions	<u>628</u>	<u>-</u>	<u>628</u>
<b>Balance at September 30, 2009</b>	<u>192,052</u>	<u>-</u>	<u>192,052</u>

**Sidetur**

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

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

***Bond issue agreement***

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

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

- a) The amount of principal and interest is repayable in 32 quarterly installments of US\$1,250,000 beginning April 2008 and the remaining balance in a single payment of US\$60 million in April 2016. The applicable annual interest rate will be 10%, payable on a quarterly basis as from July 2006.
- b) Sidetur unconditionally and irrevocably guarantees payment of principal and interest in respect of bonds issued by its subsidiary Sidetur Finance, B.V.
- c) The issuer is entitled to redeem bonds in whole, but not in part, at any time on or after April 20, 2011 at discretion, for the total amount owed at that date, at recovery rates equal to 105% of the amount owed in 2011 and up to 100% of the amount owed as from April 2014.

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- d) The bond issue agreement sets limits in respect of: i) certain specific payments, ii) certain debt, iii) liens on certain assets, iv) sales of assets, v) financial lease transactions, vi) mergers, and vii) repurchase of bonds from holders by the issuer and the guarantor.

At September 30, 2009, Sivensa’s consolidated financial statements show a balance of US\$91.2 million in respect of the foreign currency debt issued in May 2006 (equivalent to Bs 196.2 million), net of issue costs of Bs 4.1 million.

***Amended and Restated Loan Agreement***

In March 2006, Sidetur was notified by the Commission for the Administration of Foreign Currency (CADIVI) that its request for a creditor change and the issue of the Amended and Restated Loan Agreement, filed in February 2006, had been approved (Note 17).

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

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

- a) The debt will be repaid in “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.
- b) The occurrence of an event of default under the loan agreement shall relate to an event of default under the bond issue agreement of May 3, 2006.
- c) The loan is secured by Sidetur’s export accounts receivable and the bank account for export collections as provided in the agreement.
- d) Sidetur pays a commission for Tranche “A” debt service. The amount paid in this connection during the year ended September 30, 2009 was US\$272,656, equivalent to Bs 0.59 million (US\$310,625, equivalent to Bs 0.86 million in constant amounts in 2008).

On May 3, 2006, Sidetur Finance B.V. and the new creditor of the amended and restated loan signed a participation agreement on the aforementioned debt under the same terms and conditions of the debt agreement. Under the participation agreement, Sidetur Finance B.V. may not sell, assign or transfer its participation to any entity or individual. The consolidated financial statements at September 30, 2009 and 2008 include offsetting of the balance of the amended and restated loan owed by Sidetur with the participation acquired by its subsidiary.

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Maturities of these obligations at September 30, 2009 are shown below:

*(Thousands of constant bolivars  
at September 30, 2009)*

<b>Years</b>	
2010	10,750
2011	10,750
2012	10,750
2013	10,750
2014 and beyond	<u>153,188</u>
	196,188
Cost of bonds issued	<u>(4,136)</u>
	<u>192,052</u>

During 2009, Sidetur repaid US\$5 million in principal. In addition, interest on debt in foreign currency during 2009 amounts to US\$9.5 million (US\$10 million in 2008), of which US\$5.6 million has been paid.

The request filed by Sidetur in February 2006 for a change of creditor in respect of the restructured long-term debt of 2002 and issue of the Amended and Restated Loan Agreement was formally approved by CADIVI in March 2006 (Note 17).

**IBH**

**b) Background of the financial debt being restructured**

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

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

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

During 2008, the financial debt being restructured bore interest for US\$16.32 million. Interest payable to banks was calculated based on the terms of the original debt agreements at between 11.25% and

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5.38% per annum, including additional interest charges on late payments of 2% beginning in May 2001.

**c) Repayment of financial debt being restructured**

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

In June 2008, after foreclosure of these accounts receivable, the remaining balance of Venprecar’s financial debt for US\$74.8 million (equivalent to Bs 207.5 million) was assigned to another foreign bank. This assignment was notified to CADIVI. Upon assignment, Venprecar agreed with the creditor of the financial debt to novate the obligations derived from the debt, thereby terminating all agreements guaranteeing the financial debt being restructured and replacing this debt with a new debt of Bs 207.5 million, denominated and payable in bolivars. In July 2008, Venprecar had no foreign currency debt derived from the financial debt being restructured.

On June 25, 2008, the new financial creditor resolved to increase the capital stock of IBH de Venezuela, C.A. by Bs 973 million, which included the remaining balance of the financial debt for Bs 207.5 million and other loans to finance working capital granted during 2008 to Venprecar and Orinoco Iron for Bs 766 million, which included the amount in connection with the BHP-Billiton settlement payment of US\$30 million. In turn, IBH contributed accounts receivable and other credits for Bs 1,473 million, thereby maintaining the original equity of both parties.

**11. Short-term bank loans**

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	2009	2008
Promissory notes in bolivars	47,169	87,652
Promissory notes and letters of credit in foreign currency	<u>12,444</u>	<u>15,420</u>
	<u>59,613</u>	<u>103,072</u>

The balance of bank loans and interest payable at September 30, 2009 comprises the following:

Type	Maturity	Year-end interest rate %	Amount in thousands of bolivars	Interest pending payment in thousands of bolivars
Promissory notes in bolivars	January 2010	18	21,527	248
Promissory notes in bolivars	November 2009	Between 18 and 19	<u>25,642</u>	<u>122</u>
			47,169	370
Promissory notes in foreign currency	January 2010	5	<u>12,444</u>	-
			<u>59,613</u>	<u>370</u>

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

*(Thousands of constant bolivars  
at September 30, 2009)*

<b>Balance at September 30, 2007</b>	2,412
New debt	128,852
Amortization	(27,552)
Effect of inflation	<u>(640)</u>
<b>Balance at September 30, 2008</b>	103,072
New debt	203,831
Amortization	(224,662)
Effect of inflation	(23,109)
Exchange loss	<u>481</u>
<b>Balance at September 30, 2009</b>	<u><u>59,613</u></u>

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

**12. Other liabilities and accruals**

Other liabilities and accruals at September 30 comprise the following:

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Short-term</b>		
Accrued expenses	14,369	16,436
Dividends payable (Note 16)	9,855	1,950
Labor contributions	9,893	14,370
Interest payable (Notes 10 and 11)	5,562	7,061
Provisions for taxes payable	3,590	11,708
Client bonuses	2,243	8,332
Other accounts payable	<u>313</u>	<u>411</u>
	<u><b>45,825</b></u>	<u><b>60,268</b></u>
<b>Long-term</b>		
Promissory notes payable	47,350	61,034
Other (Note 21)	<u>44,231</u>	<u>22,571</u>
	<u><b>91,581</b></u>	<u><b>83,605</b></u>

The Law on Narcotic and Psychotropic Substances was published in Official Gazette No. 38,287 on December 16, 2005. This Law repeals the previous Law of September 30, 1993 and requires all companies, public or private, with 50 or more employees to earmark 1% of their annual taxable income for social programs for the prevention of illegal drug consumption and traffic, one-half of which is to be set aside for child welfare protection programs. At September 30, 2009, the Company has not set aside any provision since its obligation was covered with internal projects. During 2008, the Company recorded Bs 2.1 million in this connection.

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Contributions under the Law for the Advancement of Science, Technology and Innovation became mandatory as from January 1, 2006. This Law establishes that the country’s major corporations will annually earmark from 0.5% to 1% of gross income generated in Venezuela to support activities which, according to the Law, relate to investments in science, technology and innovation. This Law defines major corporations as those whose annual gross income exceeds 100,000 tax units. This Law’s regulations establish the mechanisms, methods and procedures for mandatory contributions from major corporations, as well as the timeframe and procedures that must be complied with for the purpose of determining which activities will be considered by the People’s Power Ministry for Science, Technology and Intermediate Industries in connection with these contributions. Contributions under this Law are to be calculated based on gross income obtained during the previous period. During the years ended September 30, 2009 and 2008, the Company invested Bs 11.7 million and Bs 6.1 million, respectively, in science, technology and innovation activities.

At September 30, 2009, the Company has promissory notes for Bs 47.4 million, maturing in September 2011 and 2012. These promissory notes bear interest at a fixed rate (Note 9).

**13. Taxes**

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
Income tax	(73,678)	(68,028)
Deferred income tax	<u>13,657</u>	<u>31,908</u>
Total income tax expense	<u>(60,021)</u>	<u>(36,120)</u>

**Income tax**

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

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

	<b>Years ended</b>	
	<b><u>September 30,</u></b>	
	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>
Statutory tax rate	(34.00)	(34.00)
<b>Reduction in the statutory tax rate resulting from</b>		
Inflation adjustment for tax purposes	(16.68)	15.32
Gain on securities swap	35.01	5.61
Provision for deferred tax on tax loss carryforwards	(0.20)	(8.71)
Investment tax credits for the year	0.59	14.14
Results of tax-exempt subsidiaries	2.80	1.34
Other, net	<u>(10.49)</u>	<u>(3.98)</u>
Effective income tax rate	<u>(22.97)</u>	<u>(10.28)</u>

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

The Law also allows tax losses not offset and unused investment tax credits to be carried forward for three years to offset and reduce tax expense. At September 30, 2009, certain Sivensa’s subsidiaries have tax loss carryforwards of Bs 64,744, which may be used until 2011. In addition, at September 30, 2009, the subsidiary Sidetur has advance payments of income tax of Bs 27.6 million, shown net of income tax payable.

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Difference in tax base of inventories	36,571	37,669
Allowances and provisions not deductible until paid and other	<u>5,039</u>	<u>13,302</u>
	<u>41,610</u>	<u>50,971</u>
<b>Included in</b>		
Deferred tax asset (long-term portion)	<u>41,610</u>	<u>50,971</u>
Difference in tax base of fixed assets	(175,635)	(365,775)
Difference in tax base of investments	<u>(86,167)</u>	<u>(17,057)</u>
Deferred tax liability	<u>(261,802)</u>	<u>(382,832)</u>
<b>Included in</b>		
Deferred tax liability (long-term portion)	<u>(261,802)</u>	<u>(382,832)</u>

At September 30, 2009, the deferred tax liability resulting from the difference between the tax base and the carrying amount of fixed assets for Bs 175.6 million includes Bs 158.8 million for the effect of the difference between the value of fixed assets determined using the GPL method and the Mixed method against the equity account Result from holding nonmonetary assets (Note 2-a).

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

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>Inventories</b>	<b>Fixed assets</b>	<b>Investments</b>	<b>Allowances and provisions</b>	<b>Total deferred</b>
<b>Deferred tax asset</b>					
At September 30, 2007	44,108	-	-	31,446	75,554
Effect of inflation	(9,652)	-	-	(7,287)	(16,939)
Credits (charges) to results	3,213	-	-	(10,729)	(7,516)
Other credits (charges)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128)</u>	<u>(128)</u>
At September 30, 2008	37,669	-	-	13,302	50,971
Effect of inflation	(9,265)	-	-	(2,163)	(11,428)
Charges to revaluation	-	-	-	(3,570)	(3,570)
Credits (charges) to results	<u>8,167</u>	<u>-</u>	<u>-</u>	<u>(2,530)</u>	<u>5,637</u>
At September 30, 2009	<u>36,571</u>	<u>-</u>	<u>-</u>	<u>5,039</u>	<u>41,610</u>
<b>Deferred tax liability</b>					
At September 30, 2007	-	813,776	91,200	-	904,976
Effect of inflation	-	(182,453)	(20,447)	-	(202,900)
Charges (credits) to results	-	14,272	(53,696)	-	(39,424)
Credits to revaluation	<u>-</u>	<u>(279,820)</u>	<u>-</u>	<u>-</u>	<u>(279,820)</u>
At September 30, 2008	-	365,775	17,057	-	382,832
Effect of inflation	-	(82,009)	(3,824)	-	(85,833)
Charges (credits) to results of continuing operations	-	(3,060)	(4,960)	-	(8,020)
Credits to revaluation	-	81,729	-	-	81,729
Charges (credits) to results of discontinued operation	-	-	12,407	-	12,407
Reclassification of deferred tax	-	(186,800)	(18,577)	-	(205,377)
Charges to other equity accounts	<u>-</u>	<u>-</u>	<u>84,064</u>	<u>-</u>	<u>84,064</u>
At September 30, 2009	<u>-</u>	<u>175,635</u>	<u>86,167</u>	<u>-</u>	<u>261,802</u>

**Valued added tax (VAT)**

In May 1999, the Venezuelan government enacted the Value Added Tax (VAT) Law. This tax is based on a tax credit system; it is payable based on the value added at each stage of production or sales. The tax rate is set annually in the Venezuelan Budget Law. The tax rate is 12% (9% from July 2007 to March 2009). The Law provides a special zero tax rate for exporters, granting them the right to recover tax credits from the purchase or import of goods and services based on the ratio of export sales to total sales.

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

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

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

At June 30, 2009, the company under “nationalization” Orinoco Iron had recorded Bs 11.9 million in respect of tax credits that are subject to appeals filed in May and July 2007 after they were initially disallowed by the Tax Authorities. However in the opinion of Orinoco Iron management and its legal advisors, there is reason to believe that the final decision will be in favor of Orinoco Iron. In the opinion of Orinoco Iron management and its legal advisors, these tax credits are fully recoverable. Therefore, at June 30, 2009, no provision has been set aside in this connection. In addition, Venprecar and Orinoco Iron have recorded VAT withholdings made by local clients of Bs 0.9 million.

During 2009, the managements of Venprecar and Orinoco Iron recorded provisions for Bs 28.1 million to present VAT credits at their estimated realizable value. At June 30, 2009, the net balance of tax credits of the companies under “nationalization” was Bs 82.5 million, shown under Investment in companies under “nationalization” (Notes 9 and 20).

#### **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, 2008, 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 2009 study will be made during 2010; however, management estimates no effects on taxable income for 2009 since there are no significant changes to the companies’ operations with related parties abroad.

#### **Tax on financial transactions for incorporated and unincorporated entities**

On October 3, 2007, the Venezuelan government enacted by Decree- Law the tax on financial transactions for incorporated and unincorporated entities. This tax is levied upon debits or withdrawals made from current and savings accounts, custody deposits or any other type of demand deposits, liquid asset funds, trust funds and other financial market funds or financial instruments transacted by incorporated and unincorporated entities with Venezuelan banks and other financial institutions. Entities qualified as special taxpayers and debt payments made without the mediation of financial institutions are also subject to this tax. The tax rate was set at 1.5% as from November 1, 2008. During the year ended September 30, 2008, the Company recorded Bs 47.3 million in this connection (Bs 18.8 million of continuing operations), shown under Other operating income (expense), net. The Venezuelan government repealed the Tax on Financial Transactions on June 12, 2008.

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**14. Other operating income (expense), net**

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
Gain (loss) on sale of securities, net	231,781	18,190
Tax on financial transactions (Note 13)	-	(18,818)
Disposal of fixed assets	(13,466)	(6,451)
Other expenses, net	(11,648)	(9,098)
Gain on sale of Tax Reimbursement Certificates (CERTs)	339	3,830
Income from sales of scrap metal and spare parts, net	<u>415</u>	<u>101</u>
	<u>207,421</u>	<u>(12,246)</u>

During the year ended September 30, 2009, Sivensa and the subsidiary Sidetur swapped securities at a net gain of Bs 232 million (net gain of Bs 18.2 million in 2008).

**15. Interest and other financial expense, net**

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>2009</b>	<b>2008</b>
Interest on loans (Notes 10 and 11)	(56,656)	(46,704)
Amortization of deferred charges (Note 10)	(628)	(809)
Restatement of BHP-Billiton accrual and put option (Notes 10 and 20)	-	(1,863)
Prompt payment discounts	839	(7,148)
Other financial expenses and commissions	<u>(9,729)</u>	<u>(9,380)</u>
	(66,174)	(65,904)
Interest income (Note 5)	<u>6,992</u>	<u>14,076</u>
	<u>(59,182)</u>	<u>(51,828)</u>

**16. Equity**

**a) Capital stock**

At September 30, 2009 and 2008, Sivensa’s capital stock amounts to Bs 105,889,970 represented by 52,944,985 shares with a par value of Bs 2 each. At September 30, 2009, there are 52,521,441 outstanding shares and 423,544 treasury shares, representing 0.80% of capital stock (52,634,441 outstanding shares and 310,544 treasury shares, representing 0.58% of capital stock in 2008), mainly resulting from the Stock Repurchase Program approved at the Shareholders’ Meeting on July 28, 2008. At September 30, 2009, Sivensa’s consolidated equity amounts to Bs 2,798,665,000 (Bs 3,116,463,000 in 2008).

At a Special Shareholders’ Meeting on October 19, 2007, it was resolved to increase the par value of Sivensa’s shares to Bs 2 each with an eye to currency redenomination effective beginning January 1, 2008.

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

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

Immediately thereafter, all outstanding shares (including those issued in connection with the aforementioned capital increase) were exchanged for new shares with a par value of Bs 2 each. Accordingly, every 100 shares with a par value of Bs 0.02 were exchanged for one share of Bs 2. As a result of the approved capital stock increase, and the distribution and exchange of shares with a par value of Bs 2 each, Sivensa's capital stock increased to Bs 99,661,148, represented by 49,830,574 shares with a par value of Bs 2 each.

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

Under Sivensa's bylaws, each share grants its holder the right to cast one vote at shareholders' meetings in connection with all matters related to their role as shareholders in conformity with the provisions of the Venezuelan Code of Commerce, the Capital Markets Law and any other applicable legal provisions or regulations.

#### **b) Stock repurchase program**

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

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

At a Special Shareholders' Meeting on December 5, 2008, the second phase of the Company's share repurchase program was approved. In this phase, it was resolved to acquire common shares representing up to 15% of its subscribed and paid-in capital stock, including treasury stock. The share price will be subject to market conditions and shall not exceed Bs 80.00 per share. This second phase was carried out from January 29, 2009 to June 4, 2009.

At a Special Shareholders' Meeting on September 1, 2009, the third phase of the Company's share repurchase program was approved. In this phase, it was resolved to acquire common shares representing up to 15% of its subscribed and paid-in capital stock, including treasury stock. The share

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price will be subject to market conditions and shall not exceed Bs 50.00 per share. The period for carrying out this third phase shall be extended until February 28, 2010.

At November 6, 2009, Sivensa had acquired 420,609 shares (0.79% of capital stock) at an average share price of Bs 22.85, totaling Bs 12.7 million in constant amounts (Bs 9.6 million in nominal amounts) from repurchase program commencement up to the issue date of this report.

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

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

During 2005 and 2008, IBH de Venezuela, C.A. acquired its shareholding in Venprecar from prior shareholders. At September 30, 2009, this transaction was recorded as a transaction between shareholders (Note 2-d), giving rise to an increase of Bs 1,287 million, net of minority interests and deferred tax (Bs 1,330 million in 2008), in the equity account Difference between fair value and cost of shares of subsidiary.

#### **d) Net effect of combination (merger) of subsidiaries**

During 2005, the assets and liabilities of Orinoco Iron, C.A. and Venprecar were merged and absorbed by the latter as the surviving company. Since these shareholding movements constitute a combination of commonly controlled entities, they were accounted for using book values at the transaction date. The difference between equity values exchanged is shown in equity under Net effect of combination (merger) of subsidiaries.

#### **e) Dividends**

At a Regular Shareholders' Meeting on December 5, 2008, it was resolved to declare cash dividends of Bs 243,438,000 (Bs 202,207,547 in nominal amounts at Bs 3.85 per share) out of retained earnings for the year ended September 30, 2008. These dividends were paid on December 19, 2008.

At a Regular Shareholders' Meeting on November 30, 2007, a dividend of Bs 293,236,606 (Bs 178,767,185 in nominal amounts) was approved with a charge to earnings for the year ended September 30, 2007. At this Meeting, it was resolved to pay this dividend as follows: a cash dividend of Bs 73,564,585 (Bs 44,847,517 in nominal amounts at Bs 0.90 per share) and a dividend in kind of Bs 219,672,021 (Bs 133,919,668 in nominal amounts at Bs 2.6875 per share) through the assignment of units with a fixed value of US\$1.25 per share related to a trust fund set up abroad.

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

At the first Shareholders' Meeting on July 28, 2008, it was resolved to replace the dividend in kind, declared at the Regular Shareholders' Meeting on November 30, 2007, with a substitute dividend amounting to Bs 219,672,021 (Bs 133,919,668 in nominal amounts), to be paid as follows: a cash dividend of Bs 211,306,022 (Bs 127,690,844 in nominal amounts at Bs 2.56 per share) and Sivensa shares of Bs 8,365,999 (Bs 6,228,824 in nominal amounts) with a par value of Bs 2 at one share for every 16 shares held by each shareholder. To this end, the shareholders resolved to increase capital

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stock by Bs 8,365,999 (Bs 6,228,824 in nominal amounts) through the issue of 3,114,411 new shares. It was also resolved that the subsidiary C.A. Inversiones Siderúrgicas “Inverside” (wholly owned subsidiary of Sivensa) acquire fractions at fair value on the trading day prior to the cash portion payment date (Inverside acquired 2,935 shares considered treasury stock). The portion in cash of the substitute dividend was paid on August 8, 2008; the portion in shares was paid on August 26, 2008.

At the second Shareholders’ Meeting held on July 28, 2008, it was resolved to pay a cash dividend of Bs 1.25 per share totaling Bs 88,834,121 (Bs 66,132,081 in nominal amounts) (not including treasury stock at the payment date).

Sivensa pays dividends in bolivars. The Capital Markets Law requires companies with publicly traded shares to distribute to their shareholders at least 50% of their net profit (in bolivars) after tax and appropriation to legal reserves. In addition, at least one-half of this dividend must be paid in cash. In conformity with CNV rules, the basis for distribution of dividends and statutory equity does not include equity in the results of subsidiaries. For the year ended September 30, 2009, Sivensa (unconsolidated parent company) has determined that it has profits of Bs 393 million available for dividend distribution.

**f) Legal reserve**

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

**17. Foreign currency**

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

<i>(Millions of U.S. dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents	34	131
Trading investments	6	-
Trade and other accounts receivable	4	20
Advances to suppliers	<u>31</u>	<u>18</u>
Total assets	<u>75</u>	<u>169</u>
<b>Liabilities</b>		
Bonds, bank loans and current portion of long-term loans	(95)	(100)
Suppliers and other liabilities	<u>(39)</u>	<u>(67)</u>
Total liabilities	<u>(134)</u>	<u>(167)</u>

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

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

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

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

**Continuing operations**

Sivensa and Sidetur complied with certain requirements set out in CADIVI regulations in respect of their private-sector foreign debt of US\$250 million to obtain currency required for payment of this debt at the official exchange rate. As per communication from CADIVI dated October 14, 2003, the application for registration was approved. In March 2006, Sidetur received formal approval from CADIVI to change its creditor and issue the Amended and Restated Loan Agreement filed by Sidetur in February 2006 (Note 10).

**Discontinued operation**

Orinoco Iron, C.A. (currently merged with Venprecar) complied with requirements set out in regulations issued by CADIVI for registration of its foreign debt of US\$728 million at January 22, 2003. In connection with that amount, Orinoco Iron, C.A. received approval to purchase foreign currency and authorizations for currency liquidation of US\$147 million, which were not used. During 2008, the creditor bank foreclosed accounts receivable arising from exports of Venprecar and Orinoco Iron amounting to US\$316 million to collect this debt in foreign currency. The remaining amount of US\$74.8 million was converted into bolivars in June 2008. In July 2008, Venprecar notified CADIVI that it had no debt in foreign currency.

At September 30, 2009, Sivensa’s subsidiaries have net accounts payable to companies under “nationalization” of US\$213.9 million not registered with CADIVI.

**18. Accounts and transactions with related companies**

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

Balances with related companies at September 30 comprise the following:

*(Thousands of constant bolivars  
at September 30, 2009)*

	<b>2009</b>	<b>2008</b>
<b>Accounts receivable</b>		
Fundamental	233	225
CVG Ferrominera Orinoco, C.A.	350	446
Other	<u>183</u>	<u>32</u>
	766	703
<b>Long-term accounts receivable</b>		
CVG Ferrominera Orinoco, C.A.	<u>-</u>	<u>446</u>
	<u>766</u>	<u>257</u>

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	2009	2008
<b>Accounts payable</b>		
Rutedis Finance	3,584	-
CVG Ferrominera Orinoco, C.A.	2,619	144,873
Smith International	1,720	2,217
Other	<u>672</u>	<u>52</u>
	<u>8,595</u>	<u>147,142</u>

During the year ended September 30, 2009, remunerations paid to executives and directors amount to Bs 6 million in nominal amounts (Bs 5.9 million in nominal amounts in 2008). These payments will be notified to the CNV in order to comply with CNV-FG-010 form requirements.

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

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

**19. Main subsidiaries**

The subsidiaries with the most significant operations at September 30, 2009 are the following:

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

**20. Discontinued operation**

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

The results of the operations and cash flows of Venprecar and Orinoco Iron until June 30, 2009, when they were classified as investments in companies under “nationalization,” have been presented in the consolidated financial statements as a discontinued operation. For comparative purposes, the results of operations and cash flows for all years were reclassified as a discontinued operation in conformity with International Financial Reporting Standard No. 5, “Non-current assets held for sale and discontinued operations.”

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

*(Thousands of constant bolivars  
at September 30, 2009)*

**Breakdown of net assets of companies under “nationalization”**

Current assets	
Cash and cash equivalents	16,864
Accounts receivable	259,082
Inventories	36,472
Prepaid expenses and other current assets	<u>12,946</u>
Total current assets	325,364
Accounts receivable	522,491
Property, plant and equipment	2,617,452
Other non-current assets	<u>26,166</u>
Total assets	3,491,473
Loans and accounts payable	(1,376,987)
Deferred income tax	<u>(103,705)</u>
Total net assets	<u>2,010,781</u>
<b>Accounts receivable from companies under “nationalization” at September 30, 2009</b>	
Venezolana de Prerreducidos Caroní, C.A. (Venprecar) (includes US\$47.2 million)	667,901
Orinoco Iron, S.C.S.	<u>460,359</u>
	<u>1,128,260</u>
<b>Accounts payable to companies under “nationalization” at September 30, 2009</b>	
Venezolana de Prerreducidos Caroní, C.A. (Venprecar) (includes US\$263 million)	(565,910)
Orinoco Iron, S.C.S.	<u>(18,714)</u>
	<u>(584,624)</u>
Investments in companies under “nationalization”	<u>2,554,417</u>

**Accounts receivable**

In June 2008, IBH and Venprecar together with the financial creditor, owner of 39.15% of shareholding in IBH de Venezuela, C.A., resolved to amend and reissue the call option contract (formerly of IBH’s creditor banks) originally signed in 2005 and agreed the new total value of the option, after the capital increase in IBH de Venezuela, C.A. at US\$76.6 million. On June 30, 2008, the parties executed the call option through which IBH acquired 39.14% shareholding in the subsidiary IBH de Venezuela, C.A. This transaction was recorded as a transaction between shareholders (Note 2-d), giving rise to an increase of Bs 610 million in constant amounts (net of minority interests) in the equity account Difference between fair value and cost of shares of subsidiary. As a result of the aforementioned transaction, IBH obtained 100% of equity in IBH de Venezuela, C.A.

Accounts receivable from Orinoco Iron and Venprecar mainly arise from the issue of unsecured and interest-free debt notes in favor of their shareholder, the subsidiary IBH de Venezuela, C.A., which assumed the financial debt of these companies (Notes 1 and 10). These debts are denominated in bolivars.

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In June 2008, Venprecar, as part of the aforementioned transactions, issued a promissory note for US\$76.63 million guaranteed by Orinoco Iron and IBH, whereby these companies undertake to pay principal and accrued interest to Sidetur’s subsidiary Invermetal, Inc. under the following terms:

- i) To pay every December 31, March 31, June 30, and September 30 one twentieth (1/20) of the promissory note’s principal in U.S. dollars.
- ii) The promissory note bears interest at 12% per annum during the first year and 14% per annum as of the second year.
- iii) Venprecar has the right to prepay, at any time and with no penalty, all or a portion of the principal together with accrued interest.
- iv) If there were a change in control, defined by a drop below 50% of the issuer or guarantor’s voting rights, Venprecar is obligated to prepay 105% of remaining principal and accrued interest within 10 days after the date on which control changed.

At September 30, 2009, the balance of this debt amounts to US\$47.2 million.

The IBH subsidiary SDP International Corp. has receivables from Venprecar and Orinoco Iron amounting to US\$5.5 million and US\$9.1 million, respectively, arising from sales of equipment, spare parts and supplies.

**Accounts payable**

Accounts payable to Venprecar arise from long-term loans of approximately US\$42 million and US\$22.7 million granted to IBH in November 1997 and April 2002, respectively, at 8% per annum. During 2009, US\$6.3 million has been repaid on principal (US\$6.7 million in 2008). At September 30, 2009, the balance payable amounts to US\$261.1 million.

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Below is a summary of discontinued operation accounts in the consolidated income statement for the nine-month period ended June 30, 2009 and the year ended September 30, 2008:

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Nine-month period ended June 30, 2009</b>	<b>Year ended September 30, 2008</b>
<b>Discontinued operation</b>		
Net sales	591,964	2,126,652
Cost of sales	<u>(697,617)</u>	<u>(1,816,413)</u>
Gross income (loss)	(105,653)	310,239
General and administrative expenses	(114,912)	(129,834)
Other operating income (expense), net	<u>(18,259)</u>	<u>142,474</u>
Income (loss) before full financing income	<u>(238,824)</u>	<u>322,879</u>
<b>Full financing income</b>		
Interest and other financial expense, net	(11,270)	(140,751)
Exchange loss, net	(344)	(5,429)
Gain from net monetary position	<u>159,193</u>	<u>401,301</u>
	<u>147,579</u>	<u>255,121</u>
Income (loss) before tax and minority interests in subsidiaries	<u>(91,245)</u>	<u>578,000</u>
<b>Taxes</b>		
Income tax	-	(374)
Deferred income tax	<u>70,328</u>	<u>(9,372)</u>
	<u>70,328</u>	<u>(9,746)</u>
Income (loss) before minority interests in subsidiaries	(20,917)	568,254
Minority interests in subsidiaries	<u>9,625</u>	<u>(184,904)</u>
Net income (loss) from discontinued operation	<u>(11,292)</u>	<u>383,350</u>

**21. Commitments and Contingencies**

**Continuing operations**

***Litigations and other claims***

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

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

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

## **Notes to the consolidated financial statements**

### **September 30, 2009 and 2008**

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#### ***Tax matters***

On November 2, 2007, Sivensa was notified by the Capital Region’s Internal Tax Office for Special Taxpayers of the final resolutions in connection with the income tax assessments filed by this office in October 2006. These resolutions partially confirm disallowances made in connection with the tax inflation adjustment of nonmonetary assets, particularly of securities, and determined a total amount payable of Bs 27 million (including taxes, fines and interest). However, in the opinion of the external legal advisors, there are sufficient legal grounds for Sivensa to obtain a favorable decision. At September 30, 2009, based on the opinion of its legal advisors, Sivensa management did not set aside an additional provision to cover this contingent liability.

#### ***Environmental regulations***

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

#### **Discontinued operation**

##### ***Litigations and other claims***

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

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

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**September 30, 2009 and 2008**

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***Tax matters***

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

**22. Analysis of monetary result for the year**

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

<i>(Thousands of constant bolivars at September 30, 2009)</i>	<b>Years ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Net monetary asset (liability) position at the beginning of the year	484,077	(364,100)
<b>Transactions that decreased net monetary liability position</b>		
Net sales	1,609,681	1,889,089
Other operating income, net	176,678	-
Exchange gain, net	-	2,112
Difference between fair value and cost of shares of subsidiary	-	878,620
<b>Transactions that increased net monetary liability position</b>		
Inventory purchases	(1,133,656)	(1,333,554)
Deferred income tax recorded against equity	(171,050)	31,719
Dividends declared	(243,438)	(373,706)
Operating expenses	(139,166)	(135,252)
Interest and other financial expense, net	(59,182)	(51,828)
Additions to fixed assets	(22,447)	(138,182)
Treasury stock	(2,972)	(9,707)
Exchange loss, net	(1,578)	-
Other operating expenses, net	-	(25,404)
Tax expense	<u>(60,021)</u>	<u>(36,120)</u>
Estimated net monetary liability position at the end of the year	436,926	333,687
Net monetary liability position at the end of the year	<u>345,661</u>	<u>484,077</u>
(Gain) loss from net monetary position	<u>91,265</u>	<u>(150,390)</u>

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
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**23. Supplementary consolidated financial statements expressed in nominal bolivars**

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

**Supplementary consolidated balance sheet**  
**September 30, 2009 and 2008**

<i>(Thousands of nominal bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	349,934	461,305
Trading investments	21,680	-
Accounts receivable		
Trade and other	166,819	244,315
Related companies	766	199
Advances to suppliers	70,374	57,530
Inventories	176,229	296,490
Prepaid expenses and other current assets	<u>1,563</u>	<u>4,601</u>
Total current assets	787,365	1,064,440
Property, plant and equipment, net	1,003,197	3,297,291
Available-for-sale investments		
Investments in preferred stock	47,350	47,350
Investments in companies under “nationalization”	2,415,622	-
Accounts receivable from related company	-	346
Deferred income tax	41,610	37,567
Other non-current assets	<u>2,622</u>	<u>23,270</u>
Total assets	<u>4,297,766</u>	<u>4,470,264</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Short-term bank loans	59,613	79,963
Current portion of bonds payable	10,750	10,750
Accounts payable		
Suppliers	132,057	316,437
Related companies	8,595	114,152
Profit sharing, vacation and other employee accruals	42,769	63,839
Income tax	38,559	14,308
Other liabilities and accruals	<u>45,825</u>	<u>42,032</u>
Total current liabilities	338,168	641,481
Bonds payable	181,302	191,424
Accrual for employee termination benefits, net of advances and loans to employees	23,800	37,767
Other long-term liabilities and accruals	91,581	64,860
Deferred income tax	<u>261,802</u>	<u>296,999</u>
Total liabilities	<u>896,653</u>	<u>1,232,531</u>
Minority interests in subsidiaries	<u>703,759</u>	<u>823,569</u>
Equity	<u>2,697,354</u>	<u>2,414,164</u>
Total liabilities, minority interests and equity	<u>4,297,766</u>	<u>4,470,264</u>

**Siderúrgica Venezolana “Sivensa”, S.A. and its Subsidiaries**  
**Notes to the consolidated financial statements**  
**September 30, 2009 and 2008**

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**Supplementary consolidated income statement**  
**Years ended September 30, 2009 and 2008**

<i>(Thousands of nominal bolivars)</i>	<b>2009</b>	<b>2008</b>
<b>Continuing operations</b>		
Net sales	1,434,953	1,307,681
Cost of sales	<u>(1,078,350)</u>	<u>(950,008)</u>
Gross income	356,603	357,673
General and administrative expenses	(129,897)	(137,241)
Other operating income, net	<u>207,387</u>	<u>485</u>
Income before full financing expense	<u>434,093</u>	<u>220,917</u>
<b>Full financing expense</b>		
Interest and other financial expense, net	(53,009)	(32,981)
Exchange gain (loss), net	<u>(1,590)</u>	<u>1,992</u>
	<u>(54,599)</u>	<u>(30,989)</u>
Net loss on valuation of investments	<u>-</u>	<u>(8,250)</u>
Income before tax and minority interests in subsidiaries	<u>379,494</u>	<u>181,678</u>
<b>Income tax</b>		
Current	(66,850)	(43,750)
Deferred	<u>13,657</u>	<u>25,525</u>
	<u>(53,193)</u>	<u>(18,225)</u>
Income before minority interests in subsidiaries	326,301	163,453
Minority interests in subsidiaries	<u>(9,923)</u>	<u>5,470</u>
Net income from continuing operations	316,378	168,923
<b>Discontinued operation</b>		
Net income (loss) from discontinued operation	<u>(95,029)</u>	<u>91,901</u>
Net income	<u>221,349</u>	<u>260,824</u>