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## **SIVENSA REPORTS RESULTS OF FIRST QUARTER OF FISCAL YEAR 2005**

Caracas, January 31, 2005.

Dear Shareholders:

Due to the relevance of the agreement reached by IBH and BHP Billiton, in which the latter releases its interest in Orinoco Iron, Operaciones RDI, Brifer and IBMS, and by virtue of the impact of this agreement on the balance sheet and the financial statements of IBH and Sivensa, we have deemed it necessary to begin this quarterly report with a summary of the agreement and its scope, which were announced on November 5, 2004, and confirmed in the Report rendered by the Board of Directors of Sivensa for the Annual Shareholders Meeting.

Pursuant to the abovementioned agreements, on November 5, 2004, BHP-Billiton, who as of that date owned 50% of the capital stock of Orinoco Iron, made the following assignments: (1) to IBH, 2% of its shares in Orinoco Iron (representing 1% of the capital stock of this company), and (2) to certain financial creditors of Orinoco Iron its remaining shares in Orinoco Iron, as well as a credit it held against Orinoco Iron for approximately US\$382 million.

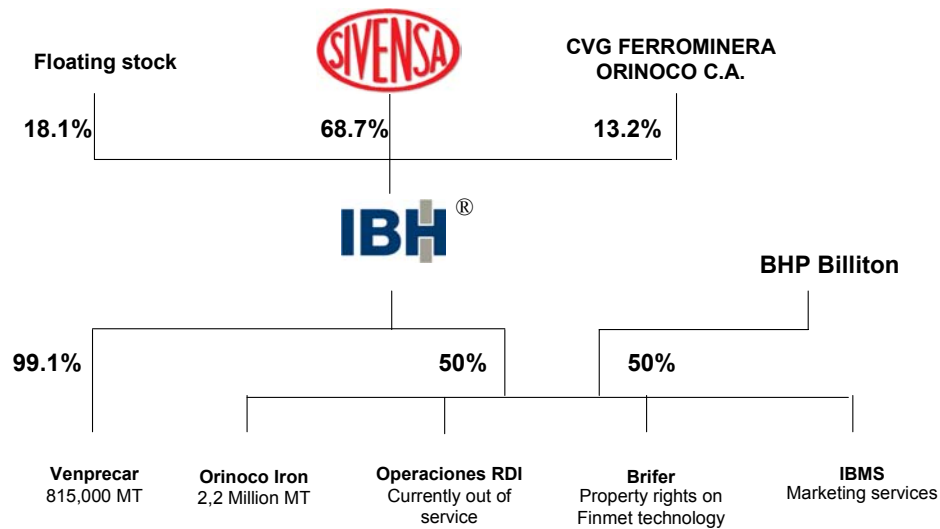
Consequently, since November 5, 2004:

1. IBH owns 51% of the capital of Orinoco Iron.
2. IBH assumed the operating control of Orinoco Iron.
3. The total amount of Orinoco Iron's financial debt, which is currently due and payable, remained unchanged.

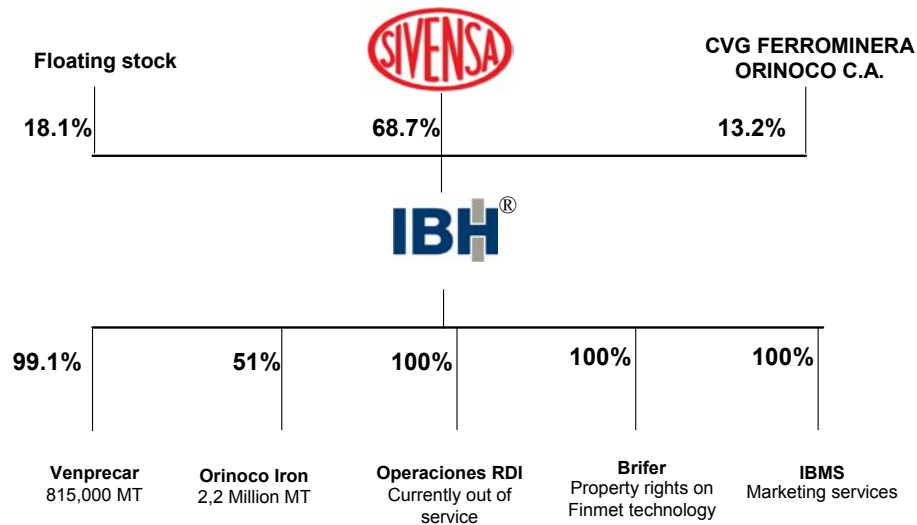
BHP Billiton also assigned to IBH all the shares it held in Operaciones RDI, IBMS and Brifer. Therefore, IBH has the control of all the capital stock of these companies. As part of this agreement, Orinoco Iron undertook to pay BHP Billiton a settlement amount of US\$30 million and exempted BHP Billiton from the remaining payment that was due to Brifer for the use of the Finmet Technology at the Port Hedland Plant, owned by BHP Billiton.

Additionally, by reason of the settlement agreement (i) an approximate amount equivalent to 50% of Orinoco Iron's matured debt, arising from the financing agreement signed in 1997, may eventually be neutralized in the future, subject to the satisfaction of certain conditions, so as to avoid any impact on the current shareholding structure of Orinoco Iron, or on the economic and political rights of IBH as shareholder of Orinoco Iron; and (ii) certain political rights are conferred upon certain of Orinoco Iron's shareholders other than IBH.

### IBH Shareholding Structure before November 5, 2004



### IBH Shareholding Structure after November 5, 2004



According to the applicable accounting standards IBH began to consolidate the results of Orinoco Iron as of the date of the agreement, notwithstanding that it had made reserves in 2002 for its investment in this company. The incorporation of Orinoco Iron into the consolidated financial statements of affiliate IBH as of November 5, 2004, brings major differences in the financial statements of IBH and Sivensa, compared to prior reports.

We would like to point out that the financial risk for IBH and Sivensa regarding Orinoco Iron's financial performance has not changed as a result of the settlement agreement with BHP Billiton, or as a result of the consolidation of the accounts of Orinoco Iron into the Financial Statements of IBH and, consequently, those of Sivensa. This is due to the fact that the guarantees in favor of the creditor

banks of Orinoco Iron were granted in 1997 by IBH and its affiliate Venprecar when the financing agreements were signed for the construction of Orinoco Iron's briquette plant, which has been reported in the Financial Statements of the company and the notes thereon, as well as in the quarterly financial reports and the Board of Directors' Report for the Annual Shareholders Meeting.

#### International Market

##### Steel

The price level that characterized the last semester of calendar year 2004 was maintained in the international steel products market. As of the date of publication of this report, analysts point out that the price of steel has begun to decrease from its maximum levels, mainly due to a slow down in the construction activities in China and a greater installed capacity for steel in that country.

##### Metallics and Briquettes

The briquettes unloaded on barges in the port of New Orleans, U.S.A., reached an average price of US\$341.7/MT in the quarter October-December 2004, compared with US\$323,3/MT in the immediately preceding quarter (July-September 2004), and with US\$174.7/MT in the same term for the preceding year (October-December 2003)<sup>1</sup>. In the quarter subject to this report, the price of metallics reached its maximum historical peak in October, weakening in November and December. The recent price reduction is mainly due to seasonal factors and a decrease in the demand for steel products in the international market.

#### **Domestic Market**

In the domestic market, the demand for steel products for the manufacturing, construction and infrastructure sectors has been maintained as a result of the liquidity and the public expense, which conditions have been described regarding the economic climate in previous reports.

#### **Results for this Quarter**

Sivensa reported consolidated sales for the first quarter of fiscal year 2005, ended last December 31, for US\$ 203.4 million, compared with the sales for US\$ 84.3 million recorded for the same quarter in the preceding fiscal year. The operating profit was of US\$52.1 million, compared with an operating profit of US\$12.9 million for the term October-December 2003. A net profit of US\$ 16.2 million was reported, higher than the net profit of US\$ 6.6 million reported in the same term of the preceding fiscal year. Most of the US\$32 million pertaining to minority interests of the quarter October-December 2004 reflect the losses of Orinoco Iron for direct and indirect shareholders of this company, other than Sivensa.

Interest and other financing expenses for the quarter were for US\$58.9 million, which amount includes:

- US\$8.3 million on Orinoco Iron's debt

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<sup>1</sup> Averages calculated by Orinoco Iron based on monthly data published by CRU-Monitor / Steel, metallics, scrap, DRI & pig iron.

- Adjustment for US\$21.1 million in the Value of the Long-Term Loans with a financial institution, with maturity in 2015. This amount represents the greater value that may result in the payment mode options for such loans assumed by Venprecar and Orinoco Iron to fund their operations.
  
- A non-recurring expense for US\$ 26.3 million, equal to the present value of the obligations of Orinoco Iron with BHP Billiton as part of the agreements reached in November 5, 2004.

## **ANALYSIS BY BUSINESS SECTOR**

### **Steel Sector**

The sales of Sidetur for the quarter October-December 2004 were for US\$69.2 million, 77% higher than those recorded for the same term in the preceding fiscal year. There was an increase in sales in the various product segments for the construction and manufacturing sectors of the domestic market, as well as in export sales.

### **Wire Sector**

Vicson's sales of wire and wire products, including those of subsidiary Proalco, with operations in Colombia, were for US\$27.7 million, 52% higher than those for the term October-December 2003. This increase in sales is due to the increase in the price of wire and wire products and to the greater volume of products sold in the domestic and export markets.

### **Briquettes Sector**

International Briquettes Holding reported sales for US\$ 104.8 million in the term October-December 2004, compared to the sales for US\$26.2 million in the same term of 2003. This increase in the value of sales is due to the consolidation of Orinoco Iron into the results, and the higher price of briquettes in the international market. US\$62.9 million of IBH's sales pertain to Venprecar and US\$51.8 million to Orinoco Iron.<sup>2</sup>

### Venprecar

Venprecar's production in the quarter under analysis was of 209,295 MT, higher than the 197,951 MT produced in the same term in the preceding fiscal year. Due to the insufficiency of pellets, the plant operated at 90% of its installed capacity in the quarter reported.

### Orinoco Iron

Orinoco Iron's HBI plant produced 243,954 MT during the quarter October-December 2004, compared with 174,890 MT in the same term of the preceding fiscal year. In the quarter under analysis, train 2 of the Orinoco Iron plant was out of service due to major repairs required to replace the pipes of the recycling gas furnace. It is deemed that this train will resume operations at the beginning of April 2005.

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<sup>2</sup> IBH's sales were affected by a long-term contract signed by Orinoco Iron with a client in April 2002, which expires on April 2007, under which Orinoco Iron sells approximately 325,000 MT at a fixed price negotiated in 2002, which is considerably lower than the current prices in the spot market.

Regarding the screening system and crusher, whose acquisition was announced in the Board of Directors' Report to the Shareholders' Meeting of IBH published last December 28, it is estimated that they will start operating next May. With the installation of this system, it is expected to achieve a grading of the iron ore used as raw material for the reduction process and, consequently, a better performance of the reactors' cyclones.

#### **Restructuring of the debt of Sivensa and Sidetur and other relevant financial issues**

As we have reported before, Sivensa (corporate) and its subsidiary Sidetur restructured their financial debts in May 2002. The payment of the restructured liabilities is made mainly based on Sidetur's operating cash flows. The restructuring agreement for the bank liabilities of Sivensa and Sidetur, whose terms and conditions were approved by the shareholders' meeting in January 2002, provides, among other conditions, the restriction of the declaration and payment of dividends until the entire debt is repaid and also eventual additional capitalizations by the creditor banks. As of the date of this report, Sivensa and Sidetur have observed all the terms and conditions of the restructuring agreement. During this quarter, US\$6.5 million were repaid as principal of said loan, and the current outstanding balance thereof is US\$ 211 million.

#### **Restructuring of Orinoco Iron's Debt**

As mentioned in prior reports addressed to the shareholders, in 1997, IBH and its subsidiary Venprecar issued guarantees in favor of the financial institutions creditors of Orinoco Iron in relation to a loan received by the latter to fund its industrial facilities.

Due to operating and market reasons, Orinoco Iron's plant had negative results since the beginning of its operations in 2000. In April 2001, Orinoco Iron defaulted on its payment obligations under the loan agreements and the creditor banks declared the entire outstanding balance due and payable. Thereafter, BHP Billiton declared this investment as a loss and paid the creditor banks of Orinoco Iron the amount pertaining to its 50% interests set in the common guaranty agreement for the debt assumed to build the plant. This made BHP Billiton a creditor of Orinoco Iron for the amount pertaining to this portion, thus becoming a debt subrogated to the same rights as its initial creditors and subordinated to the payments of the creditor banks.

At the closing of fiscal year 2002, IBH recognized a reserve for loss for the total amount of the investment in Affiliates, as well as accounts receivable from the companies that make up the association with BHP Billiton (Orinoco Iron, Operaciones RDI and Brifer).

Since 2001, Orinoco Iron and IBH have been negotiating a restructuring of the financial debt with the creditor banks. Since no agreement has been reached, in June 2004 the creditor banks began enforcing certain guaranties set in the loan agreement. As part of these measures, in the first quarter of fiscal year 2005, there were foreclosed balances of Orinoco Iron for US\$ 41.2 million in accounts receivable and US\$ 3.4 million in cash, and balances of Venprecar for US\$ 64.3 million in accounts receivable.

Considering the liabilities represented by the portion of Orinoco Iron's debt guaranteed by IBH and Venprecar, the future performance of IBH as a company depends on reaching a solution for the financial status of Orinoco Iron. After the agreement with BHP Billiton for the release of the association, currently the negotiations are focused in restructuring the debt of Orinoco Iron with the creditor banks. The main aspects of this situation are broadly explained in the Report and Notes to Sivensa's Audited Financial Statements for September 30, 2004, and are an essential part of the analysis of the company.

*Siderúrgica Venezolana Sivensa S.A. comprises three divisions: Sidetur, engaged in the manufacture of steel billets for the rolling industry, and finished steel products for the construction and infrastructure industry; International Briquettes Holding, IBH, which groups the plants that produce iron briquettes to be used as high-quality raw material for steel mills; and Vicson, that manufactures wire and wire products for the manufacturing, construction, agriculture and infrastructure sectors. Sivensa's partners are: in the Vicson division: Bekaert Corporation, and in the IBH division: CVG Ferrominera Orinoco. The labor force of Sivensa at December 31, 2004 was of 2,717 workers.*



**SIDERURGICA VENEZOLANA "SIVENSA", S.A**  
**AND ITS SUBSIDIARIES**  
**December 31, 2004**  
**CONSOLIDATED BALANCE SHEET**  
(Thousands of US dollars)  
According to International Financial Reporting Standards

	<u>2004</u>	31-Dec <u>2003*</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	72.746	27.500
Accounts receivable		
Commercial and other	120.402	59.998
Related companies	4.046	8.031
Advances to suppliers	15.042	7.965
Inventories	105.282	39.348
Restricted assets for enforcement of profits	173.692	-
Pre-paid expenses and other	4.906	2.553
	<hr/>	<hr/>
Total current assets	496.116	145.395
Investments in land and shares	12.000	12.000
Property, plant and equipment, net	1.279.515	363.539
Related companies	1.929	9.978
Deferred taxes	1.049	5.328
Deferred charges and other non-current assets	14.562	9.725
Total assets	<hr/> <u>1.805.171</u>	<hr/> <u>545.965</u>
<u>Liabilities and Shareholders' Equity</u>		
Current Liabilities:		
Current portion of long-term loans	392.820	8.284
Accounts payable		
Suppliers	102.564	25.085
Related Companies	64.440	29.630
Profit sharing, vacations, and other personnel accruals	8.013	4.729
Taxes	9.934	3.361
Other current liabilities	21.579	14.719
	<hr/>	<hr/>
Total Current Liabilities	599.350	85.808
Long-term loans	816.421	246.163
Accruals for employee termination benefits	9.302	7.780
Deferred taxes	162.043	23.823
Other liabilities	45.398	8.950
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Total liabilities	1.632.514	372.524
Minority interests	13.899	78.769
Shareholders' equity	158.758	94.672
	<hr/>	<hr/>
Total liabilities, minority interests and shareholders' equity	<hr/> <u>1.805.171</u>	<hr/> <u>545.965</u>

\* It does not include Orinoco Iron



**SIDERURGICA VENEZOLANA "SIVENSA", S.A  
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF OPERATIONS**

December 31, 2004

(Thousands of US dollars)

According to International Financial Reporting Standards (IFRS)

	Quarter ended December 31	
	<u>2004</u>	<u>2003*</u>
Net sales:		
Exports	133.557	37.524
Domestic	69.822	46.762
	<u>203.379</u>	<u>84.286</u>
Cost of sales	(137.859)	(66.706)
Gross income (loss)	65.520	17.580
General, administrative expenses	(13.398)	(4.646)
Operating income	<u>52.122</u>	<u>12.934</u>
Interest and other financial expenses	(58.892)	(4.034)
Exchange gain (loss)	725	(459)
Total financing cost	<u>(58.167)</u>	<u>(4.493)</u>
Other income (expenses) net	(875)	278
Profit (loss) before taxes and minority interests	(6.920)	8.719
Taxes	(8.991)	(377)
Income (loss) before minority interests	<u>(15.911)</u>	<u>8.342</u>
Minority Interests	32.082	(1.749)
Net profit (loss)	<u>16.171</u>	<u>6.593</u>

\* It does not include Orinoco Iron