Siderúrgica Venezolana Sivensa S.A.

Annual Report 2004

AUTHORIZED CAPITAL	**Bs.**	**141,190,196,480.oo**
CAPITAL SUBSCRIBED TO AND PAID IN	**Bs.**	**70,595,098,240.oo**

Siderúrgica Venezolana SIVENSA S.A. is a Venezuelan corporation that has three divisions: Sidetur, engaged in the manufacture of steel billets for the export market, and finished steel products for the construction, manufacturing and infrastructure industry; International Briquettes Holding, IBH, which, through the direct reduction plants of Venprecar and Orinoco Iron, produces iron ore briquettes to be commercialized in international markets as high-quality raw material for steel mills; and Vicson, which manufactures wires and wire products for the manufacturing, construction, agriculture and infrastructure sectors. Sivensa's partners are: Bekaert Corporation, in the Vicson division, and CVG Ferrominera Orinoco, in the IBH division. Sivensa's labor force at September 30, 2004 was of 2,776 workers.

BOARD OF DIRECTORS

Directors

Oscar Augusto Machado K.
Henrique Machado Zuloaga
Reinaldo Cervini
Luis I. Mendoza (h)
Gustavo J. Vollmer
Pedro Palma Carrillo
José María Fragachán
Carlos M. Áñez

Alternate Directors

Armando Loynaz Reverón
María Corina Machado
Arnold Volkenborn
Cristóbal L. Mendoza
Bruno L. Bortesi
Francisco José Monaldi
Neil Malloy
Renny López

EXECUTIVE COMMITTEE

Chairman
OSCAR AUGUSTO MACHADO K.

Legal and Audit Corporate Director
HÉCTOR J. PEÑA

Executive President of IBH and Orinoco Iron
NEIL J. MALLOY

General Director of Sidetur
NICOLÁS IZQUIERDO

General Director of Vicson
ARMANDO RONDÓN

Corporate Finance Director
GUSTAVO MACHADO

TO OUR INVESTORS

As stated on several occasions to our investors, Sivensa carries out its activities in a cyclic business. In 2004, the siderurgical world lived one of its high cycles, and Sivensa took advantage of these circumstances in the international market, not only to increase its sales and profits, but to accelerate the payment of its debt with banks, and continue implementing measures for reducing costs and optimizing its operations.

Jointly with the price increase of metallics and steel products in the global market, Sivensa's performance also benefited from the growth in Venezuela's economic activity, and the consequential increase in the demand for goods in the manufacturing, infrastructure and construction sectors.

With these external and internal factors prevailing in fiscal year 2004 (October 2003 - September 2004), the organization focused on the continued improvement of the quality of its products, meeting the clients' expectations, and becoming more competitive in the market sectors it serves. In this effort, we have had the enthusiastic participation of all the workers. Thanks to this coordinated effort, we are glad to report the following results:

- Sales for US$ 498.5 million, higher than the US$249.9 million reported in the previous year. This increase is the result of greater volumes and better prices in the local and export markets of all of the company's products. An amount of US$ 262.5 million was the result of the activities in the domestic market, which represents 52.7% of the total consolidated sales, and is 91.3% higher than the domestic sales recorded in fiscal year 2003. Sivensa's exports during this fiscal year amounted to US$235.9 million, 47.3% of the total consolidated sales. This amount reflects an increase of 109.3% vis-à-vis the amount exported in the preceding fiscal year.

- Operating Profit: The operating profit grew from US$34.7 million in fiscal year 2003, to US$110.2 million in fiscal year 2004. The yield from operations was favored by the increase in the price of briquettes and steel and wire products, and by the increase of the sales volumes, and the sustained effort to control costs and expenses in the three divisions.

- Interest and other financing expenses for US$13.2 million, compared with US$16.4 million recorded in the preceding fiscal term. The reduction recorded in this item in year 2004 is due to the repayments made and the consequential reduction of Sidetur's debt, which at September 30, 2004 is of US$216.9 million.

- Net Profit of US$ 47.7million, compared with the net profit of US$ 12.0 million in the preceding year.

INTERNATIONAL ENVIRONMENT

World steel production increased by 8.1%, going from 930 million metric tons in the period October 2002-September 2003 (fiscal year 2003) to 1,006 million metric tons in the term October 2003-September 2004[1] (fiscal year 2004). This increase in tonnage was due mainly to China's steel production, whose economy continues to grow at high annual rates, with an impact on a series of industries throughout the world. During the year under analysis, the U.S., Europe and India also increased their steel production.

In spite of the world's increase in production, the high demand sustained by most countries caused an increase in the prices of finished and semi-finished steel products and of metallics in the international market during fiscal year 2004, regarding the same period in the preceding year. At the date of publication of this report, a weakening in international prices is noted. One cannot foresee if this market behavior is a seasonal circumstance or a change in trend.

NATIONAL ENVIRONMET

The Gross Domestic Product in the term October 2003-September 2004 grew by 16.8%, made up of an increase of 20.3% in the oil sector and of 15.2% in the non-oil sector[1].

Inflation from October 2003 through September 2004 was of 20.8%, while devaluation was of 20%, as the official rate of exchange went from Bs. 1,600 to Bs. 1,920 per U.S. dollar in February 2004.

MARKETS

Steel: In Venezuela, the Gross Domestic Product of the construction sector, which is the main consumer of Sidetur's products, recorded an increase of 4.5%[2] for fiscal year 2004, compared with the previous year, which shows a lagging in this sector vis-à-vis the increase in the nation's GDP.

In the international market, the prices of steel billets and rods had an increasing trend, as a result of the high global demand over the twelve month period ended September 30, 2004.

[1]Source: International Iron and Steel Institute at www.worldsteel.org. IISI's data on the production of crude steel report the information of 62 countries, which is approximately 98% of the world's production.

[2] Source: Central Bank of Venezuela

Wire: The national market for wire and wire products also had a significant growth compared with the sales volumes recorded for the 2003 fiscal term. This improvement was seen in the manufacturing, construction, infrastructure and agricultural sectors.

As a result of the global price increase of steel, there was also an increase in the prices of wire rod, the raw material for making wire.

Briquettes: The price of briquettes had a major rise in fiscal year 2004, reaching unprecedented prices in this product's marketing history. This rise was mainly due to the increase in the world's steel production, driven, among other factors, by the economic growth of China, a firm demand in the U.S. and Europe, and the dearth of high-quality scrap and coke, which caused a higher demand of scrap and substitutes thereof by the integrated steel mills.[3]

ANALYSIS PER BUSINESS SECTOR

Steel: Steel sales were of US$ 280.2 million, which represents an increase of 136% regarding the sales recorded in this sector for fiscal year 2003. These results are due to a growth in the volume of products sold in the domestic market (especially steel products for the manufacturing and informal construction sectors), an increase in the tons of steel billets for the export market, and an increase in the international prices of steel products. Internal sales of specialty steels for the national market also rose.

During this fiscal year, Sidetur made investments in assets of approximately US$ 10 million to update equipment and modernize the steel mills in Barquisimeto and Casima (Puerto Ordaz), the rolling mills of Antímano, Guarenas and Barquisimeto, as well as the operations in various regions of the country in the area of Metallic Inputs.

Wire: The consolidated sales of Vicson's wire and wire products, which include the operations of Proalco in Colombia, were of US$ 100.8 million, compared with sales of US$ 65.6 million in fiscal year 2003.

At the Antoon Bekaert plant, located in Valencia, a project was started for the updating of certain equipment in the area of nails, drawing and the first galvanizing line. With these investments, the plant's capacity will be recovered by 100,000 MT per year. Another relevant aspect of Vicson's activities during this fiscal year was the progress in implementing the SAP

[3] For more information on the statement of profit and loss of IBH, see report by the Independent Public Accountants and the Consolidated Financial Statements expressed in United States Dollars, according to International Financial Reporting Standards (IFRS), September 30, 2004 and 2003, at www.ibh.com.ve

platform. This change of system will allow integrating the administrative and financial processes and optimizing costs in several stages.

<u>Briquettes</u>: Venprecar's sales[4] during fiscal year 2004 were of US$ 111 million, 58% above than those for the preceding fiscal year, due to a greater volume of product available for sale and the increase in the international prices of briquettes explained above.

Venprecar's production was of 746,599 MT, compared with the production of 557,009 MT registered for fiscal year 2003. This greater production of Venprecar during fiscal year 2004 is due mainly to the better performance of the gas reformer as a result of the installation of pipes and catalyzers in March 2003.

As stated in the quarterly reports for 2004, the company has advanced in the program for carrying out certain modifications of the inner part of the reduction furnace, in order to achieve a greater stability in its operations. The shutdown for said modifications has been scheduled for the first calendar semester of 2005.

<u>ORINOCO IRON</u>

Orinoco Iron's plant produced 841,593 MT in fiscal year 2004, compared with 603,549 MT for the preceding fiscal year. This variation is due mainly to the availability of Train 3 during this fiscal year and the start-up of operations of Train 4 at the end of May 2004.[5]. The number of train-days actually operated in the term October 2003-September 2004 was of 717 days, compared with 462 train-days operated in the term October 2002-September 2003.

Orinoco Iron's sales during this fiscal year were of US$139.6 million, greater than those reported for the preceding fiscal year for US$68.6 million. This increase in sales was due to the increase of international prices of briquettes and the greater volume of products available for sale as consequence of adding the two production trains to the plant's operations. However, the value of sales was affected by a long-term contract signed with a client in April 2002, which is to expire on April 2007, pursuant to which Orinoco Iron have to sell this client approximately 325,000 MT's of briquettes per year, at a fixed price negotiated in 2002, which is considerably lower than the current price levels in the spot market.

The time of the trains' campaigns and the actual daily production are still below expectations, mainly as a result of: a) inefficiencies in the processing and the plugging of the reactors' cyclones due to the grading of the iron ore. The company is in the process of acquiring a

[4] Until fiscal year 2004, IBH only consolidated subsidiary company Venprecar. See more comments on this matter in the chapter *Events Subsequent to the Closing of the Fiscal* Year, at the end of this report.
[5] Remember that due to market reasons, both trains suspended operations during fiscal years 2002 and 2003.

screening system and crusher to control the size of the mineral particles that are used as raw material in this process; b) difficulties with the availability of specific spare parts, which will be delivered by the end of calendar year 2004, and c) leakages in the recycling gas furnaces, for which some pipes in the production train furnaces have had to be replaced[6].

ISSUES RELATED TO THE EXCHANGE CONTROL SYSTEM

Sidetur complied with all the procedures required to register its private external debt of US$249 million with CADIVI in order to obtain the foreign currency to pay said debt at the official rate of exchange set in Exchange Agreement No. 2. According to order issued by CADIVI on October 14, 2003, this application for registration was approved.

Since the beginning of the exchange control, and up to November 10, 2004, the company had requested a total of US$42.8 million from CADIVI to pay for imports, of which US$42.6 million were approved and US$27.9 million were liquidated. Also, based on the regulations issued by CADIVI regarding contractual repayments of debts as a result of the external debtor's export activities, Sidetur has paid the creditor banks about US$44.4 million for principal and interest on its financial debt. Additionally, it has sold approximately US$35.4 million to the BCV, obtained from its exports.

During 2004, subsidiary Venprecar assumed new debts in foreign currency, the balance of which at September 30, 2004 was of US$18.4 million (equivalent to Bs. 35,328 million). Venprecar did not register these debts with CADIVI in order to be able to acquire foreign currency to pay such debts at the official rate of exchange, because these debts can be paid in bolivars at the creditor's option. The equivalent to be paid in bolivars would be determined based on the highest exchange rate among three options: i) the official rate of exchange, if any: iii) the free exchange rate, if any; or iii) a referential rate determined on the basis of the market values of the shares and ADRs of CANTV. At September 30, 2004, these promissory notes are adjusted to the highest value that may result from the options indicated above and the effect of this valuation is included in the year's results.

PAYMENTS OF FINANCIAL DEBT

On January 25, 2002, the shareholders of Sivensa, convened at a shareholders' meeting, approved the agreement for restructuring the debt of the parent company Sivensa and its subsidiary Sidetur. The application of the restructuring term became effective as of May the same year, on which date the debt reflected an amount of US$ 255 million.

[6] For more information, see Report submitted by the Board of Directors of IBH to the Shareholders' Meeting to be held on January 27, 2005.

During the fiscal year ended September 30, 2004, Sivensa and Sidetur paid US$ 24.2 million as principal and US$ 5.5 million as interest, the balance at that date being US$ 216.8 million.

QUALITY

As a result of the effort made by the Sivensa companies to adjust the new quality standards to processes, during the fiscal year ended September 30, the following certifications were awarded:

- The National Autonomous Service for Standardization, Quality, Metrology and Technical Regulations (Servicio Autónomo Nacional de Normalización, Calidad, Metrología y Reglamentos Técnicos) SENCAMER, accredited the quality systems of the laboratories of Venprecar and Orinoco Iron.

- The Fund for Quality Standardization and Certification (Fondo para la Normalización y Certificación de Calidad) FONDONORMA, granted Venprecar and Orinoco Iron the certification of the ISO 9001:2000 Quality System.

- Plants Antoon Bekaert and San Joaquín began the process for obtaining the ISO 14000 certification, awarded to industries that comply with the national and international environmental standards. This recognition is expected to be awarded by the end of fiscal year 2005. Additionally, the oil cables manufactured at the San Joaquín facilities were recertified with the new format of the American Petroleum Institute (API).

FUNDAMETAL

During fiscal year 2004, the Applied Knowledge Center [Centro de Conocimiento Aplicado], FUNDAMETAL, continued its progress in its objectives of providing value added services regarding the professional training and formation for the country's industry and service sectors. As part of its strategy, it braced and strengthened the internal and customer service. Among others, the following achievements may be noted:

- Growth in the professional training activities for work by 65%, reaching 20,000 trained persons. The accelerated learning and training programs regarding productive skills increased by 45%, with 1,250 youths trained. Additionally, the university level programs grew by 8% and the language programs by 35%.

- Remodeling and equipping of the new headquarters in Guayana, which zone had a major increase of activities.

- Strengthening of the Administration and Development Service (Servicio de Administración y Desarrollo) (SAAD) with the companies Dana de Venezuela, Rualca, Orinoco Iron and Venprecar. This service constitutes an integral support for the training and development efforts within said companies.

- Development of the Supervisor Role program at Siderúrgica del Orinoco, SIDOR, under which 970 supervisors have been trained.

- Review and strengthen the internal design processes, development of new programs or courses and provision of logistics service.

- Support the marketing efforts, and the training of new clients in all of FUNDAMETAL's lines of service, through e-mail marketing and the relaunching of the Web site.

GUARANTEE GRANTED BY IBH FOR THE CONSTRUCTION OF ORINOCO IRON

In 1997, subsidiary IBH guaranteed part of the debt assumed for the construction of Orinoco Iron's plant. Since it started operations, in 2000, the financial results of this plant were affected by factors such as delays in the start-up, failures in certain equipment that were subsequently replaced by the manufacturers, high production costs and, until 2002, due to low international prices of briquettes.

In March 2001, BHP Billiton, a partner of IBH in Orinoco Iron, announced that it would declare its investment in Orinoco Iron as a loss and that it would stop making additional contributions to the project. 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 paid the creditor banks of Orinoco Iron the amount pertaining to its 50% interest set forth in the common guaranty agreement for the debt assumed to build the plant. This fact made BHP Billiton a creditor of Orinoco Iron for the amount pertaining to such portion, which became a subrogated debt with the same rights of the initial creditors but subordinated to the payments made to creditor banks.

At the closing of fiscal year 2002, IBH acknowledged a provision for loss for the total value of the Investment in Affiliates, and of accounts receivable from companies that make up the association with BHP Billiton (Orinoco Iron, Operaciones RDI and Brifer), due to the losses incurred by these affiliates and due to the fact that a restructuring of the debts of affiliate Orinoco Iron had not been achieved.

As explained in the Report by the Board of Directors to the Shareholders' Meeting held on January 30, 2004, and in the Opinion and Notes to Sivensa's Financial Statements at

September 30, 2004, and confirmed in the subsequent quarterly reports, since 2001, Orinoco Iron has not been able to meet its payment conditions and certain covenants set in the debt agreements. During this term, Orinoco Iron and IBH have maintained conversations with the creditor banks, and partner BHP Billiton and Corporación Venezolana de Guayana (CVG), major shareholder of the companies that supply iron ore and electricity, in order to achieve the refinancing of Orinoco Iron's financial and commercial debt.

In June 2004, the creditor banks began foreclosing certain guaranties set in the loan agreement and, at September 30, 2004, they have foreclosed cash balances for US$23.2 million and trade accounts receivable for US$68.2 million, of which US$8.7 million and US$32.2 million, respectively, were the property of subsidiary Venprecar. These foreclosures have been recorded by Venprecar as accounts receivable from Orinoco Iron. In September 2004, Orinoco Iron assumed debts of Venprecar for US$15.5 million and Bs. 42,795 million (equivalent to US$22.3 million), thus offsetting part of the account receivable that Venprecar had against Orinoco Iron as a result of the foreclosures referred to above.

At September 30, 2004, the management of IBH and Venprecar have deemed that Venprecar will have to make future payments for an approximate of US$200 million to honor the guaranty granted in favor of Orinoco Iron's creditor banks, because it believe that in the short term Orinoco Iron will not be in a financial capacity to pay its outstanding debts. At September 30, 2004, the consolidated statements of Sivensa include, at present value, a provision for a contingency for guaranty granted for about US$190 million (US$85 million in short-term debt) acknowledged for this item in subsidiary Venprecar, whose counterpart is a reimbursement account receivable against Orinoco Iron. Based on Orinoco Iron's future cash flow projections, the management of IBH and Venprecar deem that this account receivable may be recovered in the long term.

Additionally, Venprecar has granted loans to Orinoco Iron for US$ 55 million, to fund its operations. The acknowledgment of these liabilities, resulting from the guaranty granted and the financial transactions mentioned above, are reflected in several items of the balance sheet at September 30, 2004.

EVENTS SUBSEQUENT TO THE CLOSING OF THE FISCAL YEAR

On November 5, 2004, there was announced a change in the shareholding structure of Orinoco Iron, a corporation that up to that date was owned, on a 50-50 basis, by IBH and a subsidiary of BHP Billiton. This change is due to the fact that BHP Billiton assigned to IBH 2% of its shares in Orinoco Iron (which represents 1% of the capital stock of the company), and the remaining shares, as well as the credit it held against said company for US$382 million, were transferred to certain of Orinoco Iron's creditors. The outstanding amount of this financial debt remains unchanged, as well as the amount and conditions of the Senior debt for US$290 million that Orinoco Iron has pending with the creditor banks, which is currently overdue, and the negotiations seeking a restructuring thereof are continuing.

BHP Billiton also assigned to IBH, or its wholly-owned subsidiaries, all the shares it held in Operaciones RDI, IBMS and Brifer. Therefore, IBH becomes, directly or indirectly, the holder of all the capital stock of these companies. As part of this agreement, Orinoco Iron undertook to pay BHP Billiton a settlement amount for US$ 30 million and exempted BHP Billiton from payment of royalties to Brifer.

Consequently, since November 5, 2004, 51% of the capital stock of Orinoco Iron is owned by IBH, who has assumed full control over the equity and operations of Orinoco Iron, wherefore, according to the rules applicable thereto, IBH, in spite of having made reserves for its investment in Orinoco Iron, as of this date must start the accounting consolidation of the results of Orinoco Iron[7]. As a result of the settlements referred to above: (i) BHP Billiton will receive a maximum amount of US$30 million;(ii) an approximate amount equivalent to 50% of Orinoco Iron's overdue debt originated under the financing agreements signed in 1997, will eventually be neutralized in the future, subject to the meeting of certain conditions, so that it does not cause an impact on the current shareholding structure of Orinoco Iron, or on the economic and political rights currently held by IBH as a shareholder of Orinoco Iron; and (iii) additional rights were granted, including some political rights, to certain shareholders of Orinoco Iron other than IBH.

Considering the contingent liabilities represented by the portion of Orinoco Iron's debt guaranteed by IBH, the future performance of IBH as a company depends on reaching a solution for Orinoco Iron's financial condition.

Our main goal at the beginning of fiscal year 2005 is to normalize the operations of Orinoco Iron's plant, which implies increasing its production and reducing the costs per tons of briquettes. The company's management, with the support of all the workers of Orinoco Iron and IBH, are making their best efforts to achieve this objective.

The Board of Directors

Caracas, December 9, 2004.

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[7] In Note 15 of the audited Financial Statements, see Pro-Forma Financial Statements assuming that this agreement with BHP-Billiton and the creditor banks would have happened at the beginning of the year ended September 30, 2004 and that, therefore, Orinoco Iron would have been consolidated as of October 2003.

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