

Caracas, November 1, 2017

To the Shareholders and Members of the Board of Directors of
Siderurgica Venezolana “Sivensa”, S.A.

Report on the Consolidated Financial Statements of Siderúrgica Venezolana “Sivensa” S.A. and its affiliates as prepared pursuant to the Standards and Instructions of the National Securities Superintendence

1. In our capacity as Internal Auditors appointed by the Regular Shareholders Meeting held on November 30th, 2016, we hereby inform you that we have examined the consolidated balance sheet of Siderúrgica Venezolana “Sivensa” S.A. and its affiliates (the Company) as at September 30th, 2017 and 2016, and the unconsolidated statement of income, and statement of changes in shareholders’ equity for the years ended on such dates, stated in constant bolivars based on the last indices published by the Central Bank of Venezuela (BCV), as well as the summary of the most significant accounting principles and practices and explanatory notes. At the date of this report the last indices published by BCV is the one corresponding to the month of December 2015.

Company management’s responsibility for the Consolidated Financial Statements prepared according to the Standards and Instructions of the National Securities Superintendence

2. The management is responsible for the preparation and reasonable presentation of the consolidated financial statements in accordance with the Standards and Instructions of the National Securities Superintendence (SUNAVAL). Our responsibility is to express an opinion on these consolidated financial statements based on our review. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the financial statements so that the same are free from material misstatement, whether due to fraud or error; selecting and implementing relevant accounting policies and making accounting estimates that are appropriate in the circumstances.

Internal Auditor’s Responsibility

3. Our responsibility is to express an opinion on the consolidated balance sheet of the Company as at September 30th, 2017 and 2016, the consolidated statement of income, consolidated statement of changes in shareholders’ equity, comprehensive statement of income, and cash flow statement for the years ended on September 30th, 2017 and 2016 on the basis of our analysis. We conducted our analysis in accordance with International Standards on Auditing (ISA) applicable in Venezuela. These standards require that we comply with certain ethical requirements and plan and perform the analysis to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. As analysis includes performing procedures to obtain evidence about the amounts and disclosures included in the consolidated balance sheet of the Company as at September 30th, 2017 and 2016, the consolidated statement of income, consolidated statement of changes in shareholders’ equity, comprehensive statement of income, and cash flow

statement for the years ended on such dates. The procedures selected depend on the internal auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. During the process of carrying out this risk assessment, the internal auditor should consider internal controls relevant to the reasonable preparation and presentation of the financial statements in accordance with the Standards and Instructions of SUNAVAL, in order to design review procedures that are appropriate in the circumstances, but not with the purpose of expressing an opinion about the effectiveness of the internal control of the Company. An analysis also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the evidence obtained from the analysis carried out provides sufficient and appropriate basis for our opinion.

Opinion

5. In our opinion, based on our analysis, and based on the Report issued by the Independent Accountants audit company, the consolidated financial statements examined by us, present fairly, in all material respects, the financial position of Siderúrgica Venezolana "Sivensa" S.A. and its affiliates as at September 30th, 2017 and 2016, and the statement of income, statement of changes in shareholders' equity, comprehensive statement of income and cash flows for the years ended on those dates, in accordance with the Standards and Instructions of SUNAVAL and, therefore, we recommend the approval thereof.

Emphasis on Certain Issues

6. Financial statements of the Company as at September 30th, 2017 and 2016 were prepared in accordance with accounting principles applicable to an ongoing concern. Due to issues listed in the sections below and explained in further detail in Note 1 to the Report issued by the Independent Accountants auditors, there are certain uncertainties about the ultimate solution to those issues that could impair the continuity of such status.
7. As disclosed in Note 1 of the Independent Accountants Report, on May 21, 2009, the Venezuelan government announced the "nationalization" of the subsidiaries of International Briquettes Holding (IBH), Venezolana de Prerreducidos Caroní "Venprecar", C.A. (Venprecar) and Orinoco Iron, S.C.S., Sociedad en Comandita Simple (Orinoco Iron). On May 25, 2009, the former People's Power Ministry for Basic Industries and Mining (MIBAM) notified the managements of Venprecar and Orinoco Iron that a "Transition Committee" had been appointed for each company. Subsequently, Decree No. 6,796 was published in Official Gazette No. 39,220 on July 14, 2009 ordering the forced acquisition of these companies, as well as of their subsidiaries and affiliates engaged in the transformation of iron ore to transform them into state-owned companies. The Decree also provides for the appointment of both government and private-sector representatives to the Transition Committee to determine asset fair value. The Decree states that: i) if no agreement is reached on asset fair value within the specified deadline, the Bolivarian Republic of Venezuela, through its Ministries or functionally decentralized entities, may assume the exclusive control and operation of the aforesaid companies, and ii) the Venezuelan government will decree the expropriation of the affected assets, in conformity with the Law on Expropriation for Public or Social Purposes (the Expropriation Law), should no agreement be reached thereon. On February 5, 2010, the Venezuelan government assumed control of Venprecar and Orinoco Iron as evidenced in the record of the judicial inspection carried out by the First Court of the Caroní Municipality's Second Judicial Circuit of Bolívar

State attended by MIBAM representatives on behalf of the Venezuelan government, Venprecar's and Orinoco Iron's Transition Committees, and trade union representatives. In 2009, the managements of Venprecar and Orinoco Iron hired duly certified independent appraisers to value their machinery and facilities with a view to determining these assets' depreciated replacement value at June 30, 2009. In addition, Venprecar and Orinoco Iron managements calculated the value in use of each company's property, plant and equipment, which is the present value of the discounted future cash flows expected to be derived from asset use. In October 2017, IBH management obtained the update of the appraisals prepared in 2009. Both the 2009 appraisals and the update indicate that the value of machinery and facilities of Venprecar and Orinoco Iron at June 30, 2009 and September 30, 2017 exceeds the carrying amount of investments in companies under "nationalization" at those dates. At June 30, 2009 and September 30, 2017, the recoverable amount (Note 2-e) of assets exceeds the carrying amount of investments in companies under "nationalization." As disclosed in Note 1 of the Independent Accountants Report, IBH management conducted negotiations with the Venezuelan government on possible indemnification values, which in some cases did not exceed book value. IBH management considers that the indemnification for the "nationalization" of Venprecar and Orinoco Iron should exceed the book value of investments in companies under "nationalization," as supported by the June 30, 2009 appraisals (depreciated replacement cost) and value in use calculations at that date. In addition, there are no circumstances indicating that such calculations could vary substantially, so no adjustment to the carrying amount of investments in companies under "nationalization" has been considered necessary. To date, IBH has not been informed of the amount of the indemnification it will receive from the "nationalization" of the companies, in what currency the indemnification will be paid or when the Venezuelan government will make payments in this connection. IBH is also unaware of how the receivables and payables of these companies, which are part of net investments in companies under "nationalization," will be realized or settled. Consequently, there is uncertainty since we are unable to anticipate the effects that the resolution of these matters might have on the accompanying consolidated financial statements of Siderúrgica Venezolana "Sivensa", S.A.

8. As disclosed in Note 1 of the Independent Accountants Report, on October 31, 2010, the expropriation of the plants and other industrial assets of the subsidiary Siderúrgica del Turbio, S.A. (Sidetur) was publicly announced. Subsequently, in Official Gazette No. 39,544 of November 3, 2010, Presidential Decree No. 7,786 (the Expropriation Decree) was published ordering the forced acquisition of all the real and personal property and improvements of Sidetur and its subsidiaries and affiliates. On October 26, 2012, the Superintendency of Banking Sector Institutions (SUDEBAN), following instructions from the People's Power Ministry for Industries (MPPI), issued a communication to all Venezuelan banks at which Sidetur maintained funds in bolivars ordering them to immediately transfer such funds (present and future) to an account at a local bank pertaining to the state-owned company Complejo Siderúrgico Nacional, S.A. On October 29, 2012, Complejo Siderúrgico Nacional, S.A. occupied and took possession of the real and personal property and improvements comprising Sidetur's industrial plants and collection centers. As described in Note 1 of the Independent Accountants Report, in the opinion of management, Sidetur's industrial assets that were occupied, other assets subject to appropriation, and the obligations assumed by the state-owned company Complejo Siderúrgico Nacional, S.A. comprise property, plant and equipment; cash in local currency; trade receivables and inventories, net of accounts payable to suppliers and other; advances from clients; profit-sharing bonuses, vacation bonuses, length-of-service benefits and other employee accruals, totaling a net amount of Bs 14,217 million at September 30, 2017 and is classified in the consolidated financial statements within Net assets in process of expropriation and assets subject to appropriation. In October 2017, management obtained

the update of the appraisal of Sidetur's real property, machinery, equipment and facilities showing that the depreciated cost at September 30, 2017 is Bs 1,179,869 million (Bs 1,179 trillion). Additionally, Sidetur management calculated the estimated value in use at September 30, 2017 of the net assets occupied by Complejo Siderúrgico Nacional, S.A. These calculations determined that both the updated appraisal value (depreciated replacement cost) and the estimated value in use exceed the net book value of the assets occupied by the Venezuelan government in October 2012. Based on the foregoing, management considers that the carrying amount of the net assets occupied by the state-owned company Complejo Siderúrgico Nacional, S.A., recognized in Sivensa's consolidated financial statements, is below what should be their compensation value (indemnification) payable by the Venezuelan government under the Expropriation Law. To date, Sidetur has not been informed of the amount of the indemnification it will receive from the forced acquisition of the aforementioned net assets pertaining to Sidetur and its subsidiaries or when the Venezuelan government will make payments in this connection or the effect of such matters. Consequently, there is uncertainty since we are unable to anticipate the effects that the resolution of these matters might have on the accompanying consolidated financial statements of Siderúrgica Venezolana "Sivensa", S.A.

9. As disclosed in Note 22 of the Independent Accountants Report, the Company presents, for additional analysis purposes, the consolidated balance sheet as expressed in constant bolivars as of December 31, 2015, prepared in accordance with accounting principles of the Company described in the aforementioned Note, which differ with the SUNAVAL Rules and Instructions.

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