



**2007 ANNUAL REPORT**  
**Siderúrgica Venezolana “SIVENSA” S.A.**

Authorized Capital	Bs. 141,190,196,480.00
Subscribed and Paid-in Capital	Bs. 97,660,626,680.00

Siderúrgica Venezolana SIVENSA S.A. is a Venezuelan corporation engaged in the manufacture of long steel products for the construction, manufacturing and infrastructure industries, and of high-quality iron briquettes for the global steel industry. Through ongoing investment programs in its divisions, Sidetur and IBH, Sivensa contributes to the country's development by generating new jobs, driving the regional economy and playing a leading role in the recycling of ferrous materials. Sivensa subsidiaries have a national presence, with nine operating plants located in the states of Bolívar, Carabobo, Miranda, Lara, and the Federal District. Sidetur also operates 14 ferrous material collection centers located in various cities. As of September 30, 2007 Sivensa and its subsidiaries employed 2,906 workers.

[www.sivensa.com.ve](http://www.sivensa.com.ve)

## **BOARD OF DIRECTORS**

### **PRINCIPAL DIRECTORS**

OSCAR AUGUSTO MACHADO K.  
HENRIQUE MACHADO ZULOAGA  
REINALDO CERVINI (R.I.P)<sup>1</sup>  
LUIS IGNACIO MENDOZA (H)  
GUSTAVO J. VOLLMER  
PEDRO AGUSTÍN PALMA CARRILLO  
JOSÉ MARÍA FRAGACHÁN  
ANDRÉS GONZALO BENACERRAF

### **ALTERNATE DIRECTORS**

ARMANDO LOYNAZ REVERÓN  
HORACIO ÁLVAREZ GARCÍA  
ARNOLD H. VOLKENBORN  
CRISTÓBAL L. MENDOZA  
BRUNO L. BORTESI  
FRANCISCO JOSÉ MONALDI  
NEIL J. MALLOY  
FORTUNATO BENACERRAF SALAS

### **AUDIT COMMITTEE**

GUSTAVO JULIO VOLLMER  
HENRIQUE MACHADO ZULOAGA  
REINALDO CERVINI (R.I.P.)  
JOSÉ MARÍA FRAGACHÁN  
CRISTÓBAL MENDOZA  
ANDRÉS GONZALO BENACERRAF

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<sup>1</sup> Reinaldo Cervini served as a member of the Sivensa Board of Directors until he sadly passed away on February 8, 2008.

## **EXECUTIVE COMMITTEE**

President

OSCAR AUGUSTO MACHADO K.

Corporate Legal Director

HÉCTOR J. PEÑA

Executive President of IBH

NEIL J. MALLOY

Director General of Sidetur

NICOLÁS IZQUIERDO

Corporate Finance Director

GUSTAVO MACHADO

**Capital Stock at September 30, 2007**

Common Shares	3,831,831,405
Common Shares as ADRs	1,051,199,929
Total Outstanding Shares	4,883,031,334

**Relevant Aspects (Thousands of US Dollars)**

	<b>2007</b>	<b>2006*</b>
Net Sales	867,238	773,639
Exports	380,859	420,093
Profit After General and Administrative Expenses and Other Net Operating Expenses	81,285	37,610
Depreciation and Amortization	79,481	64,919
Net Profit on Sales and Trading of Shares and Investments Valuation	49,874	26,709
Net Profit Attributable to Sivensa Shareholders, Net of IBH's Participation Subject to Purchase Obligation	76,549	49,189
Total Assets	1,971,903	1,917,931
Equity	774,187	633,240
Financial Debt	479,959	478,122

Current Ratio (times)	2.34	1.54
Total Liability/Equity (times)	1.24	1.66
Number of Employees*	2,906	2,743
Hours of Training for Sivensa Personnel	149,467	77,384
Participants in Fundametal Programs	23,033	25,496

\* Restated for comparison purposes

To our Shareholders:

During the fiscal year analyzed in this Report, the Venezuelan economy continued to grow for the fourth consecutive year, driven by oil revenues. During this period, the Gross Domestic Product (GDP) grew 9.1%, reflecting increased activity in the public and private sectors, while in the construction sector—the main destination for the products of our Sidetur division—the GDP grew 19.1%<sup>2</sup>. The inflation rate during this fiscal period was 15.26%, while the exchange rate remained at Bs. 2,150/US\$1.

Steel production worldwide also increased by 8.5% compared to the same period of fiscal year 2006, reaching a volume of nearly 1.3 billion metric tons<sup>3</sup>, with a third of this production being attributed to China. Despite the growing offer, international prices for long and flat steel products were higher compared to fiscal year 2006, due to a high demand in relevant markets, and particularly in the Asian block.

In October 2007, as a result of an alleged excess capacity fueled by subsidies, the European Federation of Iron and Steel Industries (EUROFER) filed with the European Union a petition aimed at imposing anti-dumping measures on imports of certain steel products from China, Taiwan and South Korea. A subsequent approval of anti-dumping measures in Europe might cause these products to be rerouted to other markets.

In the metallics market, including the market for the reduced iron briquette, international prices remained on an upward curve during the October 2006-September 2007 fiscal period. This market trend is due to global economic growth and a limited availability of cast iron, high-quality scrap and reduced iron. On the other hand, Russia, a traditional exporter of scrap, stopped selling this product in the international market due to a significant economic growth that has forced that country to supply its own steel mills, exerting more pressure on prices of raw materials for the steel industry.

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<sup>2</sup> Source: Banco Central de Venezuela.

<sup>3</sup> Source: International Iron and Steel Institute at [www.worldsteel.org](http://www.worldsteel.org). IISI raw steel production data report raw steel production in 67 countries, representing approximately 98% of the overall production worldwide.

### SUBMISSION OF FINANCIAL STATEMENTS:

Results in US dollars reviewed in this Report are presented in accordance with International Financial Reporting Standards (IFRS), the only exception being the designation of the US dollar as the operational currency of the Sidetur division and its effect on translation.

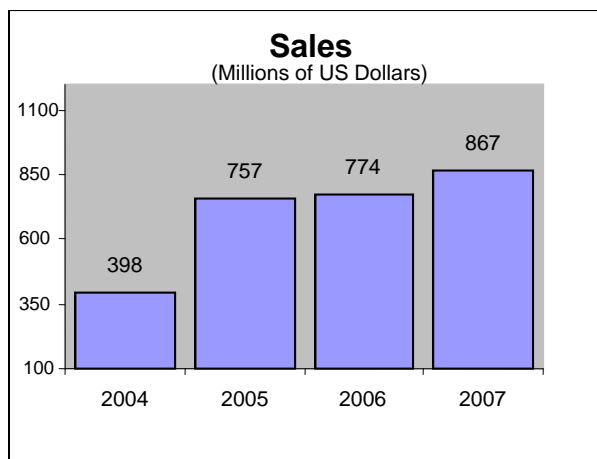
Sivensa's consolidated results include the accounts of Sidetur and IBH, our operational subsidiaries. As we informed our shareholders in due time, the sale of Sivensa's 50.002% participation in Vicson S.A. to Bekaert, a Belgian company, was finalized on September 30, 2007. This transaction was part of Sivensa's strategy to focus its activities on the areas of steel production and direct iron reduction. In the financial statements for this reporting period Vicson operations during 2007 and 2008 are presented in the Consolidated Statement under Discontinued Operations.

### RESULTS FOR THIS FISCAL YEAR

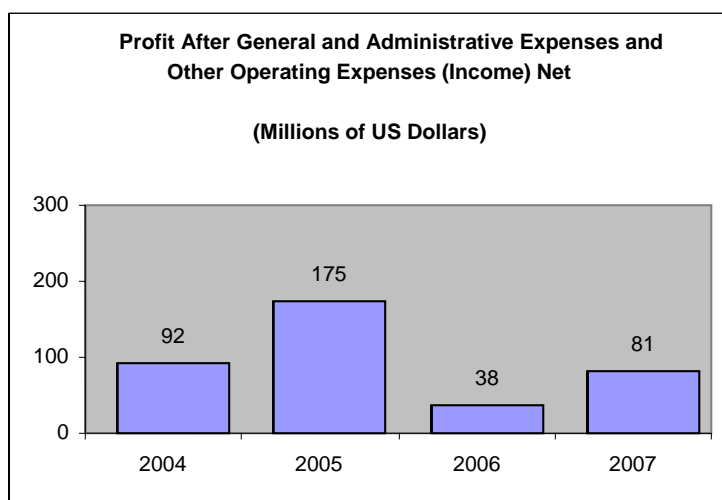
**SALES:** Sivensa sales during fiscal year 2007 totaled US\$867 million, reflecting a 12% increase over total sales for fiscal year 2006, with domestic sales of 56% also representing an increase compared to the previous annual period, during which domestic sales accounted for 46% of revenues. The contribution made by each division to the total sales volume in 2007 is as follows:

Sales (Millions of US Dollars)

IBH	Sidetur	Others	Intercompany	Total
459	470	9	(71)	867



PROFIT AFTER GENERAL AND ADMINISTRATIVE EXPENSES AND OTHER OPERATING EXPENSES (INCOME) NET: Profit after administrative expenses and other net operating expenses was US\$81 million, compared to US\$38 million during the previous reporting period. The higher profit is primarily due to a growth in Sidetur's sales volume, as well as to higher international briquette prices.



INTEREST AND OTHER NET FINANCING EXPENSES: Spending in this category totaled US\$64 million, compared to US\$54 million for the 2006 fiscal year. This variation is primarily due to: i) an adjustment of the IBH debt present value; ii) increased financial costs for IBH due to interest capitalization; iii) a higher interest rate on Sidetur's outstanding debt, which was refinanced in May 2006 at a fixed rate; iv) assignment of interest to the total amount owed after debt restructuring as compared to the previous contract, under which a portion of the debt was not accruing interest; v) new US\$19 million<sup>4</sup> debt contracted by Sidetur.

NET PROFIT FROM THE SALE OF SHARES AND VALUATION OF INVESTMENTS: This item shows a net benefit of US\$50 million before taxes, primarily due to profits resulting from the sale of Ternium shares.

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<sup>4</sup> Refinancing Sivensa's debt in May 2006 provided, among other advantages, the benefit of allowing the company to recover 15% of the shares that were held by banks and standardize its dividend policy.

INCOME TAX: Income tax paid for this fiscal year was US\$27 million, compared to US\$11 million for the 2006 reporting period. The difference is primarily due to taxes paid as a result of Sidetur's improved performance and the sale of some company investments.

NET PROFIT FROM CONTINUING OPERATIONS: Net consolidated profit for Sivensa's continuing operations, including Sidetur and IBH, before deducting the minority interest participation in subsidiaries, was US\$70 million, compared to US\$14 million for the previous fiscal period.

NET PROFIT (LOSS) OF DISCONTINUED OPERATIONS ATTRIBUTABLE TO SIVENSA SHAREHOLDERS: This item shows a loss of US\$2 million as a net result of Sivensa's participation in Vicson profits during the fiscal year covered by this Report, and the equity loss resulting from the difference between the book value of the 50.002% participation formerly held by Sivensa in that company and the sale value of said share.

NET PROFIT ATTRIBUTABLE TO SIVENSA SHAREHOLDERS: Net profit for Sivensa shareholders was US\$77 million, compared to US\$49 million for the previous reporting period.

#### ANALYSIS PER BUSINESS SECTOR

Steel: Steel product sales totaled US\$470 million, reflecting a 14% increase over fiscal year 2006. In terms of metric tons, the volume sold in the local market also increased by 21% compared to fiscal year 2006, reflecting Sidetur's presence in the national construction industry, which continued to expand this year driven by major infrastructure projects in various regions, as well as by an increased number of commercial outlet, mall and housing construction projects.

As part of its ongoing efforts to enhance performance at the Casima steel mill located in Puerto Ordaz, Sidetur continued to drive its investment program. To this end, the subsidiary made substantial progress on its project to install the new emissions control system, which will allow the division to comply with international environmental standards. Due to the scope of the work required to install the new system, a shutdown



is scheduled for the months of March and April 2008. It is estimated that operations will be resuming in May.

Similarly, Sidetur continued to move forward with its program to expand the capacity of its rolling mills, modernize the wiredrawing process at the Valencia plant and upgrade equipment at its scrap collection and recycling centers, which have allowed the company to continue to increase reliability levels.

Sidetur's investments during fiscal year 2007 amounted to US\$13 million, with approximately an additional US\$43 million still remaining for investments to be made during fiscal year 2008.

The Puerto Bay development located in Higuerote, Miranda State, which is using the Sidepanel building system, was recognized with the Obras Cemex Award in the Housing Category. This system, which is exclusively manufactured at the Sidetur Valencia plant, offers, among other advantages, the benefit of providing cost reductions and shorter construction timelines. It is also earthquake resistant and acts as a thermal and acoustic insulant. The above mentioned award highlights the high level of acceptance the Sidepanel product has enjoyed in the Venezuelan construction industry.

Briquettes: IBH sales during fiscal year 2006 totaled US\$459 million, compared to US\$424 million during the past fiscal year. This increase resulted from higher briquette prices in the international market, given the fact that the sales volume in terms of metric tons was lower compared to the previous fiscal year.

Production costs for this subsidiary increased compared to the previous year, primarily due to a higher depreciation as a result of upgraded equipment valuations and higher manpower costs.

Unit production costs were impacted by the dearth of raw materials, which hindered the production of 155,000 MT at Venprecar and 130,000 MT at Orinoco Iron, affecting plant performance by those amounts compared to scheduled production.

Production at IBH plants during fiscal year 2007 was 1,912,341 MT, 4% lower than production for 2006. This decreased production resulted from the dearth of pellets for the Venprecar plant and fines for Orinoco Iron operations. The high demand for pellets in the international market and the preeminence of long-term contracts in the spot market made it difficult to find a solution for the dearth of pellets by importing this raw material. In order to mitigate the negative impact of these conditions, Venprecar reduced the proportion of pellets used to load the reactor by 9%, offsetting the difference by means of a higher consumption of iron ores.

Pellet volumes supplied to Veprekar's plant rose slightly after the closing of the fiscal year. However, it is estimated that, even with the best possible scenario, pellet supplies during fiscal year 2008 will reach only 70% of the volume required for Venprecar to be able to produce at its full installed capacity. In seeking a solution to this issue, IBH has initiated discussions with other Venezuelan briquette producers in order to analyze the possibility of collectively buying pellets in the international market.

Despite a decrease in effective productivity due to the dearth of iron ore, the Orinoco Iron plant was able to extend its production runs and succeeded in achieving a record run of 119 days in Train 1, which ended during the month of February. The plant was also able to achieve a record production of 149,249 MT during the month of May.

As we announced in due time in our quarterly report for the second quarter of the fiscal year, Orinoco Iron reached an agreement to add US\$49/MT in surcharges on the briquette volume pending shipment pursuant to the long-term sales contract subscribed with a steel producer in April 2002, expiring in April 2007. As of this date, the volume that was pending has been shipped in its entirety. Additionally, a new agreement was subscribed with the same customer, effective May 2007 and expiring December 2009, to sell 325,000 metric tons of briquettes annually at market prices.

#### SIVENSA'S PARTICIPATION IN TERNIUM AND VICSON THROUGH SIDETUR

During the fiscal year, Sivensa sold the following shares: 1) 3,380,073 ADRs Sivensa owned in Ternium for an average net price of US\$27.45 per ADR, and 2) as indicated above, its 50.002% participation in Vicson for a total amount of US\$35.48 million. The proceeds from these transactions have been allocated to finance the following: (i)

advancing investment plans at operational subsidiaries; (ii) paying off the US\$19 million loan secured in October 2007 to repurchase 15% of Sivensa shares owned by creditor banks; and (iii) a special dividend approved at the regular shareholders meeting held on November 30, 2007.

#### CORPORATE GOVERNANCE PRINCIPLES

The main purposes of Sivensa's corporate governance structure include facilitating oversight by the company's Board of Directors and Management team as part of their role, in order to protect the interests of our stockholders, employees, customers, creditors and the community at large.

Sivensa's corporate governance structure consists of its Shareholders, followed by the Board of Directors and its Executive Committee, Audit Committee, Compensation and Finance Committee, the Executive President, and the Internal Auditor. Pursuant to standards now in force and in accordance with best practices for corporate governance, the Sivensa Board of Directors has a majority of independent directors who do not serve in any administrative position. Integrated by qualified professionals from different business sectors, the Board of Directors is primarily responsible for defining corporate strategies, as well as for overseeing and evaluating operational performance.

**Executive Committee:** Led by the President, this Committee is integrated by the Corporate Director of Finance, the Corporate Legal Director and the Audit Director, as well as by the Directors of the Sidetur and IBH subsidiaries, and calls upon experts and advisors in various areas for discussion of relevant topics.

**Audit Committee:** In order to ensure transparency and continue to promote the highest level of trust in the company's management process, reduce operational risks and enhance the efficiency of administrative processes, the Audit Committee meets periodically and works closely with the Internal Audit unit to prepare a plan that allows the company to assess whether the internal control system is performing adequately on behalf of the company and its subsidiaries.

**Compensation Committee:** This team is responsible for establishing the company's compensation and employee benefit policies and approving compensation packages for its executives and directors.

**Finance Committee:** This Committee meets periodically to review major related transactions made by the group affecting its overall investment portfolio (liquidity, negotiable shares and business segments). The Committee also reviews the company's liabilities in terms of types and terms of debt to assess its financial obligations, as well as the company's capital level and dividend policies to determine equity.

Sivensa complies with all shareholder reporting regulations as required by the National Securities Commission, timely informing shareholders about all events that are relevant for the organization. In addition, the company makes quarterly and annual reports, news releases, communication and other information materials available to shareholders through its website, and has a dedicated Department ready to assist shareholders with their needs.

#### COMMITMENT TO SOCIAL DEVELOPMENT

Sivensa plays a role in society by responsibly exercising its industrial activities and by fostering programs intended to enhance the quality of the infrastructure, promote the wellbeing of company employees and their families, comply with environmental standards, and maintain transparent and timely communications with shareholders, customers and vendors. The company supports educational initiatives in the areas of healthcare, culture and sports via a network that implements specific programs in different regions throughout the country.

a. Fundamental:

Within the broad context of social responsibility described above, Fundamental was created 31 years ago as a Center for Applied Knowledge in order to educate and train youths and adults and position them competitively in the market so they can enter the work force, or, alternatively, teach them the skills they need to become micro business owners. The institute currently operates five facilities located in Valencia, Puerto Ordaz, Barquisimeto, Caracas and Maracaibo, training over 24,000 participants annually through its various programs. The most relevant Fundamental events and activities during this reporting period included:

The Accelerated Industrial Training Program kicked off in Puerto Ordaz with forty-five participants and the origination of three cohorts. This program is part of a plan that was carried out with the support of the European Community to train youths in the fields of electronics, electricity, instrumentation and pneumatics. The training program grew 13% compared to 2006, with a total of 1,060 participants joining the technical training modules in different areas of specialization. The two-year training module appeals to teens between the ages of 14 and 18 who want to specialize in a given vocational area in order to enter the work force as soon as possible.

Making good use of the corporate contributions mandated by the Science, Technology and Innovation Organic Law (LOCTI) Fundamental supported 18 companies and assisted in the preparation of 39 projects, registering the following projects with the People's Ministry of Science, Technology and Innovation: Welding School, Industrial Metrology Training Center, and Automation and Mechatronics Training Center.

With 2,100 participants attending, more than 50 events were offered in connection with the new laws and regulations that will have economic, fiscal and labor impacts for companies. Particularly noteworthy are the 17<sup>th</sup> edition of the Human Management Conference (*XVII Jornada de Gestión Humana*) and the 5<sup>th</sup> International Logistics Symposium (*V Simposio Internacional de Logística*), which attracted more than 400 participants.

#### Communities:

Our Sidetur and IBH subsidiaries have continued to promote a closer relationship with the community through a number of programs that are being developed in different regions. These programs include:

As part of its program in cooperation with *Escuela de Vecinos de Venezuela* to foster civic values in the community, the Barquisimeto and Caracas plants operated by Sidetur developed the Community Leaders Training Program aimed at promoting leadership and integration as essential elements for local development. In Barquisimeto, 65 local community leaders participated in the Community Development Leaders Training Program, while 35 leaders in Caracas made their contribution through the Values for Community Organizations Program.

Sidetur's *Steel with Added Value (Acero con Valor Agregado)* program provided construction materials to support initiatives organized by various institutions and community organizations such as the Caricuao Fire Department, including several schools, neighborhood clinics and libraries.

In line with its objective of promoting a better quality of life in the community, IBH donated three electrical transformers to the Villa Bahía development in Puerto Ordaz, allowing 68 families in this development to enjoy electrical service. With an investment of Bs. 50 million, Venprecar built the children's park at the "Manual Piar" school for children with special needs located in Puerto Ordaz, which cares for 230 speech and hearing impaired children between the ages of 5 and 14.

In addition, as part of its efforts to support sport activities in West Caracas, Sidetur continued to restore soccer fields at the San Martín YMCA Center, which provides facilities to practice different sports to over 2,000 people, including Sidetur employees and their families.

#### Healthcare

A contribution of over Bs. 310 million by Orinoco Iron and Venprecar enabled the Telemedicine and Dentistry clinics in Urimán and Kamarata, respectively, to start operations, benefiting over 18,000 residents in these indigenous communities of the Gran Sabana, which are located in remote, hard to reach areas. IBH also made significant progress in the design and coordination of an extensive plan addressing healthcare, agriculture, electricity and education needs to benefit these communities, whose implementation is scheduled to begin in 2008.

Similarly, through the Venezuelan Foundation for Social Development, IBH sponsored a number of lectures aimed at preventing drug abuse, attended by 11,500 high school students at different public and private educational institutions in Guayana.

In cooperation with *Misión Barrio Adentro* of the People's Ministry for Public Health and Social Development, several immunization and preventive medicine initiatives were implemented in the city of Puerto Ordaz.

## Publications

Sidetur continued to develop its community information program by adding the issue “*Organizarnos para Vivir en Condominios*” (“*Organizing to Live in Condominiums*”) to the “Sidetur in the Community” collection. The publishing division, Fondo Editorial Sidetur, also added a book entitled *Proyecto y Construcción de Galpones Modulares* to its list of titles and published Issue No. 16 of “Cuadernos Informativos Sidetur” (“Sidetur Information Bulletins”), about concrete stairways.

## EVENTS AFTER THE CLOSING OF THE FISCAL YEAR

### **Adjustment of the Nominal Value of Sivensa Shares**

In March 2007 the National Executive approved a monetary conversion to be implemented effective January 1<sup>st</sup>, 2008, whereby all values expressed in the national tender used prior to that date (the Bolivar) would be converted to the new monetary unit (the Strong Bolivar) dividing the amount by one thousand and rounding it up to the nearest cent.

In order to adjust the nominal value of Sivensa shares and, at the same time, retain shareholders holding less than one hundred shares, at their Special Meeting held on October 19, 2007 Sivensa shareholders approved the following measures: A) A capital increase through the issuance and distribution of new shares as follows: i) two shares for every 98 shares, and ii) bringing the shares held by each shareholder to groups of one hundred shares, so that in all cases the number of shares held by each shareholder will be a multiple of one hundred. B) The substitution and exchange of Sivensa shares through the issuance of a new share with a nominal value of two thousand bolivares (Bs. 2,000.00) for every one hundred shares with a nominal value of twenty bolivares (Bs. 20.00) owned. As a result, since January 1<sup>st</sup>, 2008, when the monetary conversion became effective, the nominal value of a Sivensa share is two strong bolivares (Bs.F. 2.00). Additionally, the exchange of shares brought about a change in the parity of Sivensa ADRs, which at the present time is one Sivensa share for each ADR, in lieu of the previous parity of 98 shares per ADR.

## **Dividend**

At the Annual Shareholders Meeting held on November 30, 2007 a dividend out of unappropriated retained earnings for the year ending September 30, 2007 was approved in the amount of Bs. 178,767,184,225 (Bs. F. 178,767,184.23). The shareholders approved to pay the dividend in the following manner: a) a cash dividend of Bs.900 (Bs.F. 0.90) per share and b) a dividend “in kind” through the distribution to shareholders of 49,830,574 units conferring rights on bonds issued by the Bolivarian Republic of Venezuela, denominated in US dollars and deposited in a foreign trust.

The cash portion of the dividend was paid on December 14. However, the “in kind” portion scheduled for payment on the same date could not be effectively paid due to a resolution issued by the National Securities Commission on December 6, which mandated a suspension to allow for the clarification of certain aspects of the payment. On December 7, Sivensa submitted all information requested by the Commission, and the company is now awaiting a decision regarding this matter.

## A SPECIAL REMEMBRANCE

We make a pause to say goodbye and pay tribute to our wonderful friend Reinaldo Cervini, who was a member of the Sivensa Board of Directors from 1961 until his passing on February 8, 2007. During his fruitful life, he designed and spearheaded programs to foster a closer collaboration between the private sector and the country's universities, and spared no effort to promote corporate social responsibility. For his invaluable contribution to our country's development, his legacy will always have a special place in the hearts and memories of all of us at Sivensa.

The Board of Directors

January 29, 2008



## INVESTOR RELATIONS

Investor Relations	<b>Gerencia Corporativa de Planificación</b> Av. Venezuela Edificio Torre América, Piso 11 Urbanización Bello Monte Caracas, Venezuela Telephones: (58212) 707.61.45 /707.62.80 Fax: (58212) 707.6352 E-mail: <a href="mailto:antonio.osorio@sivensa.com">antonio.osorio@sivensa.com</a>
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Auditors	<b>Espiñeira, Sheldon y Asociados</b> (Member of PricewaterhouseCoopers) Av. Principal de Chuao, Edif. del Río Caracas, Venezuela Telephone: (58212) 700.6332 Fax: (58212) 991.5210 E-mail: <a href="mailto:jose.apostolico@ve.pwc.com">jose.apostolico@ve.pwc.com</a>