

**SIDERAR SOCIEDAD ANONIMA  
INDUSTRIAL Y COMERCIAL**

**FINANCIAL STATEMENTS  
AT DECEMBER 31, 1998**

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

**FINANCIAL STATEMENTS  
AT DECEMBER 31, 1998**

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## **REPORT ON LIMITED REVIEW**

Buenos Aires, February 4, 1999

To the Members of the Surveillance Committee of  
Siderar Sociedad Anónima Industrial y Comercial

We have made a limited review of the balance sheets of Siderar Sociedad Anónima Industrial y Comercial, as of December 31, 1998 and 1997 and the related statements of income, of changes in shareholders' equity and of sources and uses of funds and the accompanying notes and exhibits for the six-month periods then ended. Furthermore, we have made a limited review of the consolidated financial statements of Siderar Sociedad Anónima Industrial y Comercial with its subsidiaries for the six-month periods ended December 31, 1998 and 1997, which are presented as complementary information. These financial statements are the responsibility of the Company's management.

Our reviews were performed in accordance with procedures established by Technical Resolution No. 7 issued by the Argentine Federation of Professional Councils in Economic Sciences for limited reviews of interim financial statements. A review of interim financial statements consists principally of the application of analytical procedures to amounts and disclosures in the financial statements and inquiries from individuals responsible for the preparation of the information included in the financial statements and of its subsequent analysis. This review does not provide assurance that the Company's systems, or any other systems, such as those of suppliers or vendors, are, or will be, Year 2000 compliant. The scope of these reviews is substantially narrower than that of an audit, the objective of which is to express an opinion on the financial statements under review. Accordingly, we do not express an opinion on the Company's financial position, the results of its operations, the changes in its shareholders' equity and sources and uses of funds.

Based on our work done and on our examinations of the financial statements of the Company and its consolidated financial statements for the years ended June 30, 1998 and 1997, on which we have issued our unqualified report dated September 1, 1998, we report that the financial statements of Siderar Sociedad Anónima Industrial y Comercial at December 31, 1998 and 1997 and its consolidated financial statements, consider all the facts and circumstances which are known to us and we have no observations to make regarding them.

As part of our review, the scope of which is mentioned in the second paragraph, we have reviewed the "Summary Information" required by the National Securities Commission and, regarding those aspects which fall within our competence, we have no observations to make.

PRICE WATERHOUSE & CO.

by \_\_\_\_\_ (Partner)

Dr. Daniel A. López Lado  
Contador Público (UBA)  
C.P.C.E. Capital Federal  
Tomo 148 - Folio 91

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

### **SUMMARY INFORMATION**

In accordance with the regulations of Resolution No. 290/97 of the National Securities Commission the Board of Directors has approved the following information corresponding to the period begun on July 1, 1998 and ended on December 31, 1998.

#### **1. ACTIVITIES OF THE COMPANY**

The result for the first half of the year has been a profit of \$ 15,025,022.

This result has been affected by the fall in the level of shipments to the domestic market and the negative effect of investments in related companies.

The operating result amounted to \$ 89,650,004, 25.1% lower than the \$ 119,683,348 million recorded in the same period of the previous year.

The international financial crisis has affected the level of shipments since the start of the last quarter, and although there was a rapid increase in sales to export markets, the lower added value typical of the products sold on those markets did not allow for the situation to be fully offset.

In comparison to the same half-year and quarter of the previous year shipments of flat products to the domestic market have fallen by 16.4% and 29.1% respectively. Exports of flat products increased in the same periods by 25.7% and 69.8% respectively.

The Company has continued to take steps to reduce the effects of the crisis. This policy is reflected in the reduction of 6.7% in average cost of sales. This reduction in production costs has been passed on to inventory, resulting in a write-off of \$ 4 millions which was charged to financial results.

The loss from investments in related companies has been strongly impacted by the loss of \$ 26.9 million recorded by Prosid Investments Inc., a subsidiary of Siderar holding 17.5% of the shares of Consorcio Siderurgia Amazonia Ltd., the parent company of Siderúrgica del Orinoco C.A. (Sidor). Sidor is carrying out a conversion process so that it can become internationally competitive. As a result of the extraordinary costs of this process, the adverse conditions faced in its domestic market and the negative impact of the international crisis on its exports, Sidor has incurred in significant losses that it expects to recover once the process of conversion has been completed and market conditions have improved.

In the production sector there has been a notable increase in the production of the continuous casting line, which in December 1998 reached a level of 186.3 thousand tons. This is of fundamental importance to the Company's plans to substitute imported slabs by its own production.

On November 17 the Company inaugurated a housing estate built at San Nicolás using a dry-wall construction technique.

**2. EQUITY STRUCTURE** (compared to the periods ended December 31, 1994, 1995, 1996 and 1997 - Amounts stated in thousands of pesos)

	<b>12.31.98</b>	<b>12.31.97</b>	<b>12.31.96 (1)</b>	<b>12.31.95 (1)</b>	<b>12.31.94 (1)</b>
Current assets	522,025	524,327	425,054	532,334	473,146
Non-current assets	917,531	789,719	703,492	706,040	537,164
<b>Total</b>	<b>1,439,556</b>	<b>1,314,046</b>	<b>1,128,546</b>	<b>1,238,374</b>	<b>1,010,310</b>
Current liabilities	421,313	446,741	341,197	592,250	467,418
Non-current liabilities	357,183	233,678	226,722	150,221	56,079
<b>Sub-total</b>	<b>778,496</b>	<b>680,419</b>	<b>567,919</b>	<b>742,471</b>	<b>523,497</b>
Minority interest in subsidiaries	104	84	-	-	-
Shareholders' equity	660,956	633,543	560,627	495,903	486,813
<b>Total</b>	<b>1,439,556</b>	<b>1,314,046</b>	<b>1,128,546</b>	<b>1,238,374</b>	<b>1,010,310</b>

(1) In previous periods the Company did not hold investments in subsidiaries requiring consolidation.

**3. INCOME STRUCTURE** (compared to the periods ended December 31, 1994, 1995, 1996 and 1997 - Amounts stated in thousands of pesos)

	<b>7.1.98 to 12.31.98</b>	<b>7.1.97 to 12.31.97</b>	<b>7.1.96 to 12.31.96 (1)</b>	<b>7.1.95 to 12.31.95 (1)</b>	<b>7.1.94 to 12.31.94 (1)</b>
Result from ordinary operations	89,650	119,683	93,672	62,867	68,286
Result from investments in related companies	(25,318)	-	-	-	-
Financial result	(22,745)	(14,480)	(15,295)	(19,578)	(5,071)
Other income and expenses	(3,494)	(8,039)	(1,214)	(1,063)	(62)
Minority interest in subsidiaries	(9)	(14)	-	-	-
Result before tax	38,084	97,150	77,163	42,226	63,153
Taxes	(23,059)	(33,132)	(21,877)	(11,337)	(8,176)
Ordinary result	15,025	64,018	55,286	30,889	54,977
Other extraordinary income and expenses	-	-	(7,326)	(3,179)	(10,058)
Net result	15,025	64,018	47,960	27,710	44,919

(1) In previous periods the Company did not hold investments in subsidiaries requiring consolidation.

**4. STATISTICAL DATA** (in thousands of tons)

	<b>7.1.98 to 12.31.98</b>	<b>7.1.97 to 12.31.97</b>	<b>7.1.96 to 12.31.96 (1)</b>	<b>7.1.95 to 12.31.95 (1)</b>	<b>7.1.94 to 12.31.94 (1)</b>
Shipments (2)	1,020	1,121	1,002	824	821
Domestic market	712	861	712	507	631
Exports	308	260	290	317	190
Production					
Hot rolled steel	964	1,094	1,029	916	829
Cold rolled steel	704	706	645	648	587

(1) In previous periods the Company did not hold investments in subsidiaries requiring consolidation.

(2) Includes 97.6, 80.7 and 65.5 thousand tons of pig iron bars for the years 96/97, 97/98 and 98/99, respectively.

## 5. CONSOLIDATED RATIOS

	<b>12.31.98</b>	<b>12.31.97</b>	<b>12.31.96 (1)</b>	<b>12.31.95 (1)</b>	<b>12.31.94 (1)</b>
Liquidity	1.24	1.17	1.25	0.90	1.01
Indebtedness	1.18	1.07	1.01	1.50	1.08

(1) In previous periods the Company did not hold investments in subsidiaries requiring consolidation.

## 6. OUTLOOK

During the coming quarter the output of the production lines will fall because of the annual maintenance shut-downs, coinciding with seasonal market declines.

This fact, together with the effects that might be felt from the devaluation of the Brazilian currency in the first half of the month following the end of the period, is responsible for the Company considering that it will be difficult to achieve any increase in the level of shipments to the domestic market in the next quarter.

The Company will continue with its cost-reduction program with the aim of offsetting the situation described as far as possible.

Buenos Aires, February 4, 1999

THE BOARD OF DIRECTORS

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

**FINANCIAL STATEMENTS** for the six-month period ended December 31, 1998

Fiscal year: No. 38 beginning on July 1, 1998

Legal address: Leandro N. Alem 1067, Buenos Aires

Main activity: Promotion, construction and operation of steel mills, production and marketing of steel, iron and steel products

From the by-laws and articles of incorporation:

Date of registration in the National Commercial Court of Record of First Instance: March 7, 1962

From the amendments:

Dates of registration in the National Commercial Court of Record of First Instance:

November 10, 1966;

October 10, 1967;

June 11, 1969;

June 9, 1971;

June 24, 1976;

July 1, 1977;

October 5, 1977;

June 26, 1980;

October 13, 1980;

March 29, 1982;

April 27, 1983;

April 11, 1984;

April 2, 1985;

May 7, 1986;

June 30, 1987;

August 10, 1992;

September 16, 1992;

July 28, 1993;

May 6, 1994;

January 5, 1995;

November 7, 1995;

May 28, 1996; and

March 11, 1997

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

**FINANCIAL STATEMENTS** for the six-month period ended December 31, 1998

Registration number with the Superintendency of Corporations: 14510

Duration of the Company: Up to April 2, 2090

Capital: Par value shares of 1 peso and one vote each

<b>Class</b>	<b>No. of votes per share</b>	<b>Subscribed and paid-in</b>
		<b>\$</b>
Common "A" shares outstanding	1	310,891,625
Common "B" shares outstanding	1	36,577,146
		<u>347,468,771</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**BALANCE SHEET** at December 31, 1998, compared to the same period of the previous year

	<u>12.31.98</u>	<u>12.31.97</u>		<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$		\$	\$
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and banks (Note 3.a)	7,553,391	13,319,858	Accounts payable (Note 3.h)	120,099,543	158,463,511
Other investments (Exhibit D)	-	35,523	Short-term debt (Note 3.i)	237,320,526	213,735,717
Trade receivables (Note 3.b)	149,255,192	148,389,003	Social security and taxes (Note 3.j)	43,129,518	49,207,571
Other receivables (Note 3.c)	53,366,576	57,239,193	Other liabilities (Note 3.k)	1,560,393	1,167,157
Inventories (Exhibit F)	298,058,695	290,276,956	Allowances (Exhibit E)	1,997,180	3,571,818
Other assets (Note 3.d)	520,036	-			
<b>Total current assets</b>	<u>508,753,890</u>	<u>509,260,533</u>	<b>Total current liabilities</b>	<u>404,107,160</u>	<u>426,145,774</u>
<b>NON-CURRENT ASSETS</b>			<b>NON-CURRENT LIABILITIES</b>		
Trade receivables (Note 3.e)	2,492,783	2,457,872	Accounts payable (Note 3.l)	13,766,579	18,645,592
Other receivables (Note 3.f)	7,419,668	4,439,300	Long-term debt (Note 3.m)	317,567,461	202,735,153
Investments (Exhibit C)	158,102,628	56,453,416	Social security and taxes (Note 3.n)	3,316,974	1,884,228
Other investments (Exhibit D)	34,733,734	34,081,674	Allowances (Exhibit E)	8,659,000	3,145,000
Intangible assets (Exhibit B)	7,386,024	17,944,838			
Fixed assets (Exhibit A)	682,846,200	659,859,420	<b>Total non-current liabilities</b>	<u>343,310,014</u>	<u>226,409,973</u>
Other assets (Note 3.g)	6,638,726	1,602,190	<b>Total liabilities</b>	<u>747,417,174</u>	<u>652,555,747</u>
<b>Total non-current assets</b>	<u>899,619,763</u>	<u>776,838,710</u>	<b>SHAREHOLDERS' EQUITY</b> (as per respective statement)	<u>660,956,479</u>	<u>633,543,496</u>
<b>Total assets</b>	<u>1,408,373,653</u>	<u>1,286,099,243</u>	<b>Total liabilities and Shareholders' equity</b>	<u>1,408,373,653</u>	<u>1,286,099,243</u>

The accompanying notes 1 to 13 and exhibits A to I are an integral part of these financial statements.

The report on limited review is issued as a separate document.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**STATEMENT OF INCOME** for the six-month period ended December 31, 1998, compared to the same period of the previous year

	<b>12.31.98</b>	<b>12.31.97</b>
	<b>\$</b>	<b>\$</b>
Net income from sales	519,350,411	607,762,090
Cost of sales (Exhibit F)	(381,326,664)	(435,539,346)
Gross profit	138,023,747	172,222,744
Selling expenses (Exhibit H)	(12,653,304)	(14,468,095)
Administrative expenses (Exhibit H)	(38,527,015)	(42,845,554)
Result from investments in subsidiaries and related companies (Note 7.f)	(24,739,225)	3,232,371
Financial and holding results		
Generated by assets (Exhibit H)	5,835,035	8,053,074
Generated by liabilities (Exhibit H)	(27,835,266)	(21,804,834)
Other ordinary income and expenses (Exhibit H)	(2,745,351)	(6,721,470)
Net income before taxes	37,358,621	97,668,236
Income tax provision charge	(22,333,599)	(33,132,148)
Ordinary income	15,025,022	64,536,088
Other extraordinary income and expenses (Exhibit H)	-	(517,876)
Net income for the period	15,025,022	64,018,212

The accompanying notes 1 to 13 and exhibits A to I are an integral part of these financial statements.

The report on limited review is issued as a separate document.

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY** for the six-month period ended December 31, 1998, compared to the same period of the previous year

Item	Capital stock			Non-capitalized contributions	Retained earnings			Unappropriated retained earnings	12.31.98	12.31.97
	Shares outstanding	Capital adjustment	Total	Premium on issue of shares	Legal reserve	Reserve for future dividends	Free reserve		Total shareholders' equity	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balances at the beginning of the period	347,468,771	27,348,487	374,817,258	21,194,650	14,098,504	139,564,237	20,000,000	109,566,341	679,240,990	597,297,730
Issue premium accrued during the period	-	-	-	-	-	-	-	-	-	225,056
Approved by the Shareholders' Ordinary Meeting on September 30, 1997										
- Distribution of profits										
Hnos. Agustín y Enrique Rocca Foundation	-	-	-	-	-	-	-	-	-	(200,000)
Cash dividends	-	-	-	-	-	-	-	-	-	(27,797,502)
Approved by the Shareholders' Ordinary Meeting on September 30, 1998										
- Distribution of profits										
Legal reserve	-	-	-	-	5,478,317	-	-	(5,478,317)	-	-
Hnos. Agustín y Enrique Rocca Foundation	-	-	-	-	-	-	-	(300,000)	(300,000)	-
Cash dividends	-	-	-	-	-	-	-	(33,009,533)	(33,009,533)	-
Reserve for future dividends	-	-	-	-	-	70,778,491	-	(70,778,491)	-	-
Income for the period as per income statement	-	-	-	-	-	-	-	15,025,022	15,025,022	64,018,212
Balances at December 31, 1998	347,468,771	27,348,487	374,817,258	21,194,650	19,576,821	210,342,728	20,000,000	15,025,022	660,956,479	
Balances at December 31, 1997	347,468,771	27,348,487	374,817,258	21,045,285	14,098,504	139,564,237	20,000,000	64,018,212		633,543,496

The accompanying notes 1 to 13 and exhibits A to I are an integral part of these financial statements.

The report on limited review is issued as a separate document.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**STATEMENT OF SOURCES AND USES OF FUNDS** for the six-month period ended December 31, 1998, compared to the same period of the previous year

	<b>12.31.98</b>	<b>12.31.97</b>
	<b>\$</b>	<b>\$</b>
<b>CHANGES IN FUNDS</b>		
Funds at the beginning of the period (1)	5,901,151	9,600,254
Increase in funds	1,652,240	3,755,127
Funds at the end of the period (1)	<u>7,553,391</u>	<u>13,355,381</u>
<b>CAUSES OF CHANGES IN FUNDS</b>		
Ordinary income	15,025,022	64,536,088
Add:		
Items not representing funds disbursements		
Depreciation of fixed assets	33,707,691	31,652,915
Amortization of other non-current investments	23,191	29,002
Depreciation of other current assets	5,344	-
Amortization of intangible assets	1,348,702	1,499,995
Allowance for doubtful accounts	619,994	600,000
Income tax provision charge	22,333,599	33,132,148
Board of Directors' and Surveillance Committee's fees provision	616,000	616,000
Allowance for contingencies	1,266,122	3,227,057
Holding result in subsidiaries and related companies	24,739,225	-
Less:		
Items not providing funds		
Result from investments in subsidiaries and related companies	-	(3,232,371)
Funds generated by ordinary operations	<u>99,684,890</u>	<u>132,060,834</u>
Extraordinary loss	-	(517,876)
Funds used in extraordinary operations	<u>-</u>	<u>(517,876)</u>
Funds generated by operations	99,684,890	131,542,958
Other causes of sources of funds		
Net decrease (increase) in trade receivables	8,459,453	(3,446,477)
Net decrease (increase) in other receivables	2,213,532	(916,905)
Net decrease (increase) in other non-current investments	19,172,152	(1,174,142)
Net decrease in intangible assets	-	48,751
Net increase in short and long-term debt	10,620,717	22,344,104
Total sources of funds - Carried forward	<u>140,150,744</u>	<u>148,398,289</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**STATEMENT OF SOURCES AND USES OF FUNDS** for the six-month period ended December 31, 1998, compared to the same period of the previous year (Contd.)

	<b>12.31.98</b>	<b>12.31.97</b>
	<b>\$</b>	<b>\$</b>
CAUSES OF CHANGES IN FUNDS (Contd.)		
Brought forward	140,150,744	148,398,289
Other causes of uses of funds		
Net increase in inventories	(14,752,915)	(51,802,959)
Net increase in investments	(1,422,985)	(49,409)
Net increase in fixed assets	(37,128,705)	(34,956,094)
Net increase in other assets	(3,074,379)	(1,602,190)
Net (decrease) increase in trade payables	(18,426,495)	15,657,416
Net decrease in social security and taxes	(29,201,378)	(42,253,826)
Net decrease in other liabilities	(910,473)	(1,388,255)
Decrease in allowance for contingencies	(271,641)	(250,343)
Distribution of profits as per Shareholders' Meeting on 9.30.97	-	(27,997,502)
Distribution of profits as per Shareholders' Meeting on 9.30.98	(33,309,533)	-
Total uses of funds	(138,498,504)	(144,643,162)
Increase in funds	1,652,240	3,755,127

(1) Cash and banks plus other current investments

The accompanying notes 1 to 13 and exhibits A to I are an integral part of these financial statements.

The report on limited review is issued as a separate document.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998

### **NOTE 1 - BASES FOR THE PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with General Resolution No. 290/97 of the National Securities Commission.

### **NOTE 2 - ACCOUNTING STANDARDS**

The most significant accounting standards are as follows:

#### 2.1. Comparative information

The financial statements are presented in pesos in comparative form with those of the same period of the previous year.

#### 2.2. Recognition of the effects of inflation

The financial statements have been prepared in constant currency, reflecting the overall effects of inflation through August 31, 1995. In accordance with General Resolution No. 290/97 of the National Securities Commission, restatement of the financial statements has been discontinued as from September 1, 1995.

#### 2.3. Valuation criteria

These financial statements have been prepared applying the valuation criteria established by General Resolution No. 290/97 of the National Securities Commission, as explained below:

- a) Assets and liabilities in local currency without adjustment clauses are stated at their nominal value plus the accrued financial results up to the end of the period.
- b) Assets and liabilities in foreign currency have been valued at the corresponding exchange rates in effect at the end of the period plus the accrued financial results up to that date.
- c) Export reimbursements have been valued at the rates of exchange in force at the end of the period applied on par values in foreign currency and included in the Trade receivables - export reimbursement caption.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 2 - ACCOUNTING STANDARDS (Contd.)**

#### 2.3. Valuation criteria (Contd.)

- d) Advances to suppliers are stated at their current value.
- e) Inventories have been valued at their replacement cost at the end of the period, applying the direct industrial cost method and including the indirect manufacturing expenses, except fixed assets depreciation and general expenses.

Materials have been valued at their replacement cost at the end of the period.

- f) Property included under Other assets has been valued at acquisition cost.
- g) Steel spares and supplies, included in fixed assets, have been valued at the lowest of their restated cost value or recoverable value. The recoverable value has been calculated on the basis of the values of last purchases or quotations from suppliers on dates close to the end of the period.

Fixed assets at the Ensenada Plant which had been technically appraised (based on the valuation carried out at June 30, 1990) were restated for inflation as mentioned in Note 2.2.

The remaining fixed assets have been valued at their restated cost. Depreciation of fixed assets has been calculated according to the straight-line method by applying annual rates sufficient to extinguish their values by the end of their estimated useful lives.

The aggregate net value of fixed assets does not exceed recoverable value.

- h) The participation in other companies has been valued at proportional equity value based on the financial statements mentioned in Exhibit C. In addition, the accounting standards adopted by subsidiaries and related companies have been unified with the accounting criteria followed by Siderar S.A.I.C. For purposes of translation into pesos of the financial statements of Amazonia and Prosid Investments Inc., the criteria established by Technical Pronouncement No. 13 of the Argentine Federation of Professional Councils in Economic Sciences were used.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 2 - ACCOUNTING STANDARDS (Contd.)**

#### 2.3. Valuation criteria (Contd.)

The difference between the value paid for the shares of Comesi S.A.I.C. (see Note 7.c) and d) to the financial statements) and the proportional equity value at the date of purchase has been treated as follows:

- a. The portion attributable to differences between the accounting value of the issuer's assets and their respective current values was charged to the value of the investments (see Exhibit C to the financial statements for the adjustments to the valuation of the fixed assets of Comesi S.A.I.C. and to the valuation of the inventory of Comesi S.A.I.C.) which is being recorded in income on the basis of the evolution of the assets giving rise to them.
- b. The remaining difference has been treated as goodwill, which is amortized by the straight-line method beginning April 1997 over a maximum term of five years.
- i) Compañía Afianzadora de Empresas Siderúrgicas S.G.R. risk fund, recorded by Siderar S.A.I.C. under Other investments, corresponds to the portion attributable to that company considering the percentage contributions paid by the protecting partners of Sociedad de Garantía Recíproca and the value of the fund at December 31, 1998 (see Note 7.a) to the financial statements).
- j) The expenses related to the reorganization and project analysis represent the technical assistance and extraordinary arrangements necessary to bring facilities into operating conditions and the charges arising from the bidding process for Aceros Paraná S.A. Depreciation is computed by the straight-line method over the terms established for each item, none of which exceeds six years.
- k) The Company has capitalized the financial costs from the projects for the modernization of its fixed assets.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 2 - ACCOUNTING STANDARDS (Contd.)**

#### 2.3. Valuation criteria (Contd.)

To establish the financial cost subject to capitalization, the Company's cost of financing has been calculated by taking the net value of the negative and positive results from all items included in its financing structure.

The abovementioned capitalization is made until the works-related assets giving rise to it become operative, and will be amortized applying the same criteria used for the assets constructed.

Financial costs capitalized in the period amounted to \$ 467,975.

- l) The implicit financial components included in the assets, liabilities and income balances have been segregated, if significant.
- m) The Company has set up the provisions considered necessary so that the value assigned to assets does not exceed their recoverable value and that the value assigned to liabilities is not lower than the value which may be claimable by third parties.

The provisions included in current and non-current liabilities for \$ 10,656,180 were assigned for contingencies.

- n) As from August 1, 1995, the Company implemented a retirement benefit plan in favor of certain officials. Since that date the resulting liabilities are being accrued during the remaining years of service of the beneficiaries involved. At the end of the period in progress these liabilities are shown under "Social security and taxes" as a non-current liability, no debt being claimable as at that date.

In addition, the Company has taken out endowment policies which could be used to provide partial or total cover for these benefits.

- o) Non-current credits and liabilities accrue interest at normal market rates.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

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### NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

#### NOTE 2 - ACCOUNTING STANDARDS (Contd.)

##### 2.3. Valuation criteria (Contd.)

- p) At the end of the period the income tax provision has been calculated by applying a 35% rate on the tax profits for the year and is shown in the statement of income as income tax provision charge.
- q) The Company's Board of Directors considers that aggregate valuation of assets captions is less than their recoverable value.

#### NOTE 3 - COMPOSITION OF BALANCE SHEET ITEMS

	<b>12.31.98</b>	<b>12.31.97</b>
	\$	\$
<b>CURRENT ASSETS</b>		
a) Cash and banks		
Cash	579,849	2,395,004
Checks to be deposited	1,723,221	1,048,440
Banks	5,250,321	9,876,414
	<u>7,553,391</u>	<u>13,319,858</u>
b) Trade receivables		
Accounts receivable	88,783,726	81,735,627
Related companies Sect. 33 - Law No. 19550 and amendments	3,527,608	9,200,994
Export reimbursements	2,656,907	2,168,673
Notes receivable	64,553,481	68,481,839
Discounted notes	-	(2,757,185)
Allowance for doubtful accounts (Exhibit E)	(7,797,469)	(7,847,021)
Unearned interest	(2,469,061)	(2,593,924)
	<u>149,255,192</u>	<u>148,389,003</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

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### NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

#### NOTE 3 - COMPOSITION OF BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	<u>\$</u>	<u>\$</u>
CURRENT ASSETS (Contd.)		
c) Other receivables		
Related companies Sect. 33 - Law No. 19550 and amendments	33,109,050	39,355,924
Advances and loans to personnel	4,305,458	4,276,494
Other receivables from personnel from sale of property	69,131	-
Solidarity contribution	64,735	-
Tax credits	343,751	536,843
Advances to suppliers	2,949,431	1,713,355
Shareholders by subscription of shares	-	5,972,613
Expenses paid in advance	3,143,314	1,552,979
Sundry receivables	9,381,706	3,830,985
	<u>53,366,576</u>	<u>57,239,193</u>
d) Other assets (residual value)		
Real property	520,036	-
	<u>520,036</u>	<u>-</u>
The depreciation of the period amounted to \$ 5,344.		
NON-CURRENT ASSETS		
e) Trade receivables		
Notes receivable	2,820,783	2,876,872
Allowance for doubtful accounts (Exhibit E)	(328,000)	(419,000)
	<u>2,492,783</u>	<u>2,457,872</u>
f) Other receivables		
Advances and loans to personnel	1,875,126	1,995,342
Other receivables from personnel from sale of property	1,313,494	-
Solidarity contribution	-	64,735
Advances to suppliers	463,607	1,508,675
Expenses paid in advance	3,563,978	301,386
Sundry receivables	203,463	569,162
	<u>7,419,668</u>	<u>4,439,300</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

### NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

#### NOTE 3 - COMPOSITION OF BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
NON-CURRENT ASSETS (Contd.)		
g) Other assets		
Real property	6,638,726	1,602,190
	<u>6,638,726</u>	<u>1,602,190</u>
CURRENT LIABILITIES		
h) Accounts payable		
Ordinary suppliers	56,220,457	49,306,363
Related companies Sect. 33 - Law No. 19550 and amendments	4,326,486	702,278
Notes payable	58,182,112	110,525,330
Unearned interest	(2,562,219)	(4,299,168)
Advances from customers	3,932,707	2,228,708
	<u>120,099,543</u>	<u>158,463,511</u>
i) Short-term debt		
Financial	13,999,496	52,529,501
Import/export financing	246,407,157	178,829,456
Unearned interest	(23,086,127)	(17,623,240)
	<u>237,320,526</u>	<u>213,735,717</u>
j) Social security and taxes		
Provision for income tax	22,200,000	33,140,000
Income tax withholding and solidarity contribution	(10,189,641)	(11,843,995)
Income tax advances	(4,273,514)	(2,410,299)
VAT advances	1,021,880	-
Provision for turnover tax	192,687	269,000
Wages and social security	28,977,607	28,521,022
Sundry	5,200,499	1,531,843
	<u>43,129,518</u>	<u>49,207,571</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

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### NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

#### NOTE 3 - COMPOSITION OF BALANCE SHEET ITEMS (Contd.)

	<b>12.31.98</b>	<b>12.31.97</b>
	<u>\$</u>	<u>\$</u>
<b>CURRENT LIABILITIES (Contd.)</b>		
k) Other liabilities		
Related companies Sect. 33 - Law No. 19550 and amendments	-	1,350
Sundry	1,560,393	1,165,807
	<u>1,560,393</u>	<u>1,167,157</u>
<b>NON-CURRENT LIABILITIES</b>		
l) Accounts payable		
Notes payable	14,800,090	20,369,913
Unearned interest	(1,033,511)	(1,724,321)
	<u>13,766,579</u>	<u>18,645,592</u>
m) Long-term debt		
Import/export financing	247,914,400	232,032,535
Negotiable Corporate Bonds	110,000,000	-
Unearned interest	(40,346,939)	(29,297,382)
	<u>317,567,461</u>	<u>202,735,153</u>
n) Social security and taxes		
Sundry	3,316,974	1,884,228
	<u>3,316,974</u>	<u>1,884,228</u>

# SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

## NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

### NOTE 4 - RECEIVABLES AND PAYABLES: DUE DATES AND RATES

Captions	Up to 3 months	Between 3 and 6 months	Between 6 and 9 months	Between 9 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total at 12.31.98	Total at 12.31.97
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Over due										
Trade receivables - fixed rate	3,340,331	693,809	1,347,978	130,789	941,235	808,286	2,512,533	1,471,110	11,246,071	8,807,250
Total at 12.31.98	3,340,331	693,809	1,347,978	130,789	941,235	808,286	2,512,533	1,471,110	11,246,071	
Total at 12.31.97	3,133,043	261,393	438,243	166,397	1,216,440	2,370,380	734,100	487,254		8,807,250
Not yet due										
Deposits of funds - fixed rate	-	-	-	-	-	-	-	-	-	35,523
Deposits of funds - floating rate	-	-	-	-	-	-	-	4,057,026	4,057,026	2,662,500
Trade receivables - fixed rate	115,765,444	17,298,437	2,682,610	7,403,192	2,345,783	475,000	-	-	145,970,466	148,136,973
Trade receivables - without rate	2,656,907	-	-	-	-	-	-	-	2,656,907	2,168,673
Other receivables - fixed rate	8,286,821	32,503,998	1,014,375	580,648	1,686,182	595,516	265,200	1,272,516	46,205,256	46,519,343
Other receivables - floating rate	-	-	-	1,301,227	-	-	-	-	1,301,227	8,526,947
Other receivables - without rate	6,729,061	471,599	888,415	1,590,432	272,028	1,837,084	1,287,403	203,739	13,279,761	6,632,203
Total at 12.31.98	133,438,233	50,274,034	4,585,400	10,875,499	4,303,993	2,907,600	1,552,603	5,533,281	213,470,643	
Total at 12.31.97	175,900,680	20,190,149	1,990,121	6,622,540	4,267,909	1,850,810	806,711	3,053,242		214,682,162
Accounts payable - fixed rate	61,069,361	9,826,367	10,163,442	700,705	1,734,665	1,526,383	1,196,903	1,816,781	88,034,607	94,949,111
Accounts payable - floating rate	-	940,795	-	832,427	1,664,855	1,664,855	1,664,855	2,497,282	9,265,069	10,966,219
Accounts payable - without rate	34,084,822	1,563,775	917,849	-	-	-	-	-	36,566,446	71,193,773
Short and long-term debt - fixed rate	69,639,625	120,577,487	10,119,739	26,738,133	7,896,107	10,851,926	14,286,307	13,647,482	273,756,806	201,184,251
Short and long-term debt - floating rate	3,335,075	3,822,266	1,235,264	1,852,937	5,479,083	114,701,287	89,596,529	61,108,740	281,131,181	215,286,619
Social security and taxes - without rate	23,855,646	79,420	1,009	19,193,443	-	-	-	3,316,974	46,446,492	51,091,799
Other debt - without rate	910,393	-	-	650,000	-	-	-	-	1,560,393	1,167,157
Total at 12.31.98	192,894,922	136,810,110	22,437,303	49,967,645	16,774,710	128,744,451	106,744,594	82,387,259	736,760,994	
Total at 12.31.97	205,011,068	72,932,601	19,219,589	125,410,698	20,205,843	15,293,045	126,108,611	61,657,474		645,838,929

- The allowances for doubtful accounts and existing guarantees are sufficient to cover overdue trade receivables.
- The other receivables - fixed rate caption includes \$ 1,390,820 to be restated according to the firm gas transportation tariff.
- Interest rates are not lower than market rates.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 5 - CHANGES IN ACCOUNTING PROCEDURES**

The Company has followed the same criteria adopted in the previous year as regards valuations, depreciations and other items.

### **NOTE 6 - ENCUMBERED AND RESTRICTED ASSETS AND SURETIES GRANTED**

Pledges have been set up on Company assets in guarantee of debts incurred as a result of the purchase of pledged assets amounting to US\$ 3,750,357.

In accordance with the contracts signed as a result of the incorporation of Consorcio Siderurgia Amazonia Ltd., guarantees were granted as mentioned in Note 7.e).

At period-end, the Company had become the guarantor of obligations for US\$ 4,942,948.

### **NOTE 7 - INVESTMENTS IN OTHER COMPANIES**

a) Compañía Afianzadora de Empresas Siderúrgicas S.G.R.

The Company has a 39.0539% interest in the capital stock of Compañía Afianzadora de Empresas Siderúrgicas S.G.R. in its capacity as protecting partner. The main purpose of this company is to grant guarantees to participating partners to facilitate or enable their access to the bank credit line for the purchase of national steel raw material and to provide technical, economic and financial advice to them. To do so, the Company has made a net contribution of \$ 30,000,000 to the risk fund (see Exhibit D to the financial statements). The purpose of the risk fund is to realize guarantees to be granted to participating partners.

b) Ecocemento S.A.

On September 16, 1996 the Company and Compañía Argentina de Cemento Portland S.A. formed Ecocemento S.A., the purpose of which is the production and sale of blast furnace slag Portland cement, lime and related products. The shareholding is 15%, represented by 1,800 Class "B" shares of one vote and one peso par value each. Until the end of the period the Company had made contributions for \$ 2,683,860.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 7 - INVESTMENTS IN OTHER COMPANIES (Contd.)**

#### c) Comesi S.A.I.C.

On April 14, 1997 the Company acquired from its shareholders 100% of the capital stock of Comesi S.A.I.C., the purpose of which is the manufacture of galvanized iron sheets. The participation in equity is represented by 2,000,000 of ordinary shares of one vote and one peso par value each. The price paid for the shares amounted to US\$ 64,869,280. On July 4, 1997 the Company sold 5,000 shares, equivalent to 0.25% of its shareholding, at a price of \$ 32.50 per share. Income from this transaction amounted to \$ 162,500.

#### d) Comesi San Luis S.A.I.C.

At the time of the abovementioned purchase, all of the shares held by the minority shareholders of Comesi San Luis S.A.I.C., 98% of the capital stock of which is held by Comesi S.A.I.C., were acquired. The principal activity of Comesi San Luis S.A.I.C. is the production of cold and hot rolled, pre-painted, formed or skelped steel sheets. The price paid for the 22,000 shares of \$ 0.0001 par value each, representing 2% of the capital stock of Comesi San Luis S.A.I.C. totalled US\$ 130,720.

#### e) Prosid Investments Inc. - Consorcio Siderurgia Amazonia Ltd.

##### e.1) Prosid Investments Inc.

On June 30, 1998 Prosid Investments Inc. was incorporated in the British Virgin Islands with a capital of US\$ 50,000 subscribed by the Company, for the purpose of making financial investments of all kinds and any other activity permitted under the laws of the Virgin Islands.

On November 11, 1998 the procedures were completed for the transfer of the 105,000,000 shares of Consorcio Siderurgia Amazonia Ltd. (Amazonia) to Prosid Investments Inc. for a value of US\$ 122,626,393, equivalent to the equity value of the shares contributed, the capital of the latter company being increased to US\$ 120,000,000, the balance of US\$ 2,626,393 corresponding to the capital surplus account. As a result, the participation of the Company in Amazonia is indirect through the wholly-owned subsidiary Prosid Investments Inc.

The 105,000,000 shares in Amazonia are pledged in guarantee of the bank loan obtained by the latter to acquire its participation in Siderúrgica del Orinoco C.A. (Sidor).

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 7 - INVESTMENTS IN OTHER COMPANIES (Contd.)**

e) Prosid Investments Inc. - Consorcio Siderurgia Amazonia Ltd. (Contd.)

e.2) Amazonia

On November 13, 1997 Consorcio Siderurgia Amazonia Ltd. was set up, in which Siderar S.A.I.C. held a 17.5% share (subsequently transferred to Prosid Investments Inc. - see Note 7.e.1)). Amazonia was set up to participate in the bid for Venezuelan company Siderúrgica del Orinoco C.A., which was privatized by the government of Venezuela.

On December 18, 1997 Amazonia was declared the winner in the bid for Sidor, which manufactures flat and non-flat steel products.

The offer for 70% of its shares was US\$ 1,202,020,202, paid on January 27, 1998 with funds contributed by each consortium member in proportion to their participation (US\$ 702,020,202) and bank financing obtained by Amazonia (US\$ 500,000,000) guaranteed by the shares of Amazonia and those acquired from Sidor. For this reason Siderar S.A.I.C. made a capital contribution of US\$ 122,853,535. According to the terms of the share purchase agreement an audit of the financial statements of Sidor was performed at January 27, 1998, as a result of which the Corporación Venezolana de Guayana refunded to Amazonia the sum of US\$ 150 million, the maximum amount payable under the contract as an adjustment to the bid value.

Since the date of payment Siderar S.A.I.C. has become the guarantor of financial liabilities entered into by Sidor in proportion to its holding in Amazonia for approximately US\$ 11,000,000. In addition, Sidor is committed to the payment of other financial liabilities falling due between December 18, 1999 and June 18, 2007 which may be prepaid. If at December 18, 1999 Sidor were not to have repaid these liabilities, Siderar S.A.I.C. will become the guarantor of these liabilities in proportion to its participation for approximately US\$ 105,500,000 in Amazonia.

Furthermore, the regulations regarding the privatization of Sidor contained requirements regarding the consummation of the transaction for the sale of shares and obligations in the hands of Sidor and Amazonia. A guarantee has been granted in favor of the Fondo de Inversiones de Venezuela and the Corporación Venezolana de Guayana for a total aggregate amount of US\$ 150,000,000 regarding compliance with the conditions and obligations established in the Sidor share purchase agreement for a period of five years as from the date of purchase of its shares.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 7 - INVESTMENTS IN OTHER COMPANIES (Contd.)**

e) Prosid Investments Inc. - Consorcio Siderurgia Amazonia Ltd. (Contd.)

e.2) Amazonia (Contd.)

A surety has been issued through Banco Santander for a term of five years covering the obligations assumed by Amazonia with regard to:

- continuation of the operations of the flat and non-flat product lines of Sidor for 5 years as from the date of purchase at a production level equal to or exceeding 2,400,000 tons;
- the investment by Sidor of US\$ 300,000,000 over three years as from the date of purchase, in addition to the investments that Sidor will be required to make for environmental matters;
- the retaining by the shareholders of Amazonia for a term of 5 years as from the date of purchase, directly or through wholly-owned subsidiaries, of at least 51% of the shares of Sidor granting them control over that company. For the same period at least one of the steel-manufacturing partners will have to maintain ownership of at least 10% of the shares in Amazonia, directly or through wholly-owned subsidiaries of such partner.

The value of this surety is reduced to US\$ 125,000,000 and US\$ 75,000,000 for the fourth and fifth years as from the date of purchase, respectively, as long as the creditor were not to have required the execution of any part of the bond in the immediately preceding year.

In turn, Siderar S.A.I.C. is the guarantor of compliance with all the obligations of the share purchase agreement. The agreements between the shareholders of Amazonia contemplate the limitation of these responsibilities in proportion to their respective shareholdings in the Company. For this reason the maximum risk guaranteed by Siderar S.A.I.C. (on the basis of its indirect shareholding in Amazonia) which continues in force at the date of these financial statements has been reduced to US\$ 26,250,000.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

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### NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)

#### NOTE 7 - INVESTMENTS IN OTHER COMPANIES (Contd.)

f) Result from investments in subsidiaries and related companies:

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
Subsidiaries		
f.1.) Participation in the results of subsidiaries		
Comesi S.A.I.C.	3,788,655	5,522,129
Comesi San Luis S.A.I.C.	9,372	25,671
Prosid Investments Inc. (See Note to Exhibit C)	(26,897,857)	-
f.2.) Depreciation and inventory valuation adjustment		
Comesi S.A.I.C. fixed assets	(944,925)	(944,925)
Goodwill (Comesi S.A.I.C.)	(2,926,873)	(4,783,246)
Comesi S.A.I.C. inventory valuation adjustment	652,267	3,412,547
	<u>(26,319,361)</u>	<u>3,232,176</u>
Related companies		
Consortio Siderurgia Amazonia Ltd. (*)	1,571,420	-
Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	8,716	195
	<u>1,580,136</u>	<u>195</u>
	<u>(24,739,225)</u>	<u>3,232,371</u>

(\*) Results prior to the transfer of the shares to Prosid Investments Inc. (see Note 7.e.1)

#### NOTE 8 - RESTRICTIONS ON THE DISTRIBUTION OF PROFITS

In compliance with the Corporations Law, the By-laws and Resolution No. 290/97 of the National Securities Commission, 5% of the profit for the year should be transferred to the Legal Reserve after absorbing the negative results unappropriated at the beginning of the year, until such Reserve reaches 20% of the restated capital.

#### NOTE 9 - GLOBAL PROGRAM FOR NEGOTIABLE CORPORATE BONDS

On exercising the mandate and authorization granted by the Shareholders' Ordinary and Extraordinary Meeting held on September 29, 1994, the Board of Directors approved the Offering Circular of the global program for the issue of Negotiable Corporate Bonds for US\$ 250,000,000, which has been authorized by the National Securities Commission.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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### **NOTES TO THE FINANCIAL STATEMENTS at December 31, 1998 (Contd.)**

#### **NOTE 9 - GLOBAL PROGRAM FOR NEGOTIABLE CORPORATE BONDS (Cont.)**

On October 18, 1995 the first tranche of these Negotiable Corporate Bonds was issued for a total of US\$ 60,000,000 to mature in two years, at a fixed annual interest rate of 11%. On October 20, 1997 all the notes issued were redeemed.

On July 31, 1998 a new tranche was issued for a total of US\$ 110,000,000 with six-monthly maturities in January and July 2002 and 2003, at an interest rate of Libo plus a spread of 0.9% in the first year, increasing in subsequent years. Interest is payable quarterly.

Funds from this issue were used as follows:

	<u>US\$</u>
Settlement of bank and financial debt	109,130,000
Corporate Bonds issuing expenses	870,000
Total issued	<u><u>110,000,000</u></u>

#### **NOTE 10 - COMMITTED INVESTMENTS**

The Company has entered into agreements for future purchases of fixed assets for an amount of US\$ 31,458,897.

#### **NOTE 11 - RESOLUTION OF THE YEAR 2000 PROBLEM**

Certain application software, operating systems, hardware components and other technological devices powered by microprocessors currently used by the Company were designed to support only two-digit date fields representing the year. This results in the year 1999 (i.e. 99) being the maximum date value that these systems will be able to process accurately, and problems could arise when operations dated as from January 1, 2000 start to be processed. In order to resolve these problems, the Company is now instrumenting a combined strategy including replacement of certain systems by vendor software, on the one hand, and adaptation of the remaining systems as considered necessary, on the other. The Company acquired a SAP product from SAP AG to cover information needs related to supply, sales administration, dispatch and accounting processes. In September a detailed survey was carried out of the industrial systems involved, and work began on their connection and testing.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**NOTES TO THE FINANCIAL STATEMENTS** at December 31, 1998 (Contd.)

### **NOTE 12 - STATUS OF CAPITAL**

The status of capital at December 31, 1998 is \$ 347,468,771, which has been subscribed, paid-in and registered at the Public Registry of Commerce:

The last capital increase amounting to \$ 35,666,000 was approved by the Shareholders' Ordinary and Extraordinary Meeting held on December 29, 1994 and registered at the Public Registry of Commerce on November 7, 1995.

The shareholders' equity at the end of the period amounted to \$ 660,956,479 and the capital stock outstanding at that date to \$ 347,468,771. Accordingly, the proportional equity value for each share of 1 peso par value amounts to \$ 1.90 (one peso and ninety cents).

### **NOTE 13 - EVENTS SUBSEQUENT TO PERIOD END**

After December 31, 1998, no events, situations or circumstances which are not publicly known have occurred, which affect or could significantly affect the Company's equity and financial position.

The report on limited review is issued as a separate document.

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

Financial statements at December 31, 1998, compared to the same period of the previous year

**FIXED ASSETS**

Main account	12.31.98										12.31.97	
	Values at the beginning of the period	Increases for the period	Decreases for the period	Reclassification for the period	Values at the end of the period	Depreciations				Residual value	Residual value	
						Accumulated at the beginning of the period	Deletions for the period	Depreciation for the period (1)	Accumulated at the end of the period			
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Land	22,245,062	24,112	-	-	22,269,174	-	-	-	-	22,269,174	22,145,617	
Industrial buildings and facilities	596,852,511	-	-	1,543,686	598,396,197	182,713,899	-	23,681,179	206,395,078	392,001,119	391,809,825	
Machinery and equipment	318,459,450	110,000	-	630,222	319,199,672	215,746,507	-	8,730,019	224,476,526	94,723,146	101,256,623	
Vehicles and means of transport	13,892,905	563,928	667,377	-	13,789,456	8,544,524	406,718	545,220	8,683,026	5,106,430	5,087,503	
Furniture, general machinery and office supplies	14,912,112	-	-	-	14,912,112	9,900,143	-	751,273	10,651,416	4,260,696	5,774,431	
Steel spares and supplies	73,686,041	4,190,942	-	-	77,876,983	-	-	-	-	77,876,983	71,387,186	
Fixed assets in transit	9,690,717	-	6,550,103	-	3,140,614	-	-	-	-	3,140,614	4,567,186	
Work in progress	42,758,859	40,380,313	-	(2,173,908)	80,965,264	-	-	-	-	80,965,264	50,351,757	
Advances to suppliers	3,832,602	-	1,329,828	-	2,502,774	-	-	-	-	2,502,774	7,479,292	
Total at December 31, 1998	1,096,330,259	45,269,295	8,547,308	-	1,133,052,246	416,905,073	406,718	33,707,691	450,206,046	682,846,200		
Total at December 31, 1997	1,008,954,718	35,682,566	924,195	-	1,043,713,089	352,398,477	197,723	31,652,915	383,853,669		659,859,420	

(1) See Exhibit H

Note:

The Company has considered as original value of technically appraised assets at June 30, 1990 the technical value restated as indicated in Note 2.2. As a result, the depreciation rates of the different assets are not included as these vary according to the different remaining useful lives assigned in that technical appraisal.

The report on limited review is issued as a separate document.

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**INTANGIBLE ASSETS**

Main account	12.31.98								12.31.97	
	Balance at the beginning of the period	Increases for the period	Decreases for the period	Balance at the end of the period	Amortization				Residual value	Residual value
					Accumulated at the beginning of the period	Deletion for the period	Amortization for the period	Accumulated at the end of the period		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Reorganization plant and project analysis related costs	44,691,428	-	-	44,691,428	42,914,948	-	1,348,702 (1)	44,263,650	427,778	3,174,286
Goodwill (Sidercrom S.A.)	1,021,881	-	-	1,021,881	1,021,881	-	-	1,021,881	-	102,188
Goodwill (Comesi S.A.I.C.)	21,843,233	-	-	21,843,233	11,958,114	-	2,926,873 (2)	14,884,987	6,958,246	14,668,364
Total at December 31, 1998	67,556,542	-	-	67,556,542	55,894,943	-	4,275,575	60,170,518	7,386,024	
Total at December 31, 1997	67,611,287	-	54,745	67,556,542	43,334,457	5,994	6,283,241	49,611,704		17,944,838

(1) See Exhibit H

(2) See Note 7.f)

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**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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**INVESTMENTS**

Securities issued in series and investments in other companies

Denomination and type of shares	Issuer	Class	Par value	Amount	Percentage participation in capital stock	Restated cost value	Proportional equity value	Amount recorded at 12.31.98	Amount recorded at 12.31.97
						\$	\$	\$	\$
<b>NON-CURRENT INVESTMENTS</b>									
Corporations Sect. 33 - Law No. 19550 and amendments									
<b>Subsidiaries</b>									
Shares	Comesi S.A.I.C.	Ordinary, one vote each	1.0000	1,995,000	99.7500	64,707,107	41,540,073	41,540,073	33,344,698
Shares	Comesi San Luis S.A.I.C.	Ordinary, one vote each	0.0001	22,000	2.0000	130,720	206,025	206,025	167,536
Shares	Prosid Investments Inc.	Ordinary, one vote each	1.0000	120,000,000	100.0000	122,626,393	95,728,536	95,728,536	-
<b>Related companies</b>									
Shares	Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	Ordinary, one vote each	1.0000	355,000	39.0539	355,000	363,802	363,802	278,823
Shares	Ecoemento S.A.	Ordinary, one vote each	1.0000	1,800	15.0000	2,005,379	2,005,258	2,005,258	170,843
Shares	Consorcio Siderurgia Amazonia Ltd.					-	-	-	175
<b>Others</b>									
Comesi S.A.I.C. fixed assets valuation adjustment						-	26,617,762	26,617,762	28,507,612
Comesi S.A.I.C. inventory valuation adjustment						-	(9,037,309)	(9,037,309)	(6,016,271)
Irrevocable contributions to Ecoemento S.A.						678,481	678,481	678,481	-
						190,503,080	158,102,628	158,102,628	56,453,416

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**INVESTMENTS**

Securities issued in series and investments in other companies

Denomination and type of shares	Issuer	Principal activity	Information about the issuer					Date of approval by Board of Directors
			Latest financial statements					
			Date	Period	Capital stock \$	Results \$	Shareholders' equity \$	
NON-CURRENT INVESTMENTS (Contd.) Corporations Sect. 33 - Law No. 19550 and amendments (Contd.)								
<b>Subsidiaries</b>								
Shares	Comesi S.A.I.C.	Manufacture of galvanized iron plates	12.31.98	6 months	2,000,000	3,798,151	41,644,184	02.03.99
Shares	Comesi San Luis S.A.I.C.	Production of cold or hot rolled, pre-painted, formed and skelped steel sheets	12.31.98	12 months	110	1,924,456	10,301,239	02.02.99
Shares	Prosid Investments Inc. (1)	Financial investments of any type and any other activity permitted by laws applicable in British Virgin Islands	12.31.98	6 months	120,000,000	(26,897,857)	95,728,536	02.04.99
<b>Related companies</b>								
Shares	Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	Granting of guarantees to participating partners to facilitate or permit access to credits for the purchase of national steel raw material through the signing of contracts regulated by Law No. 24467	9.30.98	3 months	909,000	23,935	42,931,539	11.26.98
Shares	Ecocemento S.A.	Production and sale of Portland cement with blast furnace slag, lime and by-products	9.30.98	3 months	12,000	-	13,368,386	12.09.98

(1) The criterion of the Company has been to calculate the value of its investment in Amazonia on the basis of the financial statements of the latter with a lag of three months. Nevertheless, for a better reflection of the economic reality of these financial statements, the equity and results of the Company have been adjusted for the estimated effect of the results of Amazonia for the period October 1 to December 31, 1998, for the following reasons. Sidor, the company controlled by Amazonia, is carrying out a conversion process so that it can become internationally competitive. As a result of the extraordinary costs of this process, the adverse conditions derived from the fall in domestic sales and the crisis on international markets that is of public knowledge, Sidor has incurred in significant losses that it expects to recover once the process of conversion has been completed and market conditions have improved.

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**OTHER INVESTMENTS**

Main account	12.31.98				12.31.97	
	Balance at the beginning of the period	Increases for the period	Deletions for the period	Depreciations for the period (1)	Balance at the end of the period	Balance at the end of the period
	\$	\$	\$	\$	\$	\$
<b>OTHER CURRENT INVESTMENTS</b>						
Sight deposits	68	-	68	-	-	35,523
Total	68	-	68	-	-	35,523
<b>NON-CURRENT INVESTMENTS</b>						
Financial investments in insurance companies	2,703,798	1,353,228	-	-	4,057,026	2,662,500
Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R. (2)	50,000,000	-	20,000,000	-	30,000,000	30,000,000
Real property	1,225,279	-	525,380	23,191	676,708	1,419,174
Total	53,929,077	1,353,228	20,525,380	23,191	34,733,734	34,081,674

(1) See Exhibit H

(2) In January 1999 an additional contribution of \$ 12,000,000 was made.

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**Exhibit E****SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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Financial statements at December 31, 1998, compared to the same period of the previous year

**ALLOWANCES**

<b>Items</b>	<b>Balance at the beginning of the period</b>	<b>Increases and recoveries (1)</b>	<b>Uses</b>	<b>Balance at the end of the period</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Deducted from current assets</b>				
- For doubtful accounts	7,096,416	615,994	(85,059)	7,797,469
Total at 12.31.98	7,096,416	615,994	(85,059)	7,797,469
Total at 12.31.97	7,074,021	773,000	-	7,847,021
<b>Deducted from non-current assets</b>				
- For doubtful accounts	324,000	4,000	-	328,000
Total at 12.31.98	324,000	4,000	-	328,000
Total at 12.31.97	592,000	(173,000)	-	419,000
<b>Included in current liabilities</b>				
- For contingencies	1,553,699	715,122	271,641	1,997,180
Total at 12.31.98	1,553,699	715,122	271,641	1,997,180
Total at 12.31.97	1,247,104	2,575,057	250,343	3,571,818
<b>Included in non-current liabilities</b>				
- For contingencies	8,108,000	551,000	-	8,659,000
Total at 12.31.98	8,108,000	551,000	-	8,659,000
Total at 12.31.97	2,493,000	652,000	-	3,145,000

(1) See Exhibit H

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**Exhibit F****SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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Financial statements at December 31, 1998, compared to the same period of the previous year

**COST OF SALES**

	12.31.98		12.31.97	
	\$	\$	\$	\$
1) Inventory at the beginning of the period				
Finished products	98,021,298		78,991,297	
Production in process	86,029,429		59,597,273	
Raw material	29,391,398		30,407,965	
Materials	68,622,396		66,775,026	
Advances to suppliers	1,241,259		2,926,480	
Allowance for obsolescence and inventory differences	-	283,305,780	(224,044)	238,473,997
2) Purchases of the period		231,772,945		314,476,385
3) Manufacturing expenses (Exhibit H)		168,006,634		172,865,920
Subtotal		683,085,359		725,816,302
4) Holding results (Exhibit H)		(3,700,000)		-
Subtotal		679,385,359		725,816,302
5) Inventory at the end of the period				
Finished products	99,262,774		102,341,330	
Products in process	89,842,109		79,619,829	
Raw material	41,762,174		33,448,361	
Materials	64,320,796		72,381,338	
Advances to suppliers	2,870,842		2,710,142	
Allowance for obsolescence and inventory differences	-	298,058,695	(224,044)	290,276,956
Cost of sales		381,326,664		435,539,346

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**Exhibit G**

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

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Financial statements at December 31, 1998, compared to the same period of the previous year

**FOREIGN CURRENCY ASSETS AND LIABILITIES**

Items	12.31.98				12.31.97		
	Foreign currency (1)	Amount in foreign currency	Exchange rate used	Amount in local currency	Foreign currency (1)	Amount in foreign currency	Amount in local currency
			\$	\$			\$
ASSETS							
CURRENT ASSETS							
Cash and banks							
Cash	US\$	35,045	1.000000	35,045	US\$	41,783	41,783
Checks to be deposited	US\$	622	1.000000	622	US\$	13,050	13,050
Banks	US\$	39,463	1.000000	39,463	US\$	68,971	68,971
Other investments							
Sight deposits		-	-	-	US\$	35,456	35,456
Trade receivables							
Accounts receivable	US\$	88,783,726	1.000000	88,783,726	US\$	81,735,627	81,735,627
Related companies Sect. 33 - Law No. 19550 and amendments	US\$	3,527,608	1.000000	3,527,608	US\$	9,200,994	9,200,994
Export reimbursements	US\$	2,656,907	1.000000	2,656,907	US\$	2,168,673	2,168,673
Notes receivable	US\$	64,553,481	1.000000	64,553,481	US\$	68,481,839	68,481,839
Discounted notes		-	-	-	US\$	(2,757,185)	(2,757,185)
Allowance for doubtful accounts	US\$	(7,797,469)	1.000000	(7,797,469)	US\$	(7,847,021)	(7,847,021)
Unearned interest	US\$	(2,469,061)	1.000000	(2,469,061)	US\$	(2,593,924)	(2,593,924)
Other receivables							
Related companies Sect. 33 - Law No. 19550 and amendments	US\$	33,109,050	1.000000	33,109,050	US\$	39,355,924	39,355,924
Advances to suppliers	US\$	964,998	1.000000	964,998	US\$	1,074,092	1,074,092
Shareholders by subscription of shares		-	-	-	US\$	5,972,613	5,972,613
Expenses paid in advance	US\$	3,143,314	1.000000	3,143,314	US\$	1,552,979	1,552,979
Sundry receivables	US\$	7,448,413	1.000000	7,448,413	US\$	2,492,957	2,492,957
Total current assets - Carried forward				193,996,097			198,996,828

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**FOREIGN CURRENCY ASSETS AND LIABILITIES**

Items	12.31.98				12.31.97		
	Foreign currency (1)	Amount in foreign currency	Exchange rate used	Amount in local currency	Foreign currency (1)	Amount in foreign currency	Amount in local currency
			\$	\$			\$
ASSETS							
Brought forward				193,996,097			198,996,828
NON-CURRENT ASSETS							
Trade receivables							
Notes receivables	US\$	2,820,783	1.000000	2,820,783	US\$	2,876,872	2,876,872
Allowance for doubtful accounts	US\$	(328,000)	1.000000	(328,000)	US\$	(419,000)	(419,000)
Other receivables							
Advances to suppliers	US\$	463,607	1.000000	463,607	US\$	1,508,675	1,508,675
Expenses paid in advance	US\$	3,563,978	1.000000	3,563,978	US\$	301,386	301,386
Sundry receivables	US\$	185,896	1.000000	185,896	US\$	544,662	544,662
Other investments							
Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	US\$	30,000,000	1.000000	30,000,000	US\$	30,000,000	30,000,000
Investments in insurance companies	US\$	4,057,026	1.000000	4,057,026	US\$	2,662,500	2,662,500
Fixed assets							
Advances to suppliers	US\$	819,150	1.000000	819,150	US\$	1,507,965	1,507,965
	DM	46,253	0.594797	27,511	DM	258,628	144,208
	Lit	595,973,422	0.000602	358,776	Lit	105,449,735	59,790
	FF	442,520	0.177637	78,608	FF	4,729,472	786,776
	S	278,367	0.084701	23,578	S	8,477,261	670,670
					£	201,984	333,799
Total non-current assets				42,070,913			40,978,303
Total assets				236,067,010			239,975,131

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**FOREIGN CURRENCY ASSETS AND LIABILITIES**

Items	12.31.98				12.31.97		
	Foreign currency (1)	Amount in foreign currency	Exchange rate used	Amount in local currency	Foreign currency (1)	Amount in foreign currency	Amount in local currency
			\$	\$			\$
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Accounts payable							
Ordinary suppliers	US\$	6,560,454	1.000000	6,560,454	US\$	4,388,727	4,388,727
Related companies Sect. 33 - Law No. 19550 and amendments	US\$	4,326,486	1.000000	4,326,486	US\$	702,278	702,278
Notes payable	US\$	54,884,479	1.000000	54,884,479	US\$	102,882,972	102,882,972
	Lit	239,435,430	0.000604	144,619	Lit	354,000,000	201,426
	DM	3,117,436	0.596648	1,860,012	DM	2,562,635	1,433,433
	£	11,122	1.662700	18,492	£	56,794	94,068
	S	7,292,008	0.085186	621,177	S	2,119,684	168,712
	FB	5,299,152	0.029022	153,792	FB	4,605,992	124,979
	FF	20,575	0.178810	3,679	FF	17,593,674	2,947,046
	Pt	18,218,746	0.007031	128,096	Pt	128,325	849
	Skr	2,964,468	0.124058	367,766			
					¥	984,945	7,589
Unearned interest	US\$	(2,562,219)	1.000000	(2,562,219)	US\$	(4,299,168)	(4,299,168)
Advances from customers	US\$	3,932,707	1.000000	3,932,707	US\$	2,228,708	2,228,708
Short-term debt							
Financial	US\$	5,966	1.000000	5,966	US\$	50,193,787	50,193,787
Import/export financing	US\$	66,925,341	1.000000	66,925,341	US\$	43,099,302	43,099,302
	DM	63,409	0.596648	37,833	DM	93,443	52,268
	¥	1,693,393,619	0.008714	14,756,232	¥	6,453,991	49,728
Debt with exchange insurance in US\$	DM	681,310	0.713267	485,956	DM	681,310	485,956
	¥	20,000,218,636	0.008210	164,201,795	¥	15,841,308,405	135,142,202
Unearned interest	US\$	(21,033,555)	1.000000	(21,033,555)	US\$	(16,096,240)	(16,096,240)
					DM	(24,022)	(13,437)
	¥	(111,969,933)	0.008714	(975,706)	¥	(5,176,509)	(39,885)
Unaccrued interest with exchange insurance in US\$	¥	(131,021,535)	0.008219	(1,076,866)	¥	(169,232,660)	(1,473,678)
Total current liabilities - Carried forward				293,766,536			322,281,622

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**FOREIGN CURRENCY ASSETS AND LIABILITIES**

Items	12.31.98				12.31.97		
	Foreign currency (1)	Amount in foreign currency	Exchange rate used	Amount in local currency	Foreign currency (1)	Amount in foreign currency	Amount in local currency
			\$	\$			\$
LIABILITIES							
Brought forward				293,766,536			322,281,622
NON-CURRENT LIABILITIES							
Accounts payable							
Notes payable	US\$	14,800,090	1.000000	14,800,090	US\$	20,369,913	20,369,913
Unearned interest	US\$	(1,033,511)	1.000000	(1,033,511)	US\$	(1,724,321)	(1,724,321)
Long-term debt							
Import/export financing	US\$	186,139,342	1.000000	186,139,342	US\$	169,403,457	169,403,457
	DM	253,639	0.596648	151,333	DM	388,942	217,558
	¥	158,451,572	0.008714	1,380,747			
Debt with exchange insurance in US\$	DM	340,655	0.713267	242,978	DM	1,021,965	728,934
	¥	8,028,904,055	0.007473	60,000,000	¥	6,799,976,408	61,682,586
Negotiable Corporate Bonds	US\$	110,000,000	1.000000	110,000,000			
Unearned interest	US\$	(38,966,192)	1.000000	(38,966,192)	US\$	(29,257,168)	(29,257,168)
	¥	(158,451,572)	0.008714	(1,380,747)	DM	(71,893)	(40,214)
Total non-current liabilities				331,334,040			221,380,745
Total liabilities				625,100,576			543,662,367

(1) US\$: United States Dollars; S: Austrian Schillings; Lit: Italian Lire; £: Pounds Sterling; DM: Deutsche Marks; FF: French Francs; ¥: Yens; FB: Belgian Francs; Pt: Pesetas; Skr: Swedish Kronor

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**INFORMATION REQUIRED BY SECTION 64, SUB-SECTION I b) OF CORPORATIONS LAW No. 19550 AND AMENDMENTS THERETO** for the six-month period ended December 31, 1998, compared to the same period of the previous year

Items	Manufacturing expenses	Selling expenses	Administrative expenses	Financial and holding results		Other income and expenses	Total for the period ended	
				Generated by assets	Generated by liabilities		12.31.98	12.31.97
	\$	\$	\$	\$	\$	\$	\$	\$
Surveillance Committee's and Directors' fees	-	-	616,000	-	-	-	616,000	616,000
Salaries, wages and social security	62,826,127	5,043,232	18,836,243	-	-	-	86,705,602	91,289,747
Office expenses	934,211	376,508	1,509,519	-	-	-	2,820,238	4,060,961
Maintenance expenses and security services for buildings, installation and equipment	26,679,537	38,314	1,411,204	-	-	-	28,129,055	29,790,518
Fees for technical assistance and external advice	119,997	138,132	695,032	-	-	-	953,161	1,836,944
Taxes, tariffs and contributions	-	-	3,297,941	-	-	-	3,297,941	3,026,044
Third party services	28,397,182	215,992	4,862,715	-	-	-	33,475,889	34,743,369
Operating IT services	-	-	3,356,711	-	-	-	3,356,711	3,005,561
Canteen and refreshment	777,028	-	888,468	-	-	-	1,665,496	1,752,251
Rents	276,966	-	75,445	-	-	-	352,411	258,229
Personnel transportation	1,339,376	-	27,334	-	-	-	1,366,710	1,508,041
Publicity and advertising	43,046	614,652	134,684	-	-	-	792,382	1,159,895
Sundry expenses and commissions	-	411,132	-	-	-	-	411,132	554,409
Provision for contingencies	-	-	-	-	-	1,266,122	1,266,122	3,227,057
Provision for doubtful accounts	-	619,994	-	-	-	-	619,994	600,000
Freight and transportation	2,592,630	3,799,799	4,592	-	-	-	6,397,021	6,630,360
Major work not capitalizable	11,953,353	-	-	-	-	-	11,953,353	10,552,279
Depreciation of other assets	-	-	-	-	-	5,344	5,344	-
Other non-current investments depreciation	-	-	-	-	-	23,191	23,191	29,002
Intangible assets amortization	428,863	-	-	-	-	919,839	1,348,702	1,499,995
Fixed assets depreciation	33,707,691	-	-	-	-	-	33,707,691	31,652,915
Recovery from sale of scrap	(10,654,537)	-	-	-	-	-	(10,654,537)	(9,099,410)
External warehouse expenses	830,785	-	-	-	-	-	830,785	731,126
Other extraordinary income and expenses	-	-	-	-	-	-	-	517,876
Other income and expenses	7,754,379	1,395,549	2,811,127	-	-	530,855	12,491,910	17,475,746
Interests and other financing expenses	-	-	-	(9,524,259)	25,388,417	-	15,864,158	13,766,339
Exchange differences	-	-	-	(10,776)	2,446,849	-	2,436,073	(14,579)
Holding results on other non-monetary assets	-	-	-	3,700,000	-	-	3,700,000	-
Total at December 31, 1998	168,006,634	12,653,304	38,527,015	(5,835,035)	27,835,266	2,745,351	243,932,535	
Total at December 31, 1997	172,865,920	14,468,095	42,845,554	(8,053,074)	21,804,834	7,239,346		251,170,675

The report on limited review is issued as a separate document.

**SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

Financial statements at December 31, 1998, compared to the same period of the previous year

**OPERATIONS WITH SUBSIDIARIES AND RELATED COMPANIES**

	Sales and sundry services	Purchases and services received	Remuneration protector partner Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	Interests	Total at 12.31.98	Total at 12.31.97
	\$	\$	\$	\$	\$	\$
Subsidiaries						
Comesi S.A.I.C.	37,547,048	(15,377,260)	-	1,057,884	23,227,672	31,386,424
Comesi San Luis S.A.I.C.	-	(111,109)	-	-	(111,109)	-
Subtotal	37,547,048	(15,488,369)	-	1,057,884	23,116,563	31,386,424
Related companies						
Siderca S.A.I.C.	9,065,136	(1,205,281)	-	-	7,859,855	8,851,223
Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	420,000	-	1,182,709	-	1,602,709	1,258,383
Ecocemento S.A.	24,444	-	-	-	24,444	-
Subtotal	9,509,580	(1,205,281)	1,182,709	-	9,487,008	10,109,606
Total at December 31, 1998	47,056,628	(16,693,650)	1,182,709	1,057,884	32,603,571	
Total at December 31, 1997	50,491,512	(11,035,323)	883,383	1,156,458		41,496,030

Note: Amounts in brackets represent losses or disbursements.

The report on limited review is issued as a separate document.

# **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Legal address: Leandro N. Alem 1067, Buenos Aires

## **COMPLEMENTARY ACCOUNTING INFORMATION**

### **CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED DECEMBER 31, 1998**

#### **CONTENTS**

Consolidated financial statements at December 31, 1998
Consolidated balance sheet
Consolidated statement of income
Consolidated statement of sources and uses of funds
Notes to the consolidated financial statements

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**CONSOLIDATED BALANCE SHEET** at December 31, 1998, compared to the same period of the previous year

	<u>12.31.98</u>	<u>12.31.97</u>		<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$		\$	\$
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and banks (Note 4.a)	9,098,948	15,616,142	Accounts payable (Note 4.n)	125,010,664	165,586,308
Other investments (Note 4.b)	5,611,485	3,809,306	Short-term debt (Note 4.o)	244,322,236	222,591,111
Trade receivables (Note 4.c)	162,995,827	170,668,555	Social security and taxes (Note 4.p)	46,403,112	51,406,568
Other receivables (Note 4.d)	24,848,822	26,891,984	Other liabilities (Note 4.q)	1,657,335	1,432,489
Inventories (Note 4.e)	317,721,279	305,658,487	Provisions	3,919,873	5,724,564
Other assets (Note 4.f)	1,749,183	1,682,705			
Total current assets	<u>522,025,544</u>	<u>524,327,179</u>	Total current liabilities	<u>421,313,220</u>	<u>446,741,040</u>
<b>NON-CURRENT ASSETS</b>			<b>NON-CURRENT LIABILITIES</b>		
Trade receivables (Note 4.g)	2,520,006	2,457,872	Accounts payable (Note 4.r)	15,143,134	18,645,592
Other receivables (Note 4.h)	7,516,995	4,476,820	Long-term debt (Note 4.s)	321,760,537	202,735,153
Investments (Note 4.i)	98,786,077	449,841	Social security and taxes (Note 4.t)	3,316,974	1,884,228
Other investments (Note 4.j)	34,733,734	34,081,674	Provisions	16,961,904	10,412,497
Intangible assets (Note 4.k)	7,386,024	17,944,838			
Fixed assets (Note 4.l)	759,949,252	728,705,163	Total non-current liabilities	<u>357,182,549</u>	<u>233,677,470</u>
Other assets (Note 4.m)	6,638,726	1,602,190	Total liabilities	<u>778,495,769</u>	<u>680,418,510</u>
Total non-current assets	<u>917,530,814</u>	<u>789,718,398</u>	Minority interest in subsidiaries	<u>104,110</u>	<u>83,571</u>
			<b>SHAREHOLDERS' EQUITY</b>	<u>660,956,479</u>	<u>633,543,496</u>
Total assets	<u><u>1,439,556,358</u></u>	<u><u>1,314,045,577</u></u>	Total liabilities and Shareholders' equity	<u><u>1,439,556,358</u></u>	<u><u>1,314,045,577</u></u>

The accompanying notes 1 to 6 are an integral part of these consolidated financial statements.

The report on limited review is issued as a separate document.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**CONSOLIDATED STATEMENT OF INCOME** for the six-month period ended December 31, 1998, compared to the same period of the previous year

	<b>12.31.98</b>	<b>12.31.97</b>
	<b>\$</b>	<b>\$</b>
Net income from sales	537,775,868	644,292,060
Cost of sales	(394,344,491)	(464,256,254)
Gross profit	143,431,377	180,035,806
Selling expenses	(13,457,684)	(15,760,435)
Administrative expenses	(40,323,689)	(44,592,023)
Result from investments in related companies	(25,317,721)	195
Financial and holding results		
Generated by assets	5,754,340	8,444,040
Generated by liabilities	(28,499,133)	(22,924,476)
Other ordinary income and expenses	(3,494,310)	(8,038,907)
Minority interest in subsidiaries	(9,495)	(13,840)
Ordinary income before taxes	38,083,685	97,150,360
Income tax provision charge	(23,058,663)	(33,132,148)
Net income for the period	15,025,022	64,018,212

The accompanying notes 1 to 6 are an integral part of these consolidated financial statements.

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## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS** for the six-month period ended December 31, 1998, compared to the same period of the previous year

	<b>12.31.98</b>	<b>12.31.97</b>
	\$	\$
<b>CHANGES IN FUNDS</b>		
Funds at the beginning of the period (1)	11,449,806	13,613,408
Increase in funds	3,260,627	5,812,040
Funds at the end of the period (1)	14,710,433	19,425,448
<b>CAUSES OF CHANGES IN FUNDS</b>		
Ordinary income	15,025,022	64,018,212
Add:		
Items not representing funds disbursements		
Depreciation of fixed assets	36,288,658	34,215,719
Amortization of other non-current investments	23,191	29,002
Amortization of other current assets	29,944	19,018
Amortization of intangible assets	4,275,575	6,283,241
Allowance for doubtful accounts	348,818	656,650
Income tax provision charge	23,058,663	33,132,148
Board of Directors' and Surveillance Committee's fees provision	616,000	616,000
Allowance for contingencies	1,894,221	3,427,057
Minority interest in subsidiaries	9,495	13,840
Results of investments in related companies	25,317,721	-
Less:		
Items not representing inflows of funds		
Results of investments in related companies	-	(195)
Funds generated by operations	106,887,308	142,410,692
Other causes of sources of funds		
Net decrease (increase) in trade receivables	8,578,475	(6,477,845)
Net decrease (increase) in other non-current investments	19,172,152	(1,174,142)
Net decrease in intangible assets	-	48,751
Net increase in short and long-term debt	20,443,484	13,955,014
Increase in minority interest in subsidiaries	-	69,731
Total sources of funds - Carried forward	155,081,419	148,832,201

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS** for the six-month period ended December 31, 1998, compared to the same period of the previous year

	<b>12.31.98</b>	<b>12.31.97</b>
	<b>\$</b>	<b>\$</b>
Brought forward	155,081,419	148,832,201
<b>OTHER CAUSES OF USES OF FUNDS</b>		
Net (increase) decrease in other receivables	(1,827,974)	1,666,254
Net increase in inventories	(14,136,884)	(52,612,094)
Net increase in other assets	(2,832,970)	(3,303,913)
Net increase in investments	(1,472,986)	(169,339)
Net increase in fixed assets	(48,594,665)	(33,081,944)
Net (decrease) increase in accounts payable	(18,219,317)	18,395,347
Net decrease in social security and taxes	(30,117,612)	(42,753,026)
Net decrease in other liabilities	(860,058)	(1,351,241)
Net decrease in provisions	(448,793)	(1,812,703)
Distribution of profits as per Shareholders' Meeting on 9.30.97	-	(27,997,502)
Distribution of profits as per Shareholders' Meeting on 9.30.98	(33,309,533)	-
Total uses of funds	(151,820,792)	(143,020,161)
Increase in funds	3,260,627	5,812,040

(1) Cash and banks plus other current investments.

The accompanying notes 1 to 6 are an integral part of these consolidated financial statements.

The report on limited review is issued as a separate document.

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998

### **NOTE 1 - BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS - ACCOUNTING STANDARDS**

The consolidated financial statements have been prepared in accordance with the valuation basis and criteria explained in Notes 1 and 2 to the financial statements of the parent company and must be read jointly with the complementary information to the financial statements.

### **NOTE 2 - CONSOLIDATION BASIS**

The consolidated companies and the respective percentage of voting stock at December 31, 1998 were as follows:

<b>Company</b>	<b>Participation</b>
Comesi S.A.I.C.	99.750%
Comesi San Luis S.A.I.C.	99.755%
Prosid Investments Inc.	100.000%

The consolidated financial statements have been prepared on the basis of the financial statements of the subsidiaries at December 31, 1998.

The necessary adjustments have been made to unify the valuation and disclosure criteria of the consolidated companies. Significant balances between consolidated companies, transactions and their results and intercompany balances have been eliminated.

### **NOTE 3 - COMPLEMENTARY INFORMATION NOT DIFFERING SIGNIFICANTLY FROM THAT PRESENTED BY THE PARENT COMPANY**

Notes 1, 2, 4, 5, 7 to 12 and Exhibits A to I to the financial statements of the parent company are in this situation.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
<b>CURRENT ASSETS</b>		
a) Cash and banks		
Cash	604,987	2,907,115
Checks to be deposited	2,210,879	1,142,061
Banks	6,283,082	11,566,966
	<u>9,098,948</u>	<u>15,616,142</u>
b) Other investments		
Sight deposits	5,611,485	3,809,306
	<u>5,611,485</u>	<u>3,809,306</u>
c) Trade receivables		
Accounts receivable	101,017,407	101,051,892
Related companies Sect. 33 - Law No. 19550 and amendments	510,849	6,836,831
Export reimbursements	2,819,092	2,265,493
Notes receivable	69,382,034	76,144,400
Discounted notes	-	(2,757,185)
Allowance for doubtful accounts	(8,207,091)	(10,048,207)
Unearned interest	(2,526,464)	(2,824,669)
	<u>162,995,827</u>	<u>170,668,555</u>
d) Other receivables		
Related companies Sect. 33 - Law No. 19550 and amendments	1,582,583	2,844,674
Advances and loans to personnel	4,539,514	4,359,624
Other receivables from personnel from sale of property	69,131	-
Solidarity contribution	82,579	46,844
Tax credits	2,310,412	5,913,971
Advances to suppliers	3,326,938	2,008,004
Shareholders by subscription of shares	-	5,972,613
Expenses paid in advance	3,154,717	1,611,222
Sundry receivables	9,782,948	4,135,032
	<u>24,848,822</u>	<u>26,891,984</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
CURRENT ASSETS (Contd.)		
e) Inventories		
Finished products	110,351,989	110,161,172
Products in process	91,838,855	86,303,347
Raw material	46,739,790	33,448,361
Materials	65,773,877	73,140,741
Advances to suppliers	3,016,768	2,828,910
Provision for obsolescence and inventory differences	-	(224,044)
	<u>317,721,279</u>	<u>305,658,487</u>
f) Other assets (residual value)		
Property	1,749,183	1,682,705
	<u>1,749,183</u>	<u>1,682,705</u>
The amortization of the period amounted to \$ 29,944.		
NON-CURRENT ASSETS		
g) Trade receivables		
Notes receivable	3,140,178	6,006,036
Allowance for doubtful accounts	(620,172)	(3,548,164)
	<u>2,520,006</u>	<u>2,457,872</u>
h) Other receivables		
Advances and loans to personnel	1,905,757	2,017,757
Other receivables from personnel from sale of property	1,313,494	-
Solidarity contribution	7,105	79,840
Advances to suppliers	463,607	1,508,675
Expenses paid in advance	3,563,978	301,386
Sundry receivables	263,054	569,162
	<u>7,516,995</u>	<u>4,476,820</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	<u>\$</u>	<u>\$</u>
NON-CURRENT ASSETS (Contd.)		
i) Investments		
Shares in Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	363,802	278,823
Shares in Ecocemento S.A.	2,683,739	170,843
Shares in Consorcio Siderurgia Amazonia Ltd.	95,728,536	175
Shares in Fondo de Garantías Buenos Aires S.A.P.E.M.	10,000	-
	<u>98,786,077</u>	<u>449,841</u>
j) Other investments (residual value)		
Investments in insurance companies	4,057,026	2,662,500
Guarantee fund Compañía Afianzadora de Empresas Siderúrgicas S.G.R.	30,000,000	30,000,000
Real estate	676,708	1,419,174
	<u>34,733,734</u>	<u>34,081,674</u>
The amortization of the period amounted to \$ 23,191.		
k) Intangible assets (residual value)		
Reorganization plant and project analysis related costs	427,778	3,174,286
Goodwill (Sidercrom S.A.)	-	102,188
Goodwill (Comesi S.A.I.C.)	6,958,246	14,668,364
	<u>7,386,024</u>	<u>17,944,838</u>

The amortization of the period amounted to \$ 4,275,575.

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
NON-CURRENT ASSETS (Contd.)		
l) Fixed assets (residual value)		
Land	23,045,327	22,455,835
Industrial buildings and facilities	447,840,415	450,838,405
Machinery and equipment	101,675,979	109,010,568
Vehicles and means of transport	5,188,877	5,120,558
Furniture, general machinery and office supplies	4,400,303	5,909,129
Steel spares and supplies	77,912,718	71,387,186
Fixed assets in transit	3,140,614	4,567,186
Work in progress	94,208,896	51,937,004
Advances to suppliers	2,536,123	7,479,292
	<u>759,949,252</u>	<u>728,705,163</u>
The depreciation of the period amounted to \$ 36,288,658.		
m) Other assets		
Real property	6,638,726	1,602,190
	<u>6,638,726</u>	<u>1,602,190</u>
CURRENT LIABILITIES		
n) Accounts payable		
Ordinary suppliers	61,798,117	55,188,398
Related companies Sect. 33 - Law No. 19550 and amendments	1,995,103	339,877
Notes payable	59,427,179	111,370,833
Unearned interest	(2,562,219)	(4,299,168)
Advances from customers	4,352,484	2,986,368
	<u>125,010,664</u>	<u>165,586,308</u>

## SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS (Contd.)

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
<b>CURRENT LIABILITIES (Contd.)</b>		
o) Short-term debt		
Financial	20,984,696	61,023,036
Import/export financing	246,725,513	179,199,686
Unearned interest	(23,387,973)	(17,631,611)
	<u>244,322,236</u>	<u>222,591,111</u>
p) Social security and taxes		
Provision for income tax	24,322,673	33,140,000
Income tax withholding and solidarity contribution and freely disposable VAT balance	(11,209,539)	(11,843,995)
Income tax advances	(4,273,514)	(2,410,299)
VAT provision	1,021,880	-
Provision for turnover tax	260,003	331,566
Wages and social security	30,041,301	29,649,996
Sundry	6,240,308	2,539,300
	<u>46,403,112</u>	<u>51,406,568</u>
q) Other liabilities		
Related companies Sect. 33 - Law No. 19550 and amendments	-	1,350
Sundry	1,657,335	1,431,139
	<u>1,657,335</u>	<u>1,432,489</u>
<b>NON-CURRENT LIABILITIES</b>		
r) Accounts payable		
Notes payable	16,176,645	20,369,913
Unearned interest	(1,033,511)	(1,724,321)
	<u>15,143,134</u>	<u>18,645,592</u>

## **SIDERAR SOCIEDAD ANONIMA INDUSTRIAL Y COMERCIAL**

Registration number with the Superintendency of Corporations: 14510

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** at December 31, 1998  
(Contd.)

### **NOTE 4 - COMPOSITION OF CONSOLIDATED BALANCE SHEET ITEMS (Contd.)**

	<u>12.31.98</u>	<u>12.31.97</u>
	\$	\$
NON-CURRENT LIABILITIES (Contd.)		
s) Long-term debt		
Import/export financing	252,585,009	232,032,535
Negotiable Corporate Bonds	110,000,000	-
Unearned interest	(40,824,472)	(29,297,382)
	<u>321,760,537</u>	<u>202,735,153</u>
t) Social security and taxes		
Sundry	3,316,974	1,884,228
	<u>3,316,974</u>	<u>1,884,228</u>

### **NOTE 5 - ENCUMBERED ASSETS AND SURETIES GRANTED**

Certain assets belonging to Siderar S.A.I.C. have been pledged in guarantee of debts incurred as a result of the purchase of pledged assets for US\$ 3,750,357.

In accordance with the contracts signed as a result of the incorporation of Consorcio Siderurgia Amazonia Ltd., guarantees were granted as indicated in Note 7.e).

At the end of the year Siderar S.A.I.C. became surety of obligations for US\$ 4,942,948.

### **NOTE 6 - EVENTS SUBSEQUENT TO PERIOD END**

After December 31, 1998, no events, situations or circumstances which are not publicly known have occurred which affect or could significantly affect the Company's equity and financial position.

The report on limited review is issued as a separate document.