

## Siderar S.A.I.C. Announces Fourth Quarter and Year 2006 Results

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**Buenos Aires, February 27, 2007** -- Siderar S.A.I.C. (Buenos Aires Stock Exchange: ERAR) today announced its results for the fourth quarter and year ended December 31, 2006.

### Highlights for the fourth quarter 2006:

- Net sales of ARP1,343.3 million.
- Operating income of ARP293.5 million.
- EBITDA of ARP330.5 million (25% of net sales) and equity income of ARP86.2 million.
- Net income of ARP253.2 million and net earnings per share of ARP0.73 (ARP5.83 per American Depositary Share). Each American Depositary Share (ADS) represents eight shares of Siderar's Class A common stock.
- The board of directors proposes, for the approval of the shareholders' meeting to be held on April 11, 2007, a cash dividend distribution of ARP155.3 million equivalent to ARP0.4470 per share (ARP3.5760 per ADS).

Siderar's net income in the fourth quarter 2006 was slightly better than that in the same period last year, helped by higher equity results and higher financial and holding results, which were partially offset by lower operating income.

While sales volume and revenue per ton was higher in the fourth quarter 2006, EBITDA during the period was lower than it was in the fourth quarter 2005. This was due mainly to higher prices of raw materials and one-time cost increases related to the relining of the Company's blast furnace #2, which started at the end of October 2006 and finalized at the end of January 2007.

### Market Background and Outlook

Siderar's fourth quarter revenue was supported by strong demand in the Argentine market as the country's economy continued to perform well. Demand conditions for steel products remain robust. The local economy is expected to continue its growth path during 2007, though at lower rates.

In the international markets, steel price direction will be determined by global supply and demand balance. The trend toward steel industry consolidation should result in a more rational utilization and expansion of steel production capacity, which should thereby reduce steel price volatility.



China has become a net exporter of steel in 2006, a factor that needs to be monitored due to its effects on the global steel market balance.

## Analysis of Fourth Quarter 2006 Results versus Fourth Quarter 2005 Results

**Net income** for the fourth quarter 2006 was ARP253.2 million compared to net income of ARP235.2 million for the fourth quarter 2005. The increase was mainly due to higher equity results and higher financial and holding results, which were partially offset by lower operating income. Earnings per share and per ADS in the fourth quarter 2006 were ARP0.73 and ARP5.83, respectively, based on a total of 347,468,771 shares outstanding as of December 31, 2006.

**Net sales** for the fourth quarter 2006 increased 26% to ARP1,343.3 million compared to the fourth quarter 2005 due to higher shipments and revenue per ton. Shipments were up 9% year-over-year to 600 thousand tons.

Thousand tons	Total shipments			Domestic shipments			Export shipments		
	4Q 2006	4Q 2005	Y/Y Chg	4Q 2006	4Q 2005	Y/Y Chg	4Q 2006	4Q 2005	Y/Y Chg
Hot rolled	243.0	218.1	11%	217.4	193.0	13%	25.6	25.1	2%
Cold rolled	156.0	144.6	8%	131.9	114.0	16%	24.1	30.6	-21%
Coated & other	200.6	189.5	6%	155.4	149.5	4%	45.2	40.0	13%
Slabs	0.0	0.0							
Total	599.6	552.2	9%	504.7	456.5	11%	94.9	95.7	-1%

Domestic Argentine market shipments were up 11% to 504.7 thousand tons in the fourth quarter 2006 versus the prior-year period. This was the result of the continued strong demand for Siderar's products in the Argentine construction and industrial sectors.

Export shipments were almost unchanged in the fourth quarter 2006 versus the fourth quarter 2005. Export destinations were as follows:

% finished products	4Q 2006
Latin America	67%
North America	17%
Europe	11%
Asia	5%
Total	100%

**Cost of sales** in the fourth quarter 2006 was ARP964.0 million, or 72% of net sales, compared to ARP696.4 million, or 65% of net sales, in the fourth quarter 2005. Cost of sales increased due to higher shipments, higher prices for raw materials such as iron ore and alloys and higher costs for domestic supplies, energy, services and labor.

**Selling, general and administrative expenses** in the fourth quarter 2006 totaled ARP85.9 million, or 6% of net sales, compared to ARP69.7 million, or 7% of net sales, in the same quarter the previous year. The increase was mainly due to higher taxes on financial transactions, as a result of higher sales to the domestic market, higher taxes and contributions and higher labor and services costs.

**Operating profit** in the fourth quarter 2006 was ARP293.5 million, or 22% of net sales, compared to ARP303.7 million, or 28% of net sales, in the fourth quarter 2005. **EBITDA** in the fourth quarter 2006 was ARP330.5 million, or 25% of net sales, compared to ARP344.7 million, or 32% of net sales, in the prior-year quarter.

**Financial and holding results** posted a gain of ARP13.1 million in the fourth quarter 2006. This included a loss of ARP21.4 million in net financial expense, a gain of ARP15.8 million in net foreign exchange rate differences and a gain of ARP18.7 million in net inventory holding results. This compares to a loss of ARP6.9 million in financial and holding results in the fourth quarter 2005. The year-over-year difference is primarily due to lower gains of ARP19.5 million on inventory holding results, a ARP48.9 million better result on net foreign exchange rate differences related to the Argentine Peso appreciation in the fourth quarter 2006 and its depreciation in the fourth quarter 2005, and higher losses of ARP9.4 million on net financial expense related to Siderar's increased indebtedness.

**Other income and expenses** totaled a net loss of ARP14.2 million in the fourth quarter 2006, compared to a net loss of ARP12.9 million in the same quarter the previous year. The increase in net loss was mainly due to higher layoff charges.

**Income tax expense** for the fourth quarter 2006 was ARP125.5 million, or 33% of income before income tax plus equity income.

**Investments in related companies** for the fourth quarter 2006 resulted in a gain of ARP86.2 million, compared to a gain of ARP77.3million in the same period last year. The year-over-year increase was mainly due to higher results in Hylsamex, partially offset by lower results in Sidor.

Investments in Sidor (through Amazonia and Ylopa) totaled a gain of ARP26.7 million, compared to a gain of ARP54.4 million in the same quarter in 2005. The decrease in the result was mainly due to one-time cost increases related to work slowdowns and stoppages at Sidor in the fourth quarter 2006. The investment in Hylsamex posted a gain of ARP59.5 million in the period, compared to a gain of ARP23.0 million in 2005. The increase in the result was mainly due to higher efficiencies in Hylsamex.

## Analysis of 2006 Results versus 2005 Results

**Net income** for 2006 was ARP1,342.1 million compared to net income of ARP1,190.9 million for 2005. The increase was mainly due to higher equity income reflecting Siderar's investment in Hylsamex, partially offset by lower operating results and lower financial gains, mainly due to lower holding gains. Earnings per share and per ADS during 2006 were ARP3.86 and ARP30.90, respectively, based on a total of 347,468,771 shares outstanding as of December 31, 2006.

**Net sales** in 2006 increased 15% to ARP5,076.8 million compared to 2005, due to higher shipments and revenue per ton. Shipments were up 5% year-over-year to 2,394.2 thousand tons.

Thousand tons	Total shipments			Domestic shipments			Export shipments		
	2006	2005	Y/Y Chg	2006	2005	Y/Y Chg	2006	2005	Y/Y Chg
Hot rolled	989.5	838.1	18%	890.4	699.1	27%	99.1	139.0	-29%
Cold rolled	604.1	627.9	-4%	485.1	406.1	19%	119.0	221.8	-46%
Coated & other	770.0	753.6	2%	612.3	504.4	21%	157.7	249.2	-37%
Slabs	30.6	55.6	-45%				30.6	55.6	-45%
Total	2,394.2	2,275.3	5%	1,987.8	1,609.7	23%	406.4	665.6	-39%



Domestic Argentine market shipments in 2006 were up 23% to 1,987.8 thousand tons, supported by strong demand in the Argentine construction and industrial sectors.

Export shipments decreased 39% to 406.4 thousand tons in 2006 compared to 2005. Higher domestic Argentine demand reduced the availability of finished products for Siderar's export markets. Export destinations were as follows:

% finished products	2006
Latin America	74%
North America	16%
Europe	7%
Asia	<u>3%</u>
Total	100%

**Cost of sales** in 2006 was ARP3,412.9 million, or 67% of net sales, compared to ARP2,678.8 million, or 61% of net sales, in 2005. The cost of sales increased due to higher shipments, higher prices for raw materials such as iron ore, metallurgical coal and alloys and higher costs for domestic supplies, energy, services, freight and labor.

**Selling, general and administrative expenses** in 2006 totaled ARP292.5 million, or 6% of net sales, compared to ARP277.8 million, or 6% of net sales, in 2005. The increase was mainly due to higher taxes on financial transactions, as a result of higher sales to the domestic market, and higher taxes and contributions.

**Operating profit** in 2006 was ARP1,371.5 million, or 27% of net sales, compared to ARP1,448.9 million, or 33% of net sales, in 2005. **EBITDA** in 2006 was ARP1,518.2 million, or 30% of net sales, compared to ARP1,674.0 million, or 38% of net sales, in 2005.

**Financial and holding results** posted a gain of ARP78.5 million in 2006. This included a loss of ARP71.7 million in net financial expense, a gain of ARP7.6 million in net foreign exchange rate differences as a result of the Argentine Peso depreciation and a gain of ARP142.7 million in net inventory holding results due to the increase in the price of raw materials. This gain in 2006 compares to a gain of ARP154.8 million in 2005. The year-over-year difference is primarily due to lower gains of ARP85.2 million on inventory holding results, lower losses of ARP59.4 million on net foreign exchange rate differences related to a lower depreciation of the Argentine Peso in 2006 and higher losses of ARP50.5 million on net financial expense related to Siderar's increased indebtedness.

**Other income and expenses** totaled a net loss of ARP54.2 million in 2006, compared to a net loss of ARP58.3 million in the previous year. The decrease in net loss year-over-year was due to lower contingency provisions and lower depreciation of intangible assets, partially offset by higher layoff charges.

**Income tax expense** for 2006 was ARP577.8 million, or 30% of income before income tax plus equity income.

**Investments in related companies** in 2006 resulted in a gain of ARP524.2 million, compared to a gain of ARP254.6 million in the previous year. The year-over-year increase was primarily due to Siderar's investment in Hylsamex, partially offset by lower results from the investment in Sidor.



Results related to Siderar's investments in Sidor (through Amazonia and Ylopa) totaled a gain of ARP199.6 million in 2006, compared to a gain of ARP231.6 million in the previous year. Results related to Siderar's investment in Hylsamex totaled a gain of ARP324.0 million in the period, compared to a gain of ARP23.0 million in 2005. Siderar began to account for its investment in Hylsamex in the fourth quarter of 2005.

## **Cash Flow and Liquidity**

Siderar's net cash provided by operating activities for 2006 was ARP1,590.5 million. Working capital increased ARP1,013.7 million during 2006 compared to the previous year mainly as a result of lower tax liabilities due to income tax payments and higher inventories in preparation of Siderar's blast furnace #2 relining. Net cash used in investing activities was ARP671.6 million in 2006. These activities included investments in fixed and intangible assets totaling ARP728.0 million and the purchase of steel tube production facilities from Acindar for ARP146.6 million, net of dividends collected totaling ARP214.2 million.

During 2006, net cash used in financing activities was ARP27.0 million, net borrowings increased ARP96.4 million and a dividend was paid in the amount of ARP122.8 million. Siderar's cash as of December 31, 2006, totaled ARP357.4 million.

The board of directors proposes, for the approval of the shareholders' meeting to be held on April 11, 2007, a cash dividend distribution of ARP155.3 million equivalent to ARP0.4470 per share (ARP3.5760 per ADS).

## **Investments**

Investments in fixed and intangible assets totaled ARP728.0 million for 2006. Investments included the relining of Siderar's blast furnace #2, which resumed operations at the end of January 2007, the expansion and revamping of the Company's sinter plant, the expansion of Siderar's coke production facilities and streamlining investments in the Company's hot rolling mill.

## Consolidated Statement of Income

ARP million	2006	2005	4Q 2006	4Q 2005
Net sales	5,076.8	4,405.5	1,343.3	1,069.7
Cost of sales	<u>(3,412.9)</u>	<u>(2,678.8)</u>	<u>(964.0)</u>	<u>(696.4)</u>
Gross profit	1,663.9	1,726.7	379.4	373.4
Selling, general and administrative expenses	<u>(292.5)</u>	<u>(277.8)</u>	<u>(85.9)</u>	<u>(69.7)</u>
Operating income	1,371.5	1,448.9	293.5	303.7
Financial income (expense) and holding gain (loss)	78.5	154.8	13.1	(6.9)
Other income (expense), net	<u>(54.2)</u>	<u>(58.3)</u>	<u>(14.2)</u>	<u>(12.9)</u>
Income before income tax expense	1,395.8	1,545.4	292.4	283.8
Tax provision charge	<u>(577.8)</u>	<u>(609.2)</u>	<u>(125.5)</u>	<u>(126.0)</u>
Ordinary income	817.9	936.2	166.9	157.9
Equity Income	<u>524.2</u>	<u>254.6</u>	<u>86.2</u>	<u>77.3</u>
<b>Net income</b>	<b><u>1,342.1</u></b>	<b><u>1,190.9</u></b>	<b><u>253.2</u></b>	<b><u>235.2</u></b>
FX bank selling rate (Argentine pesos / US dollar)	3.06	2.91	3.06	2.91
Earnings per share (Argentine pesos)	3.8626	3.4273	0.7287	0.6768
Earnings per ADS (Argentine pesos)	30.9009	27.4188	5.8293	5.4141



## Consolidated Balance Sheet

ARP million	December 31, 2006	December 31, 2005
Cash, banks & investments	357.4	479.1
Current trade receivables	258.6	212.8
Inventories	1,415.3	1,001.3
Other receivables & assets	<u>101.7</u>	<u>70.5</u>
Total current assets	2,133.0	1,763.7
Long-term investments	2,280.0	1,961.7
Intangible assets	497.5	463.4
Net fixed assets	2,029.7	1,377.9
Other receivables & assets	<u>14.3</u>	<u>15.0</u>
Total non-current assets	4,821.5	3,817.9
<b>Total assets</b>	<b>6,954.5</b>	<b>5,581.5</b>
Current accounts payable	459.7	312.2
Short-term debt	808.3	254.4
Social security and taxes	194.1	334.0
Provision for contingencies & other	<u>13.7</u>	<u>30.0</u>
Total current liabilities	1,475.7	930.6
Long term debt	465.4	922.9
Social security and taxes	200.3	150.0
Provision for contingencies & other	<u>57.8</u>	<u>50.0</u>
Total non-current liabilities	723.5	1,122.8
<b>Total liabilities</b>	<b>2,199.2</b>	<b>2,053.4</b>
Minority interest	0.1	0.1
Shareholders' equity	4,755.2	3,528.1
<b>Total liabilities and shareholder's equity</b>	<b>6,954.5</b>	<b>5,581.5</b>

## Consolidated Statement of Cash Flow

ARP million	2006	2005	4Q 2006	4Q 2005
Net income	1,342.1	1,190.9	253.2	235.2
Depreciation of fixed assets	185.5	261.6	44.6	46.2
Depreciation of intangible assets	15.4	21.7	6.6	7.7
Income tax provision	577.8	609.2	125.4	126.0
Equity Income	(524.2)	(254.6)	(86.2)	(77.3)
Holding results on inventories	(17.8)	(36.8)	(13.0)	(41.4)
Other non cash items	11.7	23.3	0.2	5.1
<b>Operating activities</b>	<b>1,590.5</b>	<b>1,815.3</b>	<b>330.8</b>	<b>301.5</b>
Trade receivables	(43.4)	217.3	(35.7)	48.9
Other receivables	(48.6)	(9.0)	1.6	(3.6)
Long-term advances for gas purchase	18.1	16.1	5.2	5.9
Inventories	(400.2)	(291.0)	28.3	(12.4)
Trade payables	147.5	70.9	(35.1)	67.5
Social security, taxes, other liabilities & provisions for contingencies	(687.1)	(880.3)	(151.2)	(175.4)
<b>Net cash provided by operations</b>	<b>576.8</b>	<b>939.4</b>	<b>143.9</b>	<b>232.4</b>
Net (incr.) decr. in other current investment	15.7	(15.7)	15.7	(15.7)
Net (incr.) decr. in non-current investment	(9.0)	(1,375.3)	0.0	(102.2)
Collection of dividends	214.2	162.3	37.3	97.1
Net (incr.) decr. in other non-current investment	(2.1)	2.3	(2.3)	4.3
Acquisition of business	(146.6)	0.0	0.0	0.0
Net (incr.) decr. in fixed & intangible assets	(728.0)	(813.6)	(147.6)	(56.2)
Net decrease in other assets	0.0	0.1	0.0	0.0
<b>Net cash used in investment activities</b>	<b>(655.8)</b>	<b>(2,039.8)</b>	<b>(96.9)</b>	<b>(72.7)</b>
Net incr. (decr.) in short and long-term debt	96.4	1,157.4	0.5	57.3
Distribution of profits	(123.3)	(300.4)	0.0	0.0
<b>Net cash provided (used) in financing activities</b>	<b>(27.0)</b>	<b>857.0</b>	<b>0.5</b>	<b>57.3</b>
<b>Increase (decrease) in cash</b>	<b>(105.9)</b>	<b>(243.4)</b>	<b>47.5</b>	<b>217.0</b>

## Other Information

	2006	2005	4Q 2006	4Q 2005
<b><u>Financial information</u></b>				
EBITDA (ARP million)	1,518.2	1,674.0	330.5	344.7
Depreciation and amortization (ARP million)	200.9	283.3	51.2	53.9
Operating income per ton (ARP / ton)	573	637	490	550
<b><u>Operating Data</u></b>				
Domestic Sales (000 tons)	1,987.8	1,609.7	504.6	456.5
Export sales (000 tons)	406.4	665.6	95.0	95.8
Total sales (000 tons)	2,394.2	2,275.3	599.6	552.3
<b><u>Financial Ratios</u></b>				
Return on equity	28.2%	33.8%	5.3%	6.7%
Operating margin	27.0%	32.9%	21.8%	28.4%
Total liabilities / total assets	31.6%	36.8%	31.6%	36.8%
Current assets / current liabilities	144.5%	189.5%	144.5%	189.5%
EBITDA / net sales	29.9%	38.0%	24.6%	32.2%