

Metals and Mining
Venezuela
Full Rating Report

Siderurgica del Turbio, S.A. —
Sidetur

Ratings

Security Class	Current Rating
Foreign Currency IDR	B+
Local Currency IDR	B+
Unsecured Notes	B+/RR4
National Scale	A+(ven)
National Short Term Rating	F1(ven)

IDR – Issuer default rating.

Rating Outlook

Negative

Financial Data

Siderurgica del Turbio, S.A.
(USD Mil.)

	LTM 3/31/10	9/30/09
Net Revenue	525	647
Operating EBITDA	68	119
Free Cash Flow	(9)	(100)
Capital Expenditures	(7)	(7)
Total Debt	110	106
Total Debt/EBITDA (x)	1.6	0.9
Cash and Marketable Securities	54	58

Analysts

Jay Djemal
+1 312 368-3134
jay.djemal@fitchratings.com

Julio Ugueto
+58 212 286-3232
julio.ugueto@fitchratings.com

Related Research

Applicable Criteria

- *Corporate Rating Methodology, Nov. 24, 2009*
- *National Ratings — Methodology Update, Dec. 18, 2006*
- *Country-Specific Treatment of Recovery Ratings — Revised, Aug. 21, 2006*

Other Research

- *Brazilian Steel Volume Rebound — Strong Domestic Demand for CSN, Gerdau and Usiminas, June 1, 2010*

Rating Rationale

- Siderurgica del Turbio, S.A.'s (Sidetur) ratings and Negative Outlook reflect the challenging political and macroeconomic conditions in Venezuela. As a result of electricity rationing and a new exchange regime, cash flows are expected to come under pressure during 2010. Supporting the company's ratings are its conservative debt management policy, comfortable liquidity, and leading market position as a domestic producer of rebar with 44.2% market share in 2009. For fiscal 2009, Sidetur had a total-debt-to-EBITDA ratio of 0.9 times (x), an FFO adjusted leverage ratio of 1.3x, and an FFO fixed charge coverage of 4.4x. As of March 31, 2010 these ratios were 1.6x, 1.2x, and 7.9x, respectively, which are all comfortable for its rating category.
- Sidetur's revenues and EBITDA are expected to fall as a result of lower sales volumes to around USD500 million and USD85 million in fiscal 2010 from USD647 million and USD119 million in fiscal 2009, respectively. The primary driver of lower volumes is the compulsory energy rationing in Venezuela. In spite of this decline, the company's leverage should remain low, with a total-debt-to-EBITDA ratio of around 1.2x and under 1.0x on a net basis for the year. Sidetur does not have integrated power generation capability other than a diesel generator for emergency use that can only generate enough power to maintain the heat in the furnace and keep core computer systems and crane magnets operating.
- Sidetur's liquidity profile was comfortable for the year end with cash-to-short-term-debt coverage of 3.0x and a manageable debt maturity schedule of USD5 million per year until 2016. As of March 31, 2010, the company held USD54.4 million of cash and marketable securities, a significant reduction on the USD149 million held in fiscal 2008. USD7.6 million of the latest cash position was restricted cash, which guarantees a quote of capital and interest of the bonds issued by Sidetur. The company's second-quarter 2010 short-term-debt-to-total-debt ratio remains low at 0.2x, and it also has access to additional undrawn credit lines for the next year with banks totaling USD50 million.
- Sidetur is faced with pressure on profit margins from higher raw material prices following the Bolivar devaluation in January 2010. Under Venezuela's dual official exchange rate system, the USD exchange rate for priority imports such as food, medicine, and other essential goods was set at VEF2.60/USD1.00, while the rate for other foreign exchange transactions was set at VEF4.30/USD1.00. The VEF4.30 rate affects Sidetur's raw material input of hot briquetted iron and the VEF2.60 rate affects Sidetur's electrodes and spare parts.
- Sidetur has a challenge to maintain its profit margins. Historical EBITDA margins have averaged around 24% for the past five years but have been showing year-on-year decline. The main reasons for this are that the rebar price is regulated along with rising operating costs each year due to high inflation averaging 31%, which Sidetur reflects in semi-annual salary increases.

What Could Trigger a Downgrade?

- Sovereign-related risks associated with rebar price controls and the dual foreign currency exchange regime, as well as the risks of operating in a small market driven by construction spending will remain key drivers for Siderur's ratings. There is also an ever-present nationalization event risk.
- Siderur has an aggressive dividend policy that has resulted in negative free cash flow since 2008, as calculated by Fitch. If this aggressive dividend policy continues, it could damage the company's current liquidity cushion and lead to a ratings downgrade.

Recent Events

The Venezuelan government passed a resolution in December 2009 requiring a 20% reduction of electricity consumption for all companies, with the threat of penalties such as a temporary cut of all power for companies that do not comply. Siderur is in compliance with this resolution. Correspondingly, the company expects its production output to reflect the decreased power usage for 2010. The national energy reduction resolution is due to the drought in Venezuela affecting power generation at its main hydroelectric plants. The energy restrictions are ongoing until further notice.

In March 2010, one of the two labor unions at Siderur's Casima billets plant called a labor strike. The case of contention centered on alleged deficiencies in industrial health and safety conditions at the plant, which the company disputes on the basis of recent government inspections. The government inspections in January 2010 concluded that working conditions at the plant were safe, although it identified areas for improvement that the company has implemented. The union leaders have since called on the government to nationalize the plant. As of June 30, 2010, the strike was unresolved. The impact on Siderur's financial operations is not expected to be material, with billets accounting for approximately 2% of total sales in 2009.

Siderur's financial performance is highly correlated to the GDP growth of Venezuela, with a positive, higher-than-one correlation historically. First-quarter 2010 construction growth was -3.5%, with a similar contraction in the second quarter of 2010. This expectation has played out in the company's first-quarter 2010 revenues of USD110.9 million, which show a 22% reduction on first-quarter 2009 revenues of USD141.7 million. However, the majority of this revenue decrease was due to the stoppage at Siderur's Caracas rolling mill for maintenance and upgrades for five weeks.

Siderur's cost of sales increased to USD488 million in fiscal 2009 from USD441 million in fiscal 2008, an increase of USD47 million, or 10.7%. As a percentage of net sales, the company's cost of sales increased to 75.4% in fiscal 2009 compared with 72.9% in fiscal 2008. The 10.7% increase in the cost of sales was mainly attributable to:

- A 15% increase in the price of scrap to USD184 per ton in fiscal 2009 from USD160 per metric ton in fiscal 2008, a 30% decrease in the average price of HBI to USD288.6 per ton in fiscal 2009 from USD414.8 per ton in fiscal 2008, and a 12% increase in the average price of wire rod to USD845 per ton in fiscal 2009 from USD754 per ton in fiscal 2008.
- A general increase in other cost of sales, including labor, supplies, direct materials, spare parts, and services, largely due to inflation being higher than devaluation rates in Venezuela, which caused the unit cost of sales (excluding metallics and depreciation) to increase to USD401.1 per ton in fiscal 2009 from USD299.6 per ton in fiscal 2008. The unit cost of sales increased from USD695 per ton in fiscal 2008 to USD764 per ton in fiscal 2009, a change of USD69 per ton.

Liquidity and Debt Structure

Sidetur's liquidity profile was comfortable for the year end with cash-to-short-term-debt coverage of 3.0x and a manageable debt maturity schedule of USD5 million per year until 2016 (excluding the promissory note repayment of USD10 million due in April 2010). As of March 31, 2010, the company held USD55 million of cash and marketable securities, of which USD8 million was restricted cash. The restricted cash guarantees a quote of capital and interest of the bonds issued by Sidetur. The company also has access to additional undrawn credit lines for the next year with banks totaling USD50 million.

Fiscal 2009's long-term debt was USD86.25 million compared to USD91.25 million in fiscal 2008, representing a decrease of USD5 million. The long-term debt decreased during fiscal 2009 purely as a result of the annual debt amortization of USD5 million, with no prepayments being made. Fiscal 2009's short-term debt was USD19.4 million, which consisted of short-term bank loans and the current portion of long-term obligations under capital leases. The company's total debt position increased by around USD4 million in the second quarter of 2010 due to Sidetur obtaining promissory notes in bolivars to finance working capital. The promissory notes have a 17% annual interest rate and mature between April 2010 and June 2010. Sidetur uses the cash obtained from promissory notes to finance its working capital needs.

Sidetur has an international issuance of USD100 million unsecured notes due in 2016 (a balance of USD86.3 million as of fiscal 2009), which generates annual debt service requirements of approximately USD14 million and a principal bullet payment of USD60 million due in 2016.

Second-quarter 2010 cash and marketable securities were USD55 million compared to USD58 million for fiscal 2009. Sidetur's cash management policy is to invest available cash in deposits and short-term instruments issued by Venezuelan and, to the extent permitted by law, U.S. banks. The company has financial covenants with various creditors, and all covenants were in compliance as of March 31, 2010.

Recovery Analysis

Despite Sidetur's bespoke recovery analysis indicating a recovery rating of 'RR1' for Sidetur's USD100 million senior unsecured notes, the rating approach used in this credit analysis follows Fitch's "Country Specific Treatment of Recovery Ratings" criteria published Aug. 21, 2006. This criteria report categorizes Venezuela as a Group D jurisdiction, which has a soft cap for recovery ratings at 'RR4'.

Recovery Analysis — Siderúrgica del Turbio, S.A.

(USD Mil.)

Going Concern Enterprise Value

March 31, 2010 LTM EBITDA	68
Discount (%)	50
Post-Restructuring EBITDA Estimation	32
Multiple (x)	4.7
Going Concern Enterprise Value	149.7

Post-Restructuring EBITDA Estimation Guidelines

Interest Expense	7
Rent Expense	—
Estimated Maintenance Capital Expenditures	4
Principal Amortization (Net, 12 months)	21
Total	32

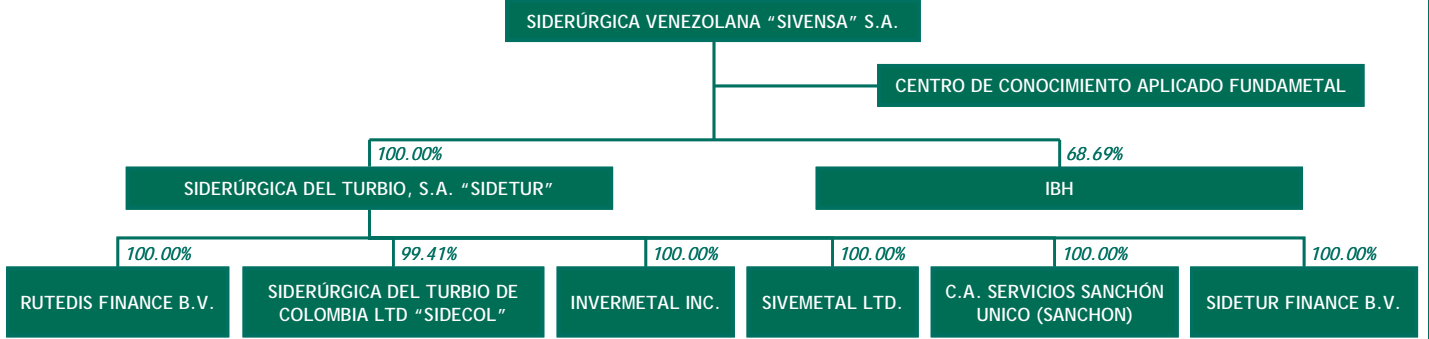
Enterprise Value for Claims Distribution	Advance Rate (%)	Available to Creditors
Greater of Going Concern Enterprise or Liquidation Value	—	149.7
Less Administrative Claims	10	15
Concession Allocation	5	7.5
Adjusted Enterprise Value for Claims	—	127.3

Distribution of Value

Unsecured Priority	Lien	Value Recovered	Recovery (%)	Recovery Rating	Notching	Rating
Senior Unsecured	110.1	110.1	100	RR1	+3	BB+

The amount of concession payments is highly dependent on circumstances, but Fitch typically allows up to 5% of the recovery value available to senior unsecured creditors to be allocated to concession payments. Concession payments allocated to subordinated debt should never result in higher recoveries than those of senior unsecured debt. Source: Fitch.

Organizational Structure – Siderurgica del Turbio, S.A. – Sidetur



Source: Fitch and Siderurgica del Turbio, S.A.'s financial statements.

Debt and Covenant Synopsis — Sidetur S.A.

(Foreign Currency Notes)

Overview

Issuer	Sidetur Finance B.V.
Guarantors	Sidetur S.A.
Document Date	April 26, 2006
Maturity Date	April 20, 2016
Description of Debt	Senior Unsecured Notes
Amount	USD100 million

Financial Covenants

Consolidated Net Debt/EBITDA (Maximum)	Less than 3.0x
Consolidated Interest Coverage/EBITDA (Maximum)	Less than 2.5x

Acquisitions/Divestitures

Change of Control Provision	Not later than 30 days following a change of control, Sidetur Finance will make an offer to purchase all outstanding notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.
Sale of Assets Restriction	Sidetur will not, and will not permit any subsidiary to, make any asset sale unless the following conditions are met: (1) the asset sale is for fair market value, as determined in good faith; (2) at least 75% of the consideration consists of cash or cash equivalents received at closing; (3) an amount equal to 100% of the net available cash from an asset sale is applied by Sidetur for reinvestment within 270 days; (4) an offer is made to purchase the notes at 100% principal amount plus accrued and unpaid interest.
Consolidation, Merger, Conveyance, Sale or Lease	Sidetur is not restricted from consolidating with or merging into another corporation or conveying, transferring or leasing Sidetur's properties and assets substantially as an entirety to any person, provided that: (1) the corporation formed by such consolidation is organized and exists under the laws of Venezuela and the United States; (2) no default or event of default shall have occurred or be continuing following such a transaction; (3) such a transaction complies with the indenture; and (4) such a transaction would not have a change in U.S. Federal Tax impact on the noteholders.

Debt Restriction

Additional Debt Restriction	Neither Sidetur nor its subsidiaries may incur any debt unless the net financial result is within financial covenant ratio limits or the debt is intercompany debt that is subordinate in right of payment to other debt of Sidetur unless such debt is also subordinate in right of payment to the notes or the guarantee on substantially identical terms.
Limitation on Liens	Sidetur will not, and will not permit any subsidiary to, directly or indirectly, issue, assume or guarantee to exist any lien of any nature whatsoever on any of its properties or assets, without effectively providing that the notes are secured equally and ratably with the obligations so secured for so long as such obligations are so secured.
Limitation on Sale and Leaseback Transactions	Sidetur will not, and will not permit any subsidiary to, enter into any sale and leaseback transaction with respect to any property unless Sidetur or such subsidiary would be entitled to: (1) incur debt in an amount equal to the attributable debt with respect to such sale and leaseback transaction; and (2) create a lien on such property or asset securing such attributable debt without equally and ratably securing the notes.
Limitation on Restricted Payments	Sidetur will not, and will not permit any subsidiary to, directly or indirectly: (1) declare or pay any dividend or make any distribution on its equity interests held by persons other than Sidetur or any of its substantially wholly owned subsidiaries; (2) purchase, redeem or otherwise acquire or retire for value any equity interests of Sidetur held by persons other than Sidetur or any of its substantially wholly owned subsidiaries; or (3) repay, redeem, repurchase, defease or otherwise acquire or retire for value, or make any payment on or with respect to any subordinated debt except a payment of interest or principal at stated maturity.

Dividends Restriction

Limitation on Dividend	Sidetur will not, and will not permit any subsidiary to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any restricted subsidiary to: (1) declare or pay any dividend or make any distribution on its equity interests held by persons other than Sidetur or any of its substantially wholly owned subsidiaries; (2) pay any indebtedness owed to Sidetur or any subsidiary; (3) make loans or advances to Sidetur or any subsidiary; or (4) transfer porpoerties or assets to Sidetur or any subsidiary. Exceptions are permitted by reason of applicable law or governmental rule, regulation, or order.
Other Covenants	The indenture also contains covenants regarding permitted lines of business, the performance of the issuer and Sidetur's obligations under the notes, the maintenance of the issuer and Sidetur's corporate existence, the maintenance of Sidetur's properties, the compliance with applicable laws, maintenance of the issuer and Sidetur's governmental approvals, the issuer and Sidetur's payment of taxes and other claims, the appointment of the trustee, the maintenance of insurance, the maintenance of the issuer and Sidetur's books and records, the maintenance of an office or agency in the state of New York, the ranking of the notes, notices of certain events, further actions and the use of the proceeds.

Source: Sidetur Finance B.V. offering memo and Fitch Ratings.

Financial Summary — Siderurgica del Turbio, S.A.

(USD 000, Years Ended Sept. 30)

	LTM ^a 3/31/10	2009	2008	2007	2006
Profitability					
Operating EBITDA	67,950	119,468	141,532	126,357	117,223
Operating EBITDAR	67,950	119,468	141,532	126,357	117,223
Operating EBITDA Margin (%)	12.9	18.5	23.4	26.9	28.5
Operating EBITDAR Margin (%)	12.9	18.5	23.4	26.9	28.5
FFO Return on Adjusted Capital (%)	34.5	34.2	25.1	72.4	49.9
Free Cash Flow Margin (%)	(1.8)	(15.4)	(7.7)	15.3	25.5
Return on Average Equity (%)	8.8	9.6	68.1	96.3	205.1
Coverage (x)					
FFO Interest Coverage	7.9	4.4	3.8	12.2	10.8
Operating EBITDA/Gross Interest Expense	6.0	6.6	8.4	9.9	9.0
Operating EBITDAR/(Interest Expense + Rental Expenses)	6.0	6.6	8.4	9.9	9.0
Operating EBITDA/Debt Service Coverage	1.8	3.2	3.3	3.7	3.1
Operating EBITDAR/Debt Service Coverage	1.8	3.2	3.3	3.7	3.1
FFO Fixed Charge Coverage	7.9	4.4	3.8	12.2	10.8
FCF Debt Service Coverage	0.1	(2.2)	(0.7)	2.5	3.1
(FCF + Cash and Marketable Securities)/Debt Service Coverage	1.5	(0.6)	2.8	8.0	5.4
Cash Flow from Operations/Capital Expenditures	8.1	1.1	1.7	5.2	32.0
Capital Structure and Leverage (x)					
FFO Adjusted Leverage	1.2	1.3	1.8	0.8	1.1
Total Debt with Equity Credit/Operating EBITDA	1.6	0.9	0.8	0.9	1.3
Total Net Debt with Equity Credit/Operating EBITDA	0.8	0.4	(0.2)	(0.5)	0.6
Total Adjusted Debt/Operating EBITDAR	1.6	0.9	0.8	0.9	1.3
Total Adjusted Net Debt/Operating EBITDAR	0.8	0.4	(0.2)	(0.5)	0.6
Implied Cost of Funds	9.6	16.2	14.3	9.4	7.9
Secured Debt/Total Debt	0.0	0.0	0.0	0.0	0.0
Short-Term Debt/Total Debt	0.2	0.2	0.2	0.2	0.2
Balance Sheet					
Total Assets	336,080	343,083	405,644	416,284	395,860
Cash and Marketable Securities	54,445	57,754	149,356	188,039	86,257
Short-Term Debt	26,335	19,364	25,675	21,500	24,818
Long-Term Debt	83,750	86,250	91,250	97,500	128,715
Total Debt	110,085	105,614	116,925	119,000	153,533
Equity Credit	0.0	0.0	0.0	0.0	0.0
Total Debt with Equity Credit	110,085	105,614	116,925	119,000	153,533
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt with Equity Credit	110,085	105,614	116,925	119,000	153,533
Total Equity	148,720	126,519	139,078	96,555	127,275
Total Adjusted Capital	285,805	232,133	256,003	215,555	280,808
Cash Flow					
Funds from Operations	77,898	61,372	47,352	143,211	127,122
Change in Working Capital	(25,255)	(53,608)	6,554	(53,330)	(5,759)
Cash Flow from Operations	52,643	7,764	53,906	89,881	121,363
Total Non-Operating/Non-Recurring Cash Flow	0.0	0.0	0.0	0.0	0.0
Capital Expenditures	(6,504)	(6,971)	(31,210)	(17,452)	(3,797)
Dividends	(55,364)	(100,364)	(69,618)	(349)	(13,000)
Free Cash Flow	(9,225)	(99,571)	(46,922)	72,080	104,566
Net Acquisitions and Divestures	0.0	0.0	0.0	0.0	0.0
Other Investments, Net	0.0	0.0	55,350	24,195	(13,106)
Net Debt Proceeds	(55,466)	(14,689)	14,442	(16,559)	(37,570)
Net Equity Proceeds	0.0	0.0	0.0	0.0	0.0
Other, Financing Activities	27,627	22,658	(14,273)	(37,238)	(27,624)
Total Change in Cash	(37,064)	(91,602)	8,597	42,478	26,266
Income Statement					
Net Revenue	525,214	647,112	605,961	470,067	410,849
Revenue Growth (%)	N.A.	6.8	28.9	14.4	20.5
Operating EBIT	53,288	104,439	128,024	113,051	100,774
Gross Interest Expense	11,332	18,035	16,870	12,772	12,963
Rental Expense	0.0	0.0	0.0	0.0	0.0
Net Income	13,766	12,706	80,211	107,792	130,986

^aUnaudited. N.A. – Not applicable. Note: Audited, consolidated financial statements (U.S. GAAP).

Source: Sidetur.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.