Petróleos de Venezuela, S.A.

Unconditionally and Irrevocably Guaranteed by PDVSA Petróleo, S.A.

$3,000,000,000 5.25% Notes due 2017
$3,000,000,000 5.375% Notes due 2027
$1,500,000,000 5.50% Notes due 2037

The $3,000,000,000 5.25% Notes due 2017, $3,000,000,000 5.375% Notes due 2027 and the $1,500,000,000 5.50% Notes due 2037, or the Notes, are being offered by Petróleos de Venezuela, S.A., or PDVSA or the Issuer, a corporation (*sociedad anónima*) organized under the laws of the Bolivarian Republic of Venezuela, or Venezuela. The Notes will be unconditionally and irrevocably guaranteed, or the Guaranty, by PDVSA Petróleo, S.A., or the Guarantor, a corporation (*sociedad anónima*) organized under the laws of Venezuela that is wholly owned by PDVSA. The Notes and the Guaranty will be the unsecured, senior obligations of the Issuer and the Guarantor and will rank *pari passu* with all other senior unsecured obligations of the Issuer and the Guarantor, in each case other than obligations granted preferential treatment pursuant to the laws of Venezuela.

The Notes will mature on April 12, 2017, April 12, 2027 and April 12, 2037 and will bear interest at the rate of 5.25%, 5.375% and 5.50% per annum payable semiannually on each April 12 and October 12, commencing on October 12, 2007. The Issuer may redeem the Notes in whole or in part at any time or from time to time by paying the principal amount of the Notes and a "make-whole" amount, if applicable plus accrued interest. See "Description of Notes–Redemption."

See "Risk Factors" beginning on page 12 to read about factors you should consider before buying the Notes.

Price: 105.5%

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market ("Euro MTF") of such exchange.

This Prospectus is intended for use only in connection with an offer and sale of the Notes outside of the United States and has not been sent or given to any person within the United States. Neither the Notes nor the Guaranty have been nor will be registered under the U.S. Securities Act of 1933, as amended, or the U.S. Securities Act, or any state securities laws and are being offered and sold outside the United States only in accordance with Regulation S under the U.S. Securities Act. You are not eligible to receive or review this document or to invest in the Notes unless you either: (1) are not in the United States (as contemplated in Rule 903(a)(1) of Regulation S under the U.S. Securities Act) and are not a "U.S. person" (as defined in Rule 902(o) of Regulation S under the U.S. Securities Act) or (2) are a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States holding a discretionary account or similar account (other than an estate or trust) for the benefit or account of a non-U.S. person (as contemplated by Rule 903(a)(1) of Regulation S under the U.S. Securities Act). For a description of certain restrictions on resale or transfer of the Notes, see "Transfer Restrictions" in the Prospectus.

The Notes and the Guaranty are exempted from registration with the Venezuelan Securities Commission *(Comisión Nacional de Valores)* pursuant to article 1 of the Venezuelan Capital Markets Law *(Ley de Mercado de Capitales)*. It is expected that delivery of the Notes will be made in book-entry form only through the facilities of Euroclear Bank S.A./N.V. as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anônyme, or Clearstream Luxembourg, on April 12, 2007.

Sole Lead Arranger

ABN AMRO

Joint Dealer Managers

ABN AMRO **ECONOINVEST**

December 4, 2007.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes in any jurisdiction in which it is unlawful to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made under this Prospectus will under any circumstances imply that there has been no change in our affairs or that the information set forth in this Prospectus is correct as of any date subsequent to the date of this Prospectus.

ABN AMRO Bank N.V. and Econoinvest Casa de Bolsa, C.A., or the Dealer Managers, make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus. Nothing contained in this Prospectus is, or should be relied upon as, a promise or representation by the Dealer Managers as to the past or future. The Dealer Managers assume no responsibility for the accuracy or completeness of any such information.

This Prospectus does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this Prospectus by you to any person other than those persons retained to advise you is unauthorized.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange. If, as a result of applicable rules and regulations relating to trading on the Euro MTF market, we are required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare their published financial information, we may delist the Notes from the Euro MTF or seek an alternate admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide.

We have prepared this Prospectus solely for use in connection with the offer of the Notes and take responsibility for its contents. No other person is responsible for its contents. We and other sources we believe to be reliable have furnished the information contained in this Prospectus. Nothing contained in this Prospectus is or shall be relied upon as a promise or representation, whether as to the past or the future. The opinions and intentions expressed in this Prospectus with regard to us are honestly held, have been reached after considering all known relevant circumstances and are based on reasonable assumptions, and all reasonable inquiries have been made by us to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

You must comply with all laws and regulations in force in any jurisdiction in connection with the possession or distribution of this Prospectus and the purchase, offer or sale of the Notes, and you must obtain any required consent, approval or permission for the purchase, offer or sale by you of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make purchases, offers or sales, and neither we nor the Dealer Managers have any responsibility for those transactions. See "Transfer Restrictions."

You acknowledge that (1) you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this Prospectus, (2) you have not relied on us, the Dealer Managers or any person affiliated with us or the Dealer Managers in connection with your investigation of the accuracy of the information or your investment decision, and (3) no person has been authorized to give any information or to make any representation concerning us or the Notes other than as contained in this Prospectus. If given or made, that other information or representation should not be relied upon as having been authorized by us or the Dealer Managers.

In making an investment decision, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. The Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

The Notes and the Guaranty have not been, and will not be, registered under the U.S. Securities Act or the securities of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the Securities Act and any applicable state securities laws. The Notes are being sold outside the United States in offshore transactions as defined in, and in reliance on, Regulation S under the U.S. Securities Act. In addition, until 40 days after commencement of this offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

Notice to Venezuelan investors

Investors in Venezuela may initially purchase and pay for the Notes in Bolívares at the settlement date at the official exchange rate of Bs.2,150.00 per $1.00. Purchase of the Notes must be made by or through a financial institution that has an account at the BCV by instructing the BCV to debit the institution's account in Bolívares in an amount equal to the purchase price of the Notes at the official exchange rate.

Enforcement of Judgments

Under Venezuelan law, neither us nor any of our property have any immunity from the jurisdiction of any court or from set-off or any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution of judgment, execution or otherwise), except that pursuant to article 97 of the Law of the Office of the Attorney General of Venezuela (*Ley Orgánica de la Procuraduría General de la República*) an attachment prior to judgment, attachment in aid of execution, execution or otherwise, on our properties located in Venezuela that are affected to the rendering of a public service, such as oil and gas distribution and transportation, must be stayed for a period of 45 days after notice is given to the Venezuelan Attorney General pursuant to which the Venezuelan government may take any action in order to avoid interruption of the services, including taking possession of such assets if such attachment endangers the continuity, quality or security of the services provided. If the Venezuelan Attorney General does not notify the court about the provisional measures taken by the relevant entity to avoid discontinuance of the service within such 45-days notice, the court may continue with such enforcement or foreclosure.

A judgment arising in connection with the Notes, the Guaranty or the Indenture rendered by any court referred to above would be enforceable against us and the Guarantor in the courts of Venezuela subject to obtaining a confirmatory judgment (exequatur) from the Supreme Tribunal of Justice in Venezuela in accordance with the provisions and conditions of the Venezuelan Private International Law (*Ley de Derecho Internacional Privado*), without a review of the merits of the judgment, provided that: (i) the foreign judgment concerns matters of private civil or commercial law only; (ii) the foreign judgment constitutes *res judicata* under the laws of the jurisdiction where it was rendered; (iii) the foreign judgment does not relate to real property interests over real property located in Venezuela and the exclusive jurisdiction of Venezuelan courts over the matter has not been violated; (iv) the foreign courts have jurisdiction over the matter pursuant to the general principles of jurisdiction set forth in Chapter IX of the Venezuelan Ley de Derecho Internacional Privado; (v) we and the Guarantor (as the case may be) are duly served, with sufficient time to appear in the proceedings and are granted with due process; (vi) the foreign judgment is not incompatible with a prior judgment that constitutes *res judicata* and no proceeding initiated prior to the rendering of the foreign judgment is pending before Venezuelan courts on the same subject matter among the same parties to litigation; and, (vii) the foreign judgment does not contravene the essential principles of Venezuelan public policy.

Notice to Prospective Investors in the EEA

In any European Economic Area ("EEA") Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus

Directive"), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This Prospectus has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of Notes which are the subject of the placement contemplated in this Prospectus should only do so in circumstances in which no obligation arises for us or the Dealer Managers to produce a prospectus for such offer. Neither we nor the Dealer Managers have authorized, nor do they authorize, the making of any offer of notes through any financial intermediary, other than offers made by us which constitute the final placement of Notes contemplated in this Prospectus.

Notices to Residents of the United Kingdom

All applicable provisions of the Financial Services and Markets Act 2000, or FSMA, and the Public Offers of Securities Regulations 1995 with respect to anything done by any person in relation to securities in, from or otherwise involving the United Kingdom must be complied with. The Notes may not, prior to the expiry of a period of six months from the issue date of the Notes, be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that do not result in an offer to the public within the meaning of the Public Offer of Securities Regulations 1995 (as amended), and this Prospectus and any invitation or inducement to engage in investment activity (within section 21 of the FSMA) received by them in connection with the sale of the Notes may only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

Presentation of Information

As used in this Prospectus, unless the context requires otherwise, the terms "we," "us" and "our" refer to Petróleos de Venezuela, S.A. on a consolidated basis with our subsidiaries. We prepare consolidated financial statements in U.S. dollars and in conformity with international financial reporting standards, or IFRS. In this Prospectus, references to "U.S. dollars," "dollar" and "$" are to the legal currency of the United States of America and references to "Bolívares," "bolívar" and "Bs" are to the Venezuelan bolívar, the legal currency of Venezuela.

Our fiscal year ends on December 31st.

Forward-Looking Statements

This Prospectus contains forward-looking statements as described under the U.S. Private Securities Litigation Reform Act of 1995, as amended, specifically, certain statements relating to the expected results of exploration, drilling and production activities, refining processes, gas, and related capital expenditures and investments, the expected results of joint venture projects, the anticipated demand for new or improved products, environmental compliance and remediation and related capital expenditures, sales, taxes, dividends and contributions to Venezuela. Words such as "anticipate," "estimate," "project," "expect," "intend" and similar expressions are used to identify forward-looking statements. Forward-looking statements are subject to risks and uncertainties related to Venezuelan and international oil and gas markets, inflation, the availability of continued access to capital markets and financing on favorable terms, regulatory compliance requirements, changes in import controls or import duties, levies or taxes and changes in prices or demand for our products as a result of actions of our competitors or economic factors. Those statements are also subject to the risks of costs and anticipated performance capabilities of technology and performance by third parties of their contractual obligations. Exploration activities are subject to risks arising from the inherent difficulty of predicting the presence, yield and quality of hydrocarbon deposits, as well as unknown or unforeseen difficulties in extracting, transporting or processing any hydrocarbons found or doing the foregoing on an economic basis. Should one or more of these risks or uncertainties materialize, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed, and anticipated improvements in capacity or performance may not be fully realized. Although we believe that the expectations reflected by such forward-looking statements are reasonable based on information currently available, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Prospectus. We undertake no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this Prospectus.

Such forward-looking statements are principally contained in the "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," Business" and "Selected Financial Information" and include our expectations with respect to our business following the completion of the offering.

SUMMARY

This summary highlights information contained elsewhere in this Prospectus. It does not contain all the information that you may consider important in making your investment decision. Therefore, you should read the entire Prospectus carefully, including in particular the "Risk Factors" section and the consolidated financial statements and the related notes thereto appearing elsewhere in this Prospectus.

Overview

We are a corporation (*sociedad anónima*) organized under the laws of Venezuela, formed in 1975 by the Venezuelan government to coordinate, monitor and control all operations relating to hydrocarbons. We are wholly owned by Venezuela and are the holding company of a group of oil and gas companies. We are the largest vertically integrated oil company in Latin America with daily crude oil production of 2,906 mmbpd and the fourth largest vertically integrated oil company in the world as measured by total assets at year-end 2005, based on information published by Petroleum Intelligence Weekly, a trade publication. We carry out our exploration, development and production ("upstream") operations in Venezuela and our sales, marketing, refining, transportation, infrastructure, storage and shipping ("downstream") operations in Venezuela, the Caribbean, North America, South America and Europe. We indirectly own 100% of CITGO, a refiner and marketer of transportation fuels, petrochemicals and other industrial oil-based products in the United States. We plan to invest intensively in upstream and downstream projects in Venezuela and abroad in order to satisfy the current and expected global increase in energy demands. Our business plan calls for investments of approximately $77 billion in Venezuela, the Caribbean and Latin America over the next five years to achieve sustainable Crude oil production of 5.8 mmbpd and to significantly expand our gas production and refining capacity by 2012.

All hydrocarbon reserves in Venezuela are owned by Venezuela and not by us. Under the Organic Hydrocarbons Law of 2001, as amended, every activity relating to the exploration and exploitation of hydrocarbons and their derivatives is reserved to the government of Venezuela, which may undertake such activities directly or through instrumentalities controlled by Venezuela through an equity participation of more than 50%. At the current production rate of crude oil and gas, Venezuela has proved reserves for the next 73 years.

We mainly sell crude oil to the United States, Canada, the Caribbean, Europe, South America, and Asia. In addition, we refine crude oil and other feedstock in Venezuela and abroad into a number of products, including gasoline, diesel, fuel oil and jet fuel, petrochemicals and industrial products, lubricants and waxes, and asphalt. We are also engaged in the exploration and production of gas from off shore sources with a production of 705 mbpd boe in 2005.

Our registered office is located at Avenida Libertador, La Campiña, Apdo. 169, Caracas 1010-A, Venezuela, and our telephone number is 011-58-212-708-4111. Our website is: www.pdvsa.com. Information contained on our website is not part of this Prospectus.

Social Development

The Venezuelan National Constitution and the Organic Hydrocarbons Law mandates us to contribute manpower and financial resources to social programs developed and administered by the Venezuelan government. More specifically, article 5 of the Organic Hydrocarbons Law mandates that all revenues generated by the Venezuelan government from oil activities shall be used to promote health programs, macroeconomic stabilization funds and investments. We have made significant contributions to social programs, promoting and participating in Venezuela's social and economic development. In 2004 and 2005, we participated in and contributed significant funding towards low income housing, agricultural developments and other social programs. For example, in January 2004, we approved the creation of a fiduciary fund referred to as *Fondo Para el Desarrollo Económico y Social del País*, or FONDESPA, which is designed to allocate amounts to programs related to work projects, goods and services, development of infrastructure and roads, agricultural activities, health and education. Our subsidiaries Corporación Venezolana del Petróleo, S.A., or CVP, and Palmaven S.A., or Palmaven, contribute managerial and financial resources to support social programs related to education, healthcare, job creation and subsidized food distribution programs. CVP amended its charter in 2004 to focus on social and welfare activities.

In support of social projects developed by the Venezuelan government in 2004, we incurred expenses of $1,242 million in 2004, $6,909 million in 2005 and $13,261 million in 2006, which are included in the consolidated statement of income. See note 18 to our consolidated financial statements.

Business Strategy

Our business strategy is focused on developing Venezuela's hydrocarbon resources, contributing to the development of the country, diversifying our markets, and strengthening energy integration with the countries of the Caribbean, South America and Central America.

We plan to invest intensively in upstream and downstream projects in order to satisfy the expected worldwide increase in demand for crude oil, natural gas and refined petroleum products and in order to provide Venezuela with the necessary resources to achieve sustainable development. In the downstream business, we seek a balance between our overseas and local assets in order to assure domestic supply and quality for customers, while maximizing the value of Venezuelan hydrocarbon resources.

Our strategy includes the following key initiatives:

- *Exploration of Condensate and Light and Medium Crude Oil.* We intend to focus primarily on traditional production areas. All other exploration areas, both onshore and offshore, are open to third party participation, under the umbrella of the Venezuelan Organic Hydrocarbons Law and the Venezuelan National Constitution.

- *Development of the Orinoco Oil Belt Magna Reserves.* The Orinoco Oil Belt area (18,220 km^2) has been divided into 27 blocks for reserves quantification and certification purposes. We expect that the certification process will increase the Orinoco Oil Belt reserves by 236 billion barrels from the current proved reserves of 38 billion barrels, confirming that Venezuela has the world's largest oil reserves. We intend to actively participate in the development of these reserves.

- *Production Growth in Traditional Areas.* We are investing in traditional areas with a view to achieve a crude oil production capacity of 5,837 mbpd by 2012. The projected production for the period leading up to 2012 includes the following: 4,019 mbpd from areas where we are the sole operator; 460 mbpd from the PDVSA–International Oil Companies, or IOC, partnership blocks, 112 mbpd from profit-sharing agreements; and 9 mbpd from additional IOC partnership blocks. The remaining 1,237 mbpd are expected to result from the expansion of Orinoco Oil Belt production.

- *Expansion of Orinoco Oil Belt Production.* We intend to expand the Orinoco Oil Belt by developing its extra-heavy crude oil reserves, including new upgrading facilities and pipelines to terminals. Through the implementation of this project, we expect to increase the production of the Orinoco Oil Belt to 1,237 mbpd by 2012 as follows: 622 mbpd from existing association agreements and 615 mbpd from new developments.

- *Development of Major Projects in Refineries.* We intend to expand our refinery capacity from 3.1 mmbpd (1.3/1.8 mmbpd Venezuela/Overseas capacity) to 4.1 mmbpd by 2012 (1.8/2.3 mmbpd Venezuela/Overseas capacity). We expect that the implementation of this initiative will allow us to increase our production of refined petroleum products and upgrade our product slate towards higher-margin products, as well as improve the efficiency of our existing refining capacity. Specifically, we plan to develop new refining centers, including Cabruta (400 mbpd), Batalla de Santa Inés (50 mbpd) and Caripito (50 mbpd).

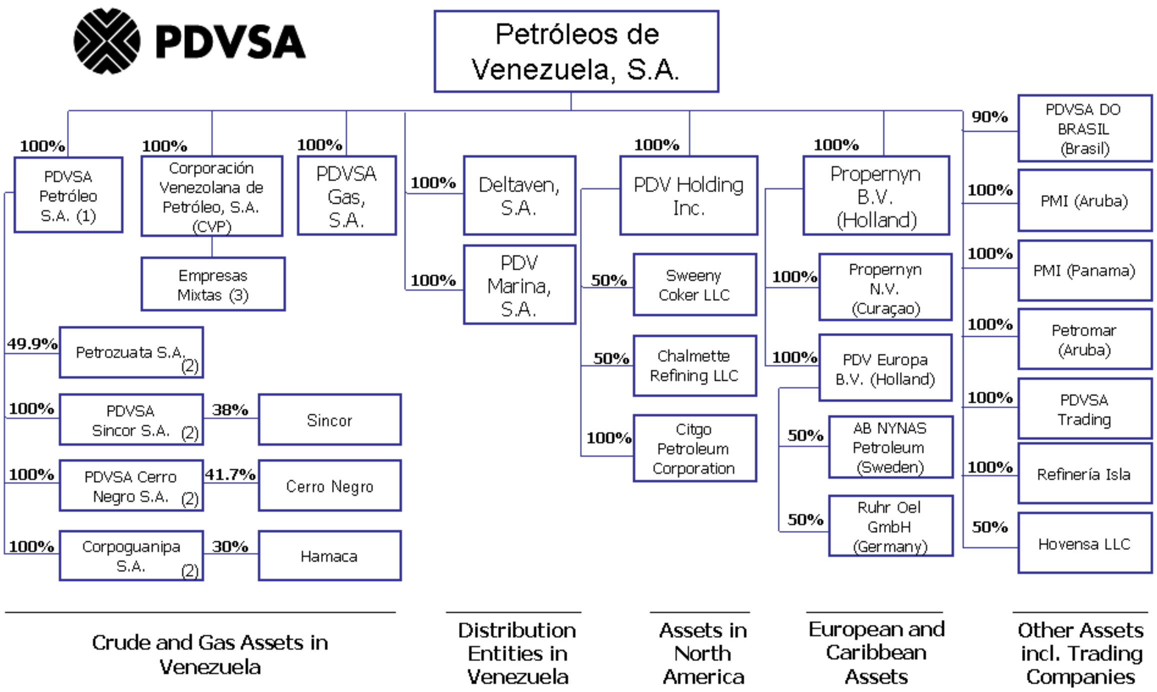
- *Development of the Gas Sector.* We are planning to fast-track development of this business segment with third party participation both onshore and offshore under the framework of the Venezuelan Organic Law of Gaseous Hydrocarbons.

- *Development of the Delta Caribe.* This natural gas development initiative consists of the Northeast Delta Caribbean Project and the Rafael Urdaneta Project in western offshore Venezuela. The project involves the development of gas reserves located north of Paria (the Mariscal Sucre Project), Plataforma Deltana, the Gulf of Paria, Guarapiche, Punta Pescador and the Delta Centro area. We intend to link all blocks by a gas pipeline network to the future Güíria Hub, where an industrial complex CIGMA is expected to be developed.

- *Development of Infrastructure.* We are implementing an infrastructure program focused on multiple projects with the aim of assuring the development of the crude oil and gas reserves. This program includes the building of about 9.3 million barrels of oil storage capacity, 3 additional loading docks, approximately 650 km in oil pipelines, 4 new distribution facilities, the expansion of existing gas pipelines, and building new pipelines for an estimated length of 6,210 km.

- *Marketing of Crude and Products.* We focus on the marketing of all crude oil and refined petroleum products projected in our marketing plan and the renewing and expanding of our tanker fleet. Our subsidiary, PDV Marina, intends to increase its tanker capacity from its current 1,348,000 dwt (Dead Weight Ton) to 4,151,000 dwt by 2012. We expect to increase the number of our tankers and transport capacity in order to match the expected increase in production and better distribute our crude oil and refined petroleum products. In addition, we intend to expand and diversify our marketing efforts in Latin America, the Caribbean and Asia, including China and India.

The following chart summarizes our corporate structure.



(1) Subsidiary Guarantor.

(2) On February 26, 2007, President Chávez issued Decree-Law No. 5,200 pursuant to which Petrozuata, Sincor, Cerro Negro and Hamaca must be converted into Empresas Mixtas in which Corporación Venezolana de Petróleo, S.A., or CVP, our wholly owned subsidiary, or any other of our subsidiaries, holds an equity interest of at least 60% in accordance with the Organic Hydrocarbons Law. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Other Recent Developments—Decree-Law No. 5,200."

(3) CVP holds an equity interest in Empresas Mixtas, in the proportions as listed on page 55 of this Prospectus under section "Conversion of Prior Operating Service Agreements to Empresas Mixtas."

THE OFFERING

The following summary is qualified in its entirety by reference to detailed information appearing elsewhere in this Prospectus.

Issuer	Petróleos de Venezuela, S.A.
Guarantor	PDVSA Petróleo, S.A.
Notes	$3,000,000,000 5.25% senior notes due 2017, $3,000,000,000 5.375% senior notes due 2027 and $1,500,000,000 5.50% senior notes due 2037.
Closing Date	April 12, 2007.
Maturity Date	April 12, 2017. April 12, 2027. April 12, 2037.
Interest	Interest will accrue on the Notes maturing in 2017 at the rate of 5.25% per annum, on the Notes maturing in 2027 at the rate of 5.375% per annum and on the Notes maturing in 2037 at the rate of 5.50% per annum. Interest will be payable in arrears on each April 12 and October 12, commencing on October 12, 2007 until the applicable Maturity Date. Interest on the Notes will be calculated on the basis of a 360-day year of twelve 30-day months.
Principal	The principal amount of the Notes maturing in 2017, the Notes maturing in 2027 and the Notes maturing in 2037 will be paid on the applicable Maturity Date.
Form and Denomination	The Notes will be issued in the form of one global note in registered form without coupons, or Global Notes. The Notes sold in reliance on Regulation S under the U.S. Securities Act will be in fully registered form without interest coupons attached. The Notes maturing on 2017 and 2027 will have denominations of $400 and in integral multiples of $100 in excess thereof. The Notes maturing on 2037 will have denominations of $200 and integral multiples of $100 in excess thereof.
Use of Proceeds	The Issuer will use the gross proceeds of $7.5 billion from the sale of the Notes for general corporate purposes including financing of capital expenditures.
Payment of Additional Amounts	All payments made in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future Venezuelan taxes, unless such withholding or deduction is required by law. Subject to certain exceptions, in the event of any such withholding or deduction the Issuer will pay such additional amounts

(“Additional Amounts”) as may be necessary so that the net amount received by each holder after such withholding or deduction would not be less than the amount such holder would have received absent the withholding or deduction. See “Description of the Notes—Additional Amounts.”

Optional Redemption.. We may redeem the Notes in whole, or in part, at our option, at any time and from time to time prior to the maturity thereof at 100% of the outstanding principal amount, plus accrued and unpaid interest and Additional Amounts, if any, upon the satisfaction of certain conditions. See “Description of Notes–Redemption.”

We may also redeem the Notes in whole but not in part at 100% of the outstanding principal amount, plus accrued and unpaid interest, if any and Additional Amounts, in the event of specific changes affecting taxation on the Notes. See “Description of the Notes–Redemption.”

Transfer Restrictions.. The Notes have not been, and will not be, registered under the U.S. Securities Act or under any state securities laws and are subject to certain restrictions on transfer and resale. There is currently no market for the Notes and there can be no assurance as to the development or liquidity of a market for the Notes. See “Transfer Restrictions.”

Governing Law... New York.

Sole Lead Arranger... ABN AMRO Bank N.V.

Joint Dealer Managers .... ABN AMRO Bank N.V. and Econoinvest Casa De Bolsa, C.A.

Listing .... Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange.

Trustee .... The Bank of New York.

Transfer Agent and Registrar................................... The Bank of New York.

Risk Factors... For a discussion of certain considerations relevant to an investment in the Notes, see “Risk Factors.”

Rating.. The Issuer expects that the Notes will be rated at least “BB-” by Fitch, Inc., or Fitch, and at least “BB-” by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc., or S&P. A rating by Fitch and S&P is not a recommendation to buy, sell or hold a Note and is subject to revision and withdrawal in the future by Fitch or S&P. The ratings may be changed, superseded or withdrawn as

	a result of changes in, or unavailability of, information.
Clearing	Euroclear and Clearstream Luxembourg.
ISIN 2017 Notes	XS0294364103
ISIN 2027 Notes	XS0294364954
ISIN 2037 Notes	XS0294367205
Common Code 2017 Notes	029436410
Common Code 2027 Notes	029436495
Common Code 2037 Notes	029436720

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table presents our summary consolidated financial and operating information as of the dates and for each of the periods indicated. This information is qualified in its entirety by reference to, and should be read together with, our financial statements, including the notes thereto, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included elsewhere in this Prospectus.

Our summary income statement data for the years ended December 31, 2006, 2005 and 2004 and the summary balance sheet data as of December 31, 2005 and 2004 have been extracted without material adjustment from our consolidated financial statements included elsewhere in this Prospectus, which have been audited by Alcaraz Cabrera Vázquez, a member firm of KPMG International, an independent auditor in accordance with International Standards on Auditing. Our consolidated financial statements were prepared in conformity with IFRS and audited in accordance with International Standards on Auditing.

	At December 31,					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**
	(in millions of U.S. dollars)					
Balance Sheet						
Cash and cash equivalents	1,875	1,800	1,748	2,938	1,703	925
Restricted Cash	848	1,925	709	659	1,772	2,378
Notes and accounts receivable	10,322	8,625	5,595	4,955	3,515	3,280
Inventories	7,003	5,621	4,537	2,878	2,263	2,208
Other current assets	2,985	894	688	642	705	882
Current assets	**23,033**	**18,865**	**13,277**	**12,072**	**9,958**	**9,673**
Restricted Cash	1,928	2,978	3,039	1,000	1,033	1,899
Property, plant and equipment, net	42,503	35,959	35,375	35,211	36,397	36,888
Other non-current assets	13,065	12,563	10,156	8,148	6,749	7,500
Total assets	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**
Trade accounts payable	6,379	4,993	4,313	3,365	2,850	3,043
Current portion long-term debt	652	729	1,004	750	1,817	1,000
Income tax payable and deferred taxes	4,576	6,347	3,367	624	327	921
Other current liabilities	9,637	5,092	3,149	2,556	2,188	2,626
Current liabilities	**21,244**	**17,161**	**11,833**	**7,295**	**7,182**	**7,590**
Long-term debt, net of current portion	2,262	2,704	2,716	6,265	6,426	7,427
Other non-current liabilities	3,920	3,405	5,369	4,280	3,096	4,246
Total liabilities	**27,426**	**23,270**	**19,918**	**17,840**	**16,704**	**19,263**
Stockholder's equity	**52,103**	**47,095**	**41,929**	**38,591**	**37,433**	**36,697**
Total liabilities and equity	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**

Debt to Equity Ratio (2)

Total debt including capital lease	2,914	3,433	3,768	7,061	8,341	8,554
Debt / Equity (%)	5%	9%	9%	18%	22%	23%

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(1) Of which capital stock represents $39,094 million.
(2) Calculated as total long-term debt and capital lease, including current portion, divided by stockholder's equity.

	Year Ended December 31,					
	2006	2005	2004	2003	2002	2001
	(in millions of U.S. dollars)					
Income Statement						
Sales of crude oil and products:						
Exports and international markets	96,779	81,105	60,972	44,178	39,875	42,682
In Venezuela	2,233	1,408	1,227	961	1,236	1,701
Other sales	255	402	43	226	234	285
Net revenues	**99,267**	**82,915**	**62,242**	**45,365**	**41,345**	**44,668**
Purchases of crude oil and products	38,778	32,001	23,748	20,496	17,364	17,560
Operating expenses	14,820	14,034	13,181	9,182	8,859	10,432
Exploration expenses	100	118	60	27	133	174
Depreciation and depletion	3,652	3,191	2,944	2,891	3,075	2,510
Asset impairment	(93)	20	6	296	722	257
Selling, administrative and general expenses	2,184	1,667	1,157	871	1,356	1,569
Production and other taxes	18,435	13,318	9,247	6,428	5,748	3,760
Financing expenses	267	183	449	678	753	501
Other expenses/(income), net	361	426	622	53	(701)	279
Total costs and expenses	**78,504**	**64,958**	**51,414**	**40,922**	**37,309**	**37,042**
Equity in earning of non-consolidated investees	1,072	1,074	938	333	233	413
Gain on sale of investment in LYONDELL-CITGO Refining L.P.	1,432	-	-	-	-	-
Income before social development expenses and income taxes	**23,267**	**19,031**	**11,766**	**4,776**	**4,269**	**8,039**
Social development expenses	13,784	6,909	1,242	249	-	-
Income before income taxes	**9,483**	**12,122**	**10,524**	**4,527**	**4,269**	**8,039**
Income taxes	4,031	5,793	5,420	1,274	1,082	3,645
Net income	**5,452**	**6,329**	**5,104**	**3,253**	**3,187**	**4,394**
Net income:						
Attributable to stockholder	4,994	6,469	5,432	3,277	3,541	4,327
Minority interests	458	14	(26)	6	5	5
Net income	**4,774**	**6,483**	**5,406**	**3,283**	**3,546**	**4,332**
Cash Flow Information						
From operating activities	4,104	5,595	8,792	5,929	5,189	7,297
From investment activities	(2,215)	(3,939)	(5,385)	(1,085)	(1,575)	(5,468)

From financing activities	(1,814)	(1,604)	(4,597)	(3,609)	(2,836)	(4,161)

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Venezuela's proved reserves (mmbls) (1)					
Crude Oil	87,324	80,012	80,582	77,140	77,157
Natural gas in boe (2)	28,664	26,252	26,117	25,869	25,364
Hydrocarbons in boe	**115,988**	**106,264**	**106,699**	**103,009**	**102,521**
Venezuela's Production (mbpd)					
PDVSA's Crude Oil Production (3)	2,907	2,906	2,833	2,562	2,716
Third party participation in Orinoco Oil Belt	343	368	315	255	204
Total crude oil	**3,250**	**3,274**	**3,148**	**2,817**	**2,920**
PDVSA's production (mbpd)					
Crude Oil (3)	2,907	2,906	2,833	2,562	2,716
Liquid petroleum gas	177	165	166	144	173
Natural gas in boe (2)	699	705	658	592	633
Hydrocarbons in boe	**3,783**	**3,776**	**3,657**	**3,298**	**3,522**
Average production cost ($/boe)					
Incl. operating service agreements (4)	4.34	3.93	3.77	3.85	3.92
Excl. operating service agreements (4)	4.01	3.13	3.29	2.06	2.42
PDVSA's refining capacity (mbpd) (5)					
Venezuela, incl. Isla Refinery	1,638	1,638	1,638	1,628	1,628
United States	1,201	1,310	1,205	1,205	1,205
Europe	259	259	259	259	251
Total refining capacity	**3,098**	**3,207**	**3,102**	**3,092**	**3,084**
Sales volume exported (mbpd) (6)					
Crude oil	1,917	1,876	1,867	1,773	1,899
Refined products	698	736	660	502	647
Total exports	**2,615**	**2,612**	**2,527**	**2,275**	**2,546**
Average sales export price ($/bl)					
Crude oil	55.20	45.32	32.22	24.35	21.19
Refined products	55.23	48.51	34.66	26.53	24.23
Total exports	**55.21**	**46.15**	**32.88**	**24.89**	**21.94**

(1) Proved reserves include both proved developed and undeveloped reserves, as well as our equity participation in former operating agreements with third parties and the Orinoco Oil Belt projects.
(2) Gas production is net of gas used for reinjection purposes. Gas is converted to barrels of oil equivalent at a rate of 5.8 thousand cubic feet of natural gas per barrel of crude oil.
(3) Includes equity participation of the Orinoco Oil Belt Associations as follows: 219 in 2006, 234 mbpd in 2005 and 210 mbpd in 2004.
(4) Calculated by dividing total costs (excluding depreciation and depletion) and expenses of crude oil, gas and LPG producing activities by total crude oil, LPG and net gas (boe) produced.
(5) Amounts represent our interest in the refining capacity of all refineries in which we hold equity or leasehold interest.
(6) Includes equity participation of the Orinoco Oil Belt Associations as follows: 227 in 2006, 235 mbpd in 2005 and 198 mbpd in 2004.

RISK FACTORS

Before making any investment decision, prospective purchasers of the Notes should carefully read this Prospectus and should consider carefully, in light of their own financial circumstances and investment objectives, all of the information set forth in this Prospectus and, in particular, certain matters relating to the Issuer and other matters associated with investments in securities of issuers in countries that do not have highly developed capital markets, including, without limitation, the risk factors set forth below.

Our respective businesses, financial condition, results of operations and ability to satisfy our obligations under the Notes could be materially adversely affected by any of these risks. The trading price of the Notes could decline due to these risks.

Risk Factors Relating to Venezuela

In prior years, events in Venezuela produced significant social and political tensions, which have had in the past a material adverse effect on us and could do so in the future.

Between 2002 and 2004, Venezuela experienced intense political and social turmoil involving groups that opposed and those that supported the administration of President Hugo Chávez. Although the political scene remains divided, President Chávez won the December 2006 presidential elections with 63% of the popular vote and controls all of the seats in the National Assembly (formerly the Venezuelan Congress), as well as most state governments, and enjoys broad support among the poorer segments of Venezuelan society.

Between December 2001 and February 2003, the opposition staged four nationwide work stoppages to protest against the Chávez administration, the last of which began on December 2, 2002 and ended on February 3, 2003.

There can be no assurance that the significant domestic instability evident during 2002 through 2004 will not reemerge. Such instability could have a material adverse effect on Venezuela's economic growth and as a result our ability to service our obligations under the Notes.

On January 31, 2007, the Venezuelan National Assembly passed an enabling law, or the Enabling Law, granting President Chávez the power to govern by decree with the force of law for 18 months. The Enabling Law specifically includes decree power of the President over the energy sector under the supervision of the Ministry of People's Power for Energy and Petroleum.

Inflation, along with governmental measures to combat inflation, has had significant negative effects on the Venezuelan economy and, as a result, on our operations.

Venezuela has experienced relatively high levels of inflation during much of the past two decades, despite the presence of price controls on many core goods during certain periods. The general rate of inflation as measured by the consumer price index for the metropolitan area of Caracas, or CPI, was approximately 27.1% in 2003, 19.2% in 2004, 14.4% in 2005, and 17% in 2006. The general rate of inflation as measured by the wholesale price index was approximately 53.1% for 2003, 30.0% for 2004, 16.9% for 2005, and 16.9% in 2006. We cannot assure you that inflation will not continue at or increase from its current level. Future governmental actions, including actions to adjust the value of the Bolívar, may trigger increases in inflation. Because some of our costs, such as labor, are Bolívar-based, while the sales prices of substantially all of our products are U.S. dollar-based or U.S. dollar-related, periods of inflation that are not accompanied by commensurate devaluations of the Bolívar can adversely affect our costs, financial condition and ability to meet our obligations under the Notes.

Our products in the Venezuelan domestic market are sold at subsidized prices, thereby reducing our Venezuelan source revenues.

The Venezuelan government, rather than the international market, determines the price of products such as gasoline, diesel, natural gas and liquefied petroleum gas, or LPG, sold by us through our affiliates in the domestic market and, as a result, we earn substantially lower revenues on our products sold in Venezuela than on our exports and products sold internationally. The continued existence of such price controls will continue to reduce our Venezuelan source revenues.

Risks Factors Related to Us

Our business depends substantially on international prices for oil and refined petroleum products and such prices are volatile. A decrease in such prices could materially and adversely affect our business.

Our business, financial condition, results of operations and prospects depend largely on international prices for crude oil and refined petroleum products. Prices of oil and refined petroleum products are cyclical and highly volatile and have, historically, fluctuated widely due to various factors that are beyond our control, including:

- Changes in global supply and demand for crude oil and refined petroleum products;
- Political events in major oil producing and consuming nations;
- Agreements among OPEC members;
- Availability and price of competing products;
- Actions of commodity markets, participants, and competitors;
- International economic trends;
- Technological advancements and developments in the industry;
- Domestic and foreign government regulations that directly impact the supply of crude oil and refined petroleum products; and
- Inflation.

OPEC members have historically entered into agreements to reduce their production of crude oil. Such agreements have sometimes increased global crude oil prices by decreasing the global supply of crude oil. Venezuela is a party to and has complied with such production agreement quotas, and we expect that Venezuela will continue to comply with such agreements in the future. Since 1998, OPEC's production quotas have contributed to substantial increases in international crude oil prices.

Any reduction in our crude oil production or export activities that could occur as a result of changes in OPEC's production quotas or a decline in the prices of crude oil and refined petroleum products for a substantial period of time may materially and adversely affect our results of operations, cash flows and financial results.

We are controlled by the Venezuelan government, which ultimately determines our capital investment and other spending programs.

The Bolivarian Republic of Venezuela is our sole owner. The Venezuelan government, through the Ministry of People's Power for Energy and Petroleum, establishes national petroleum policies and also regulates and supervises our operations. Under the Enabling Law, the President of Venezuela has the power to establish policies for the energy sector by decree issued during the 18-month period commencing in January 2007. The President of Venezuela appoints our president and the members of our Board of Directors by executive decree. Since November 2004, the Minister of People's Power for Energy and Petroleum has also served as our president. However, the Bolivarian Republic of Venezuela is not legally liable for our obligations.

We have operated as an independent commercial entity since our formation; however, recent changes to Venezuelan law regulating the oil sector impose significant social commitments upon us, which will affect our ability to place additional funds in reserve for future uses and, indirectly, our commercial affairs. Given that we are controlled by the Venezuelan government, we cannot assure you that the Venezuelan government will not, in the future, impose further material commitments upon us or intervene in our commercial affairs in a manner that will adversely affect our operations, cash flow and financial results. For instance, the Venezuelan government could cause us to reduce production or limit future capital expenditure to levels that would limit our ability to generate the necessary revenues to support payments of our indebtedness. In addition, despite recent precautions taken by us, we cannot assure you that opponents to the Venezuelan government will not seek to disrupt our activities through actions such as the work stoppages that occurred in December 2002 and early 2003 that, in our opinion, constituted sabotage.

The Bolivarian Republic of Venezuela is our sole owner and its interests may be different than yours.

The Bolivarian Republic of Venezuela is our sole owner and, through the Ministry of People's Power for Energy and Petroleum, establishes national petroleum policies and also regulates and supervises our operations. In addition, under the Enabling Law, President Chávez has been granted decree power over the energy sector during the 18 month period commencing in January 2007. In circumstances involving a conflict of interest between Venezuela, as our sole owner, and the holders of the Notes, Venezuela may exercise the rights arising from its ownership interest in a manner that would benefit Venezuela to the detriment of the holders of the Notes.

As a result of Decree-Law No. 5,200, we will assume majority control, including operational control of projects as to which historically we had a minority interest.

On February 26, 2007, President Chávez issued Decree-Law No. 5,200 pursuant to which existing Orinoco Oil Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca must be converted into Empresas Mixtas in which CVP, our wholly owned subsidiary, or any other of our subsidiaries, holds an equity interest of at least 60% in accordance with the Organic Hydrocarbons Law. Pursuant to the Decree Law No. 5,200, operators of the Orinoco Oil Belt project will become Empresas Mixtas, and we will become the majority owner of these operators. Historically, we have participated in the operations of three of the Orinoco Oil Belt projects but we have not had operational control. Decree-Law No. 5,200 also provides that existing profit-sharing agreements for the exploration of the Golfo de Paria Oeste, Golfo de Paria Este and the blocks known as La Ceiba, as well as Orifuels Sinoven, S.A., must be converted into Empresas Mixtas. The conversion into Empresas Mixtas must be completed no later than April 30, 2007 and the transfer of activities by the operating party to the Empresas Mixtas by no later than June 26, 2007. We have recently begun negotiations with our strategic association partners regarding the conversion of the association agreements governing the Orinoco Oil Belt projects. As we have not yet reached any agreements to date, we are unable to forecast the costs that may be associated with the transfer to Empresas Mixtas, including the cost of acquiring the additional ownership interests required by Decree No. 5,200.

The Bolivarian Republic of Venezuela, as our sole owner, may cause us to pursue certain macroeconomic and social objectives that may have an adverse effect on our results of operations and financial condition.

Venezuela, as our sole owner, has pursued, and may pursue in the future, certain of its macroeconomic and social objectives through us. As a result, we may engage in activities that give preference to the objectives of the Venezuelan government rather than to our economic and business objectives. We may make investments, incur costs and engage in sales on terms that may have an adverse effect on our results of operations and financial condition. For example, we entered into an agreement, or the EDC Agreement, with The AES Corporation and AES Shannon Holdings B.V., or the AES Entities, to purchase C.A. La Electricidad de Caracas, or EDC, which operates the electricity distribution system in Caracas, a business that is new to us. We cannot assure you that in the future Venezuela will not require us to purchase other assets in business lines that are not related to our core business and which may have an adverse effect on our financial condition and results of operation.

We do not own any of the hydrocarbon reserves that we develop and operate.

Under Venezuelan law, the hydrocarbon reserves that we develop and operate belong to Venezuela. The rights to exploration of these hydrocarbon reserves are reserved to Venezuela. We were formed to coordinate, monitor and control operations related to Venezuela's hydrocarbon reserves.

While the Venezuelan National Constitution requires that Venezuela retain exclusive ownership of us, Venezuelan law does not require the country to continue to conduct its hydrocarbon exploration and exploitation activities through us. If the Venezuelan government elects to conduct its hydrocarbon activities other than through us, our operations will be materially and adversely affected. We can offer no assurance that changes in Venezuelan law or the implementation of policies by the Venezuelan government will not adversely affect our operations, cash flow and financial results.

Our business requires substantial capital expenditures and if we do not maintain our production levels, our ability to service our debt may be impaired.

The exploration and development of hydrocarbon reserves, production, processing and refining and the maintenance of machinery and equipment require substantial capital investments. We must continue to invest capital to maintain or to increase the number of hydrocarbon reserves that we operate and the amount of crude oil that we produce and process. We cannot assure you that we will maintain our production levels or generate sufficient cash flows or that we will have access to sufficient investments, loans or other financing alternatives to maintain and service our existing infrastructure in order to continue with our current production levels.

We have embarked on an ambitious capital expenditure plan to expand and upgrade our existing production and refining capacity. If we are not able to adequately deploy and invest the raised capital to expand our existing refining and exploration infrastructure, our business may be adversely affected.

The expansion and development of our production and refining infrastructure requires substantial capital investment. Our 2006-2012 business plan calls for the expansion of our output capabilities in order to be able to produce 5.8 mmbpd of crude oil. We also expect to have substantial capital expenditures in 2007 and thereafter in accordance with our business plan. The failure to raise sufficient funds if needed on reasonable terms may require us to modify or significantly curtail our business plan. If we are not able to raise the necessary funds or adequately and efficiently deploy these resources in order to expand our refining, exploration, and development activities, our business may be adversely affected.

We are subject to production, equipment, transportation, and other risks that are common to oil and gas companies.

As an integrated oil and gas company, we are exposed to production, equipment, and transportation risks that are common to oil and gas companies, including fluctuations in production volume due to changes in reserve levels, production accidents, mechanical difficulties, business interruptions, adverse natural conditions or events such as a severe hurricane, tsunami or earthquake, unforeseen production costs, the condition of pipelines and vulnerability of other modes of transportation, and the adequacy of our equipment and production facilities.

Due to the increased level of activity in the oil and gas industry, we may experience a shortage of oil rigs and manpower, as well as escalating costs in material and services. If we are unable to contract the necessary equipment and services to develop our exploration and production projects or if the prices for such equipment and services continues to increase, our exploration and production costs will increase. Any such increase in exploration and production costs may have a material adverse effect on our results of operations and financial condition.

These risks may lower our production levels, increase our production costs and expenses, or cause damage to our property or injury to our employees or others. We maintain insurance to cover certain losses and exposure to liability. However, consistent with industry practice, we are not fully insured against the risks described above. These risks may materially and adversely affect our operations and financial results. We cannot assure you that our insurance coverage is sufficient to cover all of our losses or our exposure to liability that may result from these risks.

Venezuelan crude oil and gas reserve estimates involve some degree of uncertainty and may prove to be incorrect over time, which could adversely affect our ability to generate income.

The proved crude oil and gas reserves set forth in this Prospectus are our estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made). Venezuelan proved developed crude oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to our production, which may lead us to make revisions to our reserve estimates. Downward revisions in our reserve estimates could lead to lower future production, which could have an adverse effect on our results of operations and financial condition.

We are subject to numerous environmental and health regulations in the locations where we conduct operations, particularly in the United States and Venezuela, that may become more stringent and result in increased liabilities and increased capital expenditures.

Our activities are subject to a wide variety of national and local laws, regulations, and permit requirements relating to the protection of human health and the environment. In addition, some of our activities are in areas under special protection regimes with very restricted land uses. If the legal and regulatory framework is revised to become more rigorous, we will likely be required to substantially increase the capital expenditures for compliance with our revised legal and regulatory framework to effectively undertake the necessary improvements to comply with the health, safety, and sustainable environmental practices in the future. Any such increased expenditure may have a material adverse effect on our results of operations and financial condition.

Risk Factors Relating to the Notes

The Notes will be our senior unsecured obligations.

The Notes will be our senior unsecured obligations. The payment of principal and interest on the Notes will be effectively subordinated in right of payment to all of our secured unsubordinated indebtedness (of which we had $1,641 million, as of December 31, 2006) and to creditors given a statutory priority under applicable law. If we become insolvent or are liquidated or subject to insolvency proceedings, or if payment in respect of our secured unsubordinated indebtedness is accelerated, our secured unsubordinated lenders will be entitled to exercise the remedies available to a secured lender under applicable law, in addition to any remedies that may be available under our secured unsubordinated financing arrangements, and we cannot assure you that there will be sufficient assets to pay amounts due on the Notes. As a result, you may receive less, ratably, than the lenders of our secured unsubordinated indebtedness.

The market value of the Notes may depend on economic conditions in Latin America and other developing countries over which we have no control.

The market value of securities of Venezuelan companies, including us, is affected to varying degrees by economic and market conditions in other Latin American and developing countries. Although economic conditions in such countries may differ significantly from economic conditions in Venezuela, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Venezuelan issuers. We cannot assure you that a deterioration of other Latin American or developing countries or other events in Latin American or developing countries will not adversely affect the market value of the Notes.

The transferability of the Notes may be limited under applicable securities law.

The Notes have not been registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States or for the account or benefit of a U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or any other jurisdiction. See "Transfer Restrictions."

The Notes are a new issue of securities for which there is currently no public market and you may be unable to sell your Notes if a trading market for the Notes does not develop.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF Market of such exchange.

There is currently no market for the Notes. Although we have been advised by the Dealer Managers that they currently intend to make a market in the Notes following completion of this offering, the Dealer Managers are not obligated to do so, and any such market-making activities may be discontinued at any time without notice. We cannot assure you that any active trading market will develop for the Notes, nor can we assure you regarding the liquidity of any such market, your ability to sell the Notes or the prices at which the Notes could be sold. If a market for the Notes develops, the Notes could trade at prices that may be higher or lower than their initial offering prices depending on many factors, including prevailing interest rates, our results of operations, the markets for similar securities, and other factors beyond our control, including general economic and market conditions.

Investment in emerging markets poses a greater degree of risk.

Investing in emerging-market securities generally pose a greater degree of risk than investing in securities from more mature market economies as emerging market economies are more volatile to the effects of international terrorist attacks.

The terrorist attacks in the United States on September 11, 2001 and the war in Iraq, which were accompanied by a significant slowdown in the growth of the U.S. economy, as well as in the general world economy, have contributed to increased cautiousness with respect to investment in developing countries, as well as to a significant decline in the secondary-market values of the debt and equity securities of emerging-market issuers. On February 15, 2007, the Ministry of People's Power for Defense announced that Venezuela will reinforce security measures after a branch of Al Qaeda called for attacks on suppliers of oil to the United States.

There can be no assurance that a continuation or acceleration of these crises or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Venezuela. In addition, there can be no assurance that these events will not adversely affect Venezuela's economy and its ability to raise capital in the external debt markets in the future.

If subjected to Venezuelan bankruptcy or insolvency law, the ability of the Noteholders to recover their investment in the Notes will be substantially impaired and will be subordinated to several classes of creditors such as secured creditors, our employees and the Venezuelan treasury, among other.

There exists legal doctrine in Venezuela supporting the view that we and our affiliates are not subject to Venezuelan bankruptcy or insolvency law on the grounds that we and our affiliates are government-owned companies. However, there are no precedents.

If we were to be held subject to Venezuelan bankruptcy or insolvency law by a Venezuelan court, your ability to recover your investment in the Notes will be impaired and will be subordinated to several creditors such as the bankruptcy trustee, secured creditors, our employees for any unpaid wages and labor benefits set forth in applicable collective bargaining agreements and Venezuelan labor law (including profit-sharing payments, accrued but unpaid vacation and severance) and the Venezuelan treasury for unpaid taxes, among others.

In the event of a judgment against us, you may not be able to enforce any such judgment against our assets located in Venezuela that are determined to be rendering or connected to an essential public service.

Under Venezuelan law, it is not clear whether a Venezuelan court would permit the enforcement of a judgment or an arbitration award on our property located in Venezuela, if such property is deemed by the courts to provide or be connected to essential public services, such as oil transportation or gas distribution. This may adversely affect your ability to enforce a judgment or an arbitration award for payment against us with respect to our obligations under the Notes. In case such a judgment or arbitration award were rendered, enforcement proceedings must be stayed for a period of 45 days during which period the Venezuelan government may take action in order to prevent the interruption of the public services that we provide in Venezuela.

USE OF PROCEEDS

We will use the gross proceeds of $7.5 billion from the sale of the Notes for general corporate purposes including financing of capital expenditures. We will pay the fees and expenses of the offering out of cash on hand.

CAPITALIZATION

The following table sets forth our unaudited preliminary long-term debt, capital lease obligations, minority interests and shareholder's equity, computed on the basis of IFRS, at December 31, 2006, as adjusted to give effect to the issuance of the Notes as if the issuance of the Notes had occurred on December 31, 2006, and the $3,500 million loan commitment under the loan agreement with the Japan Bank for International Cooperation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Loan Agreements."

	At December 31, 2006*	
	Actual (unaudited preliminary)	As Adjusted (unaudited preliminary)
	($ in millions)	
Long-term debt and capital lease obligations:		
Notes offered herein (1)	-	7,500
Other guaranteed notes and bonds	2,063	2,063
Long-term loans guaranteed by export credit agencies (2)	413	3,913
Capital lease obligations	36	36
Total long-term debt	2,512	13,512
Minority interests	2,486	2,486
Shareholder's equity (3)	49,846	49,846
Total Capitalization	54,844	65,844

(*) There has been no material change in the capitalization since that date.
(1) Reflects the issuance of $7,500 million of Notes.
(2) Includes a $3,500 million loan agreement with Japan Bank for International Cooperation entered into on February 23, 2007.
(3) Excludes Minority Interests.

SELECTED FINANCIAL AND OPERATING DATA

The following table presents our summary consolidated financial and operating information as of the dates and for each of the periods indicated. This information is qualified in its entirety by reference to, and should be read together with, our financial statements, including the notes thereto, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section included elsewhere in this Prospectus.

Our summary income statement data for the years ended December 31, 2006, 2005 and 2004 and the summary balance sheet data as of December 31, 2005 and 2004 have been extracted without material adjustment from our consolidated financial statements included elsewhere in this Prospectus, which have been audited by Alcaraz Cabrera Vázquez, a member firm of KPMG International, an independent auditor in accordance with International Standards on Auditing. Our consolidated financial statements were prepared in conformity with IFRS and audited in accordance with International Standards on Auditing.

	At December 31,					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**
	(in millions of U.S. dollars)					
Balance Sheet						
Cash and cash equivalents	1,875	1,800	1,748	2,938	1,703	925
Restricted Cash	848	1,925	709	659	1,772	2,378
Notes and accounts receivable	10,322	8,625	5,595	4,955	3,515	3,280
Inventories	7,003	5,621	4,537	2,878	2,263	2,208
Other current assets	2,985	894	688	642	705	882
Current assets	**23,033**	**18,865**	**13,277**	**12,072**	**9,958**	**9,673**
Restricted Cash	1,928	2,978	3,039	1,000	1,033	1,899
Property, plant and equipment, net	42,503	35,959	35,375	35,211	36,397	36,888
Other non-current assets	13,065	12,563	10,156	8,148	6,749	7,500
Total assets	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**
Trade accounts payable	6,379	4,993	4,313	3,365	2,850	3,043
Current portion long term debt	652	729	1,004	750	1,817	1,000
Income tax payable and deferred taxes	4,576	6,347	3,367	624	327	921
Other current liabilities	9,637	5,092	3,149	2,556	2,188	2,626
Current liabilities	**21,244**	**17,161**	**11,833**	**7,295**	**7,182**	**7,590**
Long-term debt, net of current portion	2,262	2,704	2,716	6,265	6,426	7,427
Other non-current liabilities	3,920	3,405	5,369	4,280	3,096	4,246
Total liabilities	**27,426**	**23,270**	**19,918**	**17,840**	**16,704**	**19,263**
Stockholder's equity	**53,103**	**47,095**	**41,929**	**38,591**	**37,433**	**36,697**
Total liabilities and equity	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**
Debt to Equity Ratio (2)						
Total debt including capital lease	2,914	3,433	3,768	7,061	8,341	8,554

Debt / Equity (%)	5%	7%	9%	18%	22%	23%

(1) Of which capital stock represents $39,094 million.
(2) Calculated as total long-term debt and capital lease, including current portion, divided by stockholder's equity.

	Year Ended December 31,					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**
	(in millions of U.S. dollars)					
Income Statement						
Sales of crude oil and products:						
Exports and international markets	96,779	81,105	60,972	44,178	39,875	42,682
In Venezuela	2,233	1,408	1,227	961	1,236	1,701
Other sales	255	402	43	226	234	285
Net revenues	**99,267**	**82,915**	**62,242**	**45,365**	**41,345**	**44,668**
Purchases of crude oil and products	38,778	32,001	23,748	20,496	17,364	17,560
Operating expenses	14,820	14,034	13,181	9,182	8,859	10,432
Exploration expenses	100	118	60	27	133	174
Depreciation and depletion	3,652	3,191	2,944	2,891	3,075	2,510
Asset impairment	(93)	20	6	296	722	257
Selling, administrative and general expenses	2,184	1,667	1,157	871	1,356	1,569
Production and other taxes	18,435	13,318	9,247	6,428	5,748	3,760
Financing expenses	267	183	449	678	753	501
Other expenses/(income), net	361	426	622	53	(701)	279
Total costs and expenses	**78,504**	**64,958**	**51,414**	**40,922**	**37,309**	**37,042**
Equity in earning of non-consolidated investees	1,072	1,074	938	333	233	413
Gain on sale of investment in LYONDELL-CITGO Refining L.P.	1,432	-	-	-	-	-
Income before social development expenses and income taxes	**23,267**	**19,031**	**11,766**	**4,776**	**4,269**	**8,039**
Social development expenses	13,784	6,909	1,242	249	--	--
Income before income taxes	**9,483**	**12,122**	**10,524**	**4,527**	**4,269**	**8,039**
Income taxes	4,031	5,793	5,420	1,274	1,082	3,645
Net income from continuing operations	**5,452**	**6,329**	**5,104**	**3,253**	**3,187**	**4,394**
Net income from discontinued operations, net of income tax	**-**	**154**	**302**	**30**	**359**	**(62)**
Net income:						
Attributable to stockholder	4,994	6,469	5,432	3,277	3,541	4,327
Minority interest	458	14	(26)	6	5	5
Net income	**5,452**	**6,483**	**5,406**	**3,283**	**3,546**	**4,332**
Cash Flow Information						
From operating activities	4,104	5,595	8,792	5,929	5,189	7,297

From investment activities	(2,215)	(3,939)	(5,385)	(1,085)	(1,575)	(5,468)
From financing activities	(1,814)	(1,604)	(4,597)	(3,609)	(2,836)	(4,161)

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Venezuela's proved reserves (mmbls) (1)					
Crude Oil	87,324	80,012	80,582	77,140	77,157
Natural gas in boe (2)	28,664	26,252	26,117	25,869	25,364
Hydrocarbons in boe	**115,988**	**106,264**	**106,699**	**103,009**	**102,521**
Venezuela's Production (mbpd)					
PDVSA's Crude Oil Production (3)	2,907	2,906	2,833	2,562	2,716
Third party participation in Orinoco Oil Belt	343	368	315	255	204
	3,250	**3,274**	**3,148**	**2,817**	**2,920**
PDVSA's production (mbpd)					
Crude Oil (3)	2,907	2,906	2,833	2,562	2,716
Liquid petroleum gas	177	165	166	144	173
Natural gas in boe (2)	699	705	658	592	633
Hydrocarbons in boe	**3,783**	**3,776**	**3,657**	**3,298**	**3,522**
Average production cost ($/boe)					
Incl. operating service agreements (4)	4.34	3.93	3.77	3.85	3.92
Excl. operating service agreements (4)	4.01	3.13	3.29	2.06	2.42
PDVSA's refining capacity (mbpd)(5)					
Venezuela, incl. Isla Refinery	1,638	1,638	1,638	1,628	1,628
United States	1,201	1,310	1,205	1,205	1,205
Europe	259	259	259	259	251
Total refining capacity	**3,098**	**3,207**	**3,102**	**3,092**	**3,084**
Sales volume exported (mbpd)(6)					
Crude oil	1,917	1,876	1,867	1,773	1,899
Refined products	698	736	660	502	647
Total exports	**2,615**	**2,612**	**2,527**	**2,275**	**2,546**
Average sales export price ($/bl)					
Crude oil	55.23	45.32	32.22	24.35	21.19
Refined products	55.21	48.51	34.66	26.53	24.23
Total exports	**54.92**	**46.15**	**32.88**	**24.89**	**21.94**

(1) Proved reserves include both proved developed and undeveloped reserves, as well as our equity participation in former operating agreements with third parties and the Orinoco Oil Belt projects.
(2) Natural gas production is net of natural gas used for reinjection purposes. Natural gas is converted to barrels of oil equivalent at a rate of 5.8 thousand cubic feet of natural gas per barrel of crude oil.
(3) Includes equity participation of the Orinoco Oil Belt Associations as follows: 219 in 2006, 234 mbpd in 2005 and 210 mbpd in 2004.
(4) Calculated by dividing total costs (excluding depreciation and depletion) and expenses of crude oil, natural gas and LPG producing activities by total crude oil, LPG and net gas (boe) produced.
(5) Amounts represent our interest in the refining capacity of all refineries in which we hold equity or leasehold interest.
(6) Includes equity participation of the Orinoco Oil Belt Associations as follows: 227 in 2006, 235 mbpd in 2005 and 198 mbpd in 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements including the notes thereto, contained herein. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this Prospectus.

Overview

We are a vertically integrated oil and gas company engaged in the exploration, development and production of oil and gas and the refining, marketing, transportation and distribution of oil, gas and petroleum products. In 2005, our daily output of crude oil reached 2,906 mbpd from 2,833 mbpd in 2004. We explore and produce hydrocarbons in Venezuela and mainly sell crude oil to the United States and Canada, the Caribbean, Europe, South America, and Asia. Also, we refine crude oil and other feedstock in Venezuela and abroad into a variety of products, including gasoline, diesel, fuel oil and jet fuel, petrochemicals and industrial products, lubricants and waxes, and asphalt. We are also engaged in the gas business with a production capacity of 705 mbpd boe in 2005. Refined petroleum products are transported from our refineries primarily by tankers, pipelines, and barges and then through terminals to our customers. These refined petroleum products are sold to wholesale marketers, convenience stores, airlines, and other manufacturers as feedstock.

Factors Affecting Operating Results

Our operating results are a function of oil and gas prices, the volumes and the mix of crude oil and gas and refined petroleum products supplied to customers, refinery margins, utilization rates of refining capacity and operational costs.

Trends Affecting our Business

In our upstream operations, our primary focus is on increasing reserves of crude oil, increasing the overall recovery factor of crude oil, continuing the development of extra-heavy crude oil projects, increasing the availability of gas, and improving existing technology in order to maximize the return on our investments.

With respect to our downstream business, we are investing in increasing refining capacity, product enhancement and environmental compliance in Venezuela and the United States, expanding our markets in Latin America, the Caribbean and Asia, and improving the efficiency of our refining processes and marketing activities.

Changes in product quality specifications have been, and will continue to be, an important driver in our downstream capital expenditures program. Market analysis in the regions we serve indicate that Tier II gasoline, ultra low sulfur diesel, Group II and III lube base oils and high performance asphalts will be required over the next four to six years. The use of some of these products is being mandated directly by regulatory agencies, while others are the indirect result of regulations. Ultimately, our customers will require all of these products in addition to others not currently defined.

Moreover, the high capital requirements needed to produce lower sulfur content fuels and higher quality lubricant base stocks and asphalts place a premium on facilities already equipped to produce these products, which may lead to the further consolidation of refining capacity in specific markets.

The refined products business continues to be very competitive. Industry analysts predict demand growth of 1% to 2% per year in the United States for the next five to ten years, creating expansion opportunities for U.S. refineries, which are currently operating at near capacity. While this growth trend would appear to be positive for refining and marketing companies, the industry has always exhibited strong competitive tendencies, and recent corporate consolidations have resulted in cost reduction synergies and economies of scale that have translated into competitive pricing in the marketplace and lower refining margins.

With respect to our gas business, we are actively promoting private sector participation in the exploration, production and processing of non-associated gas reserves. In addition, our distribution processes will be expanded and enhanced in order to increase our domestic and international market shares. We will also increase our focus on the LNG markets.

Transition of Orinoco Belt Projects

Pursuant to Presidential Decree No. 5,200, dated February 26, 2007, the association agreements currently governing the Orinoco Belt projects, Petrozuata, Sincor, Cerro Negro and Hamaca, will be converted over the next four months to Empresas Mixtas with our ownership interest increasing to at least 60%. Historically, until the end of 2006, we have accounted for these projects using the proportional consolidation method. As a result of taking control of these projects, we will begin fully consolidating the projects from May 2007, with the percentage ownership interest held by our partner being recorded as a minority interest. If we had fully consolidated the projects during 2006, the financial statement impact would have been an increase in sales of crude oil of approximately $10,023 million and an increase in our consolidated long-term debt of $3,251 million. We have recently begun negotiations with our strategic association partners regarding the conversion of the association agreements governing the Orinoco Oil Belt projects. As we have not yet reached any agreements to date, we are unable to forecast the costs that may be associated with the transfer to Empresas Mixtas, including the cost of acquiring the additional ownership interests required by Decree No. 5,200.

Work Stoppage in Venezuela

During December 2002 and the first months of 2003, a series of national events significantly interrupted economic activities in Venezuela. A substantial group of our and our Venezuelan subsidiaries' workers abruptly initiated a work stoppage that interrupted our normal, ongoing operations in Venezuela, which continued despite requests made by our management in the local media for them to return to their positions.

These events resulted in losses and damages, as well as a reduction in the country's economic activities. Our economic performance significantly affects some of the economic variables of Venezuela, such as the gross domestic product (GDP), the generation of foreign exchange and the collection of taxes and other contributions.

The interruption of our and our Venezuelan subsidiaries' activities from December 2002, due to the absence of our and our Venezuelan subsidiaries' workers resulted in an abrupt and significant interruption of our operations, which led to economic losses and damages to our installations and affected several of our activities. Also, these events resulted in a significant reduction in our production of oil and natural gas and in a reduction in the exports of crude oil and refined petroleum products from Venezuela.

During the period in which operations were interrupted, the Venezuelan government authorized us to purchase petroleum and diesel on the international market in order to meet the needs in the local market. These purchases were made at international prices, which were substantially higher than sales prices in the local market. The difference between the international purchase prices and the related sales prices in Venezuela resulted in a cost of approximately $504 million in 2003.

The previously described events damaged some installations, such as oil wells, refineries, pipelines and terminals, which needed to be repaired or remedied, and caused significant losses. Based upon an internal evaluation, the total costs of these damages and losses were approximately $209 million. All costs and expenses relating to these events, identified on the basis of available information, were charged to our results of operations in 2003.

Impact of Production Quotas

Our consolidated financial results depend primarily on the volume of crude oil produced and the price levels for hydrocarbons. The level of crude oil production and the capital expenditures needed to achieve such level of production have been among the principal factors determining our financial condition and results of operations since 1990 and are expected to remain the principal factors in determining our financial condition and results of operations for the foreseeable future.

Historically, members of OPEC have entered into agreements to reduce their production of crude oil. Such agreements have sometimes increased global crude oil prices by decreasing the global supply of crude oil. Venezuela is a party to and has complied with such agreements, and we expect that Venezuela will continue to comply with such production agreements with other OPEC members. Since 1998, OPEC's production quotas have resulted in a worldwide decline in crude oil production and substantial increases in international crude oil prices.

During 2004, the OPEC crude basket price increased by $7.95 per barrel, or 28%, from $28.10 per barrel in 2003 to $36.05 per barrel in 2004. The average price of our exports, including refined products, increased by $7.99 per barrel, or 32%, from $24.89 per barrel in 2003 to $32.88 per barrel in 2004.

During 2005, the OPEC crude basket price increased by $14.59 per barrel, or 40.5%, from $36.05 per barrel in 2004 to $50.64 per barrel in 2005. The average price of our exports, including refined products, increased by $13.27 per barrel, or 40.3%, from $32.88 per barrel in 2004 to $46.15 per barrel in 2005.

Our total OPEC production quota increased from 2,647 mbpd in December 2003 to 3,107 mbpd in December 2004. Venezuela's OPEC production quota increased by 113 mbpd to 3,223 mbpd in July 2005. By December 2005, the average price of the OPEC basket was $49.25 per barrel and the average price of the Venezuelan basket was approximately $41.39 per barrel.

At the Consultative Meeting of the Conference of OPEC in Doha, Qatar, on October 19 and 20, 2006, the Conference decided to reduce production by 1.2 mmbpd from current production of approximately 27.5 mmbpd to 26.3 mmbpd, effective as of November 1, 2006, of which 138 mpbd corresponded to Venezuelan production. At the subsequent meeting in Abuja, Nigeria on December 14, 2006, the members decided to decrease production output by a further 500 mpbd, of which 57 mbpd corresponded to Venezuelan production.

Impact of Inflation and Devaluation

While more than 95% of our revenues and a significant portion of our expenses are in U.S. dollars, some of our operating costs (including income tax liabilities) are incurred in Bolívares. As a result, our financial condition and results of operations are affected by the Venezuelan inflation rate and the timing and magnitude of any change in the $/Bs exchange rate during a given financial reporting period.

Since 1998, the Venezuelan government has used exchange rates to moderate inflation, by devaluing the Bolívar within a pre-determined range. Effective February 13, 2002, however, the Venezuelan government and the BCV adopted a floating exchange rate system, as opposed to the band system previously in effect. As a result of the adoption of a floating exchange rate system, the Bolívar devalued substantially against the U.S. dollar and inflation accelerated in 2002.

On February 5, 2003, the Venezuelan government established an exchange control regime, and fixed the exchange rates for the sale and purchase of foreign currency at Bs.1,600.00 to $1 and Bs.1,596.00 to $1, respectively.

The annual devaluation rate for 2004 was 20% and the inflation rate was 19%. On February 7, 2004, a new foreign exchange rate for the sale and purchase of foreign currency was established at Bs.1,920.00 to $1 and Bs.1,915.20 to $1, respectively. On March 2, 2005, a new foreign exchange rate for the sale and purchase of foreign currency was established at Bs.2,150.00 to $1 and Bs.2,144.60 to $1, respectively. During 2006, the exchange rate remained unchanged at Bs.2,150.00 to $1. The following table presents the exchange rates from 2003 to 2006.

	At December 31,			
	2006	2005	2004	2003
Exchange rates at year-end derived from exchange agreement with the BCV (Bs./$1) (1)	2,150.00	2,150.00	1,920.00	1,600.00
Average annual exchange rates (Bs./$1)	2,150.00	2,110.00	1,885.93	1,611.32
Interannual increments in the exchange rate (%)	-	12.00	20.00	14.04
Interannual increments in the CPI* (%)	17.00	14.36	19.18	27.10

* Consumer Price Index

(1) See note 2 to our consolidated financial statements.

Basis of Presentation

Our operations are conducted mainly in the international market for crude oil and refined petroleum products. Therefore, the U.S. dollar is our reporting currency. See note 1(b) to our consolidated financial statements.

Recent Developments

Decree-Law No. 5,200

On February 26, 2007, President Chávez issued Decree-Law No. 5,200 pursuant to which existing Orinoco Oil Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, must be converted into Empresas Mixtas in which CVP, our wholly owned subsidiary, or any other of our subsidiaries, must hold an equity interest of at least 60%, in accordance with the Organic Hydrocarbons Law.

Decree-Law No. 5,200 also provides that existing profit-sharing agreements for the exploration of the Golfo de Paria Oeste, Golfo de Paria Este and the blocks known as La Ceiba, as well as Orifuels Sinovensa, S.A., must be converted into Empresas Mixtas. CVP, our wholly owned subsidiary, or any other of our subsidiaries, must hold an equity interest of at least 60%.

The conversion of the Orinoco Oil Belt projects and profit-sharing agreements into Empresas Mixtas must be completed no later than April 30, 2007 and the transfer of activities by the relevant operating entity to the Empresas Mixtas by no later than June 26, 2007.

Acquisitions & Divestitures

On February 8, 2007, we entered into the EDC Agreement with the AES Entities to purchase their 82.14% interest in EDC for $739 million in an offer to purchase to be made to all holders of shares which we agreed to commence not later than 30 days after the date of the EDC Agreement at a price per share of common stock equal to the price per share agreed to with the AES Entities. We filed with the CNV a request for an authorization to commence a tender offer in Venezuela for all outstanding shares of EDC not already owned by us at a price per share of Bs. 587.81. On April 2, 2007, the CNV authorized the commencement of the tender offer.

On February 8, 2007, we entered into a memorandum of understanding with CMS Energy Corporation to purchase its shares in Sistema Eléctrico del Estado Nueva Esparta for $105.5 million.

On August 16, 2006, CITGO sold its 41.25% interest in LYONDELL-CITGO effective as of July 31, 2006. CITGO received as consideration approximately $1.8 billion in cash proceeds in connection with the sale. At the time of the sale, CITGO also received a payment of a note receivable from LYONDELL-CITGO in the amount of $35 million and related interest in the amount of $4 million.

In April 2006, CITGO retained an investment bank to evaluate the potential sale of CITGO Asphalt Refining Company (CARCO), a wholly owned subsidiary of CITGO. CARCO owns and operates two asphalt refineries in Paulsboro, New Jersey and Savannah, Georgia.

In August 2006, CITGO retained an investment bank to evaluate the potential sale of certain assets, including a wholly owned pipeline, a 16% interest in another pipeline, ten related terminals and a storage facility.

In January 2006, we transferred our holdings in Pequiven to Venezuela through the Ministry of People's Power for Energy and Petroleum.

Results of operations for the year ended December 31, 2005 compared to the year ended December 31, 2004

Production

All of our crude oil, liquid petroleum gas and gas production operations are located in Venezuela. Our production of crude oil averaged 2,906 mbpd in 2005, a 3% increase from 2,833 mbpd produced in 2004. Our production of liquid petroleum gas averaged 165 mbpd in 2005, as compared to 166 mbpd in 2004. Our production of gas (net of amounts re-injected) was 4,088 mmcfd in 2005, a 7% increase as compared to 3,819 mmcfd in 2004.

The net output of refined petroleum products (including output representing our equity interest in refineries held by our affiliates in the United States and Europe) was 2,937 mbpd in 2005, as compared to 2,923 mbpd in 2004.

Total Revenues

Total revenues increased by $20,973 million, or 32%, to $85,730 million in 2005 from $64,757 million in 2004, due mainly to the increase in average sales prices of approximately 36%.

Net Sales

Net sales increased by $20,837 million, or approximately 33%, to $84,553 million in 2005 from $63,716 million in 2004. This increase was mainly due to an increase in average sales price of approximately 36%, to an average price per barrel of $57.08 in 2005 from $42.11 in 2004. See "Selected Financial Data" and the table setting forth our consolidated sales volume.

Export Revenues of Crude Oil and Refined Products

Exports (excluding Petrozuata (45 mbpd) and extra-heavy crude oil (86 mbpd) with an API lower than 8°) represented 65% of our sales volumes. Our exports increased in volume by approximately 2% to 2,481 mbpd in 2005 from 2,434 mbpd in 2004, due to an increase of the exports of crude oil of 47 mbpd, which represented an increase of 2% from 2004 to 2005. In addition, exports of refined petroleum products decreased 10 mbpd, which represented a decrease of 2% from 2004 to 2005. The average export price per barrel for Venezuelan crude oil, refined petroleum products and liquid petroleum gas was $46.15 in 2005, as compared to $32.88 in 2004, representing a 40% increase.

Sales Revenues of International Subsidiaries

In 2005, the total volume of crude oil and refined petroleum products that we sold exceeded our total production of crude oil and liquid petroleum gas. Our total sales of crude oil, refined petroleum products and liquid petroleum gas were 3,832 mbpd in 2005, as compared to 3,807 mbpd of total sales of such products in 2004. PDV America, through its wholly owned subsidiaries (primarily CITGO), generates most of the sales in excess of our crude oil and liquid petroleum gas production because it purchases crude oil and refined petroleum products from third parties (including affiliates) for supply to the refining and marketing network in the United States. Total sales of refined petroleum products by PDV America were approximately 1,686 mbpd in 2005, as compared to 1,749 mbpd in 2004. PDV America's sales revenues increased to $41,422 million in 2005 from $32,028 million in 2004.

Domestic Sales

We sold 506 mbpd of refined petroleum products (including liquid petroleum gas) domestically in 2005, as compared to 485 mbpd sold domestically in 2004. We also sold 392 mbpd of oil equivalent of gas in 2005, as compared to 354 mbpd sold in 2004.

Petrochemical and Other Sales

Our net sales for 2005 included $2,040 million from sales of petrochemicals, bitumen and coal, a 34% increase from the $1,517 million in revenues from sales of these products in 2004. This increase in net sales was due to an increase in prices.

Equity in Earnings of Non-consolidated Investees

Equity in earnings of non-consolidated investees increased 13% to $1,177 million in 2005 from $1,041 million in 2004. This increase resulted primarily from higher earnings reported by the affiliates Hovensa, Lyondell-CITGO, Petrozuata and Chalmette.

Costs and Expenses

Purchase of Crude Oil and Refined Petroleum Products

Our purchase of crude oil and refined petroleum products increased by 34% to $32,979 million in 2005 from $24,649 million in 2004, primarily due to an increase in the international prices of crude oil we purchased and CITGO's purchases from third parties. Other purchases of crude oil were made to meet our supply commitments. Through CITGO, we purchase refined petroleum products from third parties (including affiliates) to supply our refining and marketing networks in the United States.

Operating Expenses

Our operating expenses increased by $1,213 million, or 9%, to $14,645 million in 2005 from $13,432 million in 2004, due to a $664 million increase in production, labor, fees and stipends, and services costs related to the operating service agreements with third parties, a $214 million increase in the price of feedstock, and an increase in refining costs for our refineries abroad.

Depreciation and Depletion

Depreciation and depletion increased by $252 million, or 8%, to $3,334 million in 2005 from $3,082 million in 2004. The increase was a result of an increase in capital expenditures related to additions to existing assets.

Exploration Expenses

Our total exploration expenses were $118 million in 2005, an increase of $58 million, or 97%, as compared to $60 million in 2004. The increase in exploration expenses is attributable to an increase in exploratory activities, particularly with respect to acquisition of 2D and 3D seismic lines.

Production and Other Taxes

Production and other taxes increased by $4,071 million, or 44%, to $13,318 million in 2005 from $9,247 million in 2004. The increase was a result of the higher prices of crude oil and gas in the international market. See "—Impact of Taxes on Net Income and Cash Flows."

Asset Impairment

Asset impairment in 2005 was not material.

Financing Expenses

Financing expenses decreased by $266 million, or 58%, to $190 million in 2005 from $456 million in 2004. The decrease in financing expenses resulted mainly from a net decrease in outstanding indebtedness of approximately $287 million.

Social Development Expenses

Social development expenses increased by $5,667 million to $6,909 million in 2005 from $1,242 million in 2004 mainly due to new contributions and social missions made during 2005 as a result of the Venezuelan government guidelines. See note 18 to our consolidated financial statements.

Taxes

Income taxes during 2005 increased by $398 million to $5,817 million from $5,419 million in 2004. This increase was due to higher operating income.

Results of operations for the year ended December 31, 2004 compared to the year ended December 31, 2003

Production

All of our crude oil, liquid petroleum gas and gas production operations are located in Venezuela. Our production of crude oil averaged 2,833 mbpd in 2004, an 11% increase from 2,562 mbpd produced in 2003. Our production of liquid petroleum gas averaged 166 mbpd in 2004, a 15% increase from 144 mbpd in 2003. Our production of gas (net of amounts re-injected) was 3,819 mmcfd in 2004, an 11% increase as compared to 3,432 mmcfd in 2003.

The net output of refined petroleum products (including output representing our equity interest in refineries held by our affiliates in the United States and Europe) was 2,923 mbpd in 2004, an 8% increase as compared to 2,700 mbpd in 2003. Of this total, 1,301 mbpd (45%) was produced in our Venezuelan refineries (including the Isla Refinery in Curaçao), 1,349 mbpd (46%) was produced in our refineries in the United States, and the remaining 273 mbpd (9%) was produced by the European joint ventures in which we have an interest.

Total Revenues

Total revenues increased $18,168 million, or 39%, from $46,589 million in 2003 to $64,757 million in 2004, due mainly to the increase in average sales price of approximately 31%.

Net Sales

Net sales increased $17,506 million, or approximately 38%, from $46,210 million in 2003 to $63,716 million in 2004. This increase was mainly due to an increase in average sales price of approximately 31% from an average price per barrel of $32.08 in 2003 to $42.11 in 2004. See "Selected Financial Data" and the table setting forth our consolidated sales volume.

Export Revenues of Crude Oil and Refined Products

Exports (excluding Petrozuata (40 mbpd) and extra-heavy crude oil (53 mbpd) with an API lower than 8°) represented 64% of our sales volumes. Our exports increased in volume by approximately 13% from 2,151 mbpd in 2003 to 2,434 mbpd in 2004, due to an increase in the exports of crude oil of 126 mbpd, which represented an increase of 87% from 2003 to 2004. In addition, exports of refined petroleum products increased 158 mbpd, which represented an increase of 31% from 2003 to 2004. The average export price per barrel for Venezuelan crude oil, refined petroleum products and liquid petroleum gas was $32.88 in 2004, as compared to $24.89 in 2003, representing a 32% increase.

Sales Revenues of International Subsidiaries

In 2004, the total volume of crude oil and refined petroleum products that we sold exceeded our total production of crude oil and liquid petroleum gas. Our total sales of crude oil, refined petroleum products and liquid petroleum gas were 3,807 mbpd in 2004, as compared to 3,784 mbpd of total sales of such products in 2003. PDV America, through its wholly owned subsidiaries (primarily CITGO), generates its sales revenues from our crude oil and liquid petroleum gas production and the purchase of crude oil and refined petroleum products from third parties (including affiliates) for supply to the refining and marketing network in the United States. Total sales of refined petroleum products by PDV America were approximately 1,749 mbpd in 2004, as compared to 1,807 mbpd in 2003. PDV America's revenues increased to $32,028 million in 2004 from $25,216 million in 2003.

Domestic Sales

We sold 485 mbpd of refined petroleum products (including liquid petroleum gas) domestically in 2004, as compared to 432 mbpd sold domestically in 2003. We also sold 354 mbpd of oil equivalent of gas, as compared to 302 mbpd sold in 2003.

Petrochemical and Other Sales

In 2004, our revenues from sales of petrochemicals, bitumen and coal were $1,517 million, a 42% increase compared to $1,071 million of revenues from sales of these products in 2003. This increase in revenues is mainly due to the stoppage in 2003 and then the continuation of operations through the whole year of 2004. Furthermore, petrochemical prices were higher in 2004 than in 2003.

Equity in Earnings of Non-consolidated Investees

Equity in earnings of non-consolidated investees increased 175% to $1,041 million in 2004 from $379 million in 2003. This increase resulted primarily from higher earnings reported by the affiliates Hovensa, Lyondell-CITGO, Petrozuata and Chalmette.

Costs and Expenses

Purchase of Crude Oil and Refined Petroleum Products

Our purchase of crude oil and refined petroleum products increased by 17% from $21,016 million in 2003 to $24,649 million in 2004, primarily due to an increase in purchases from third parties as a consequence of the reduction in transfers from PDVSA Petróleo. We also purchased an average of 64 mbpd and 55 mbpd of refined petroleum products and crude oil for our Venezuelan operations, during 2004 and 2003, respectively. Other purchases of crude oil were made to meet our supply commitments. Through CITGO, we purchase crude oil and refined petroleum products from third parties (including affiliates) to supply our refining and marketing networks in the United States.

Operating Expenses

Our operating expenses increased by $4,059 million, or 43%, from $9,373 million in 2003 to $13,432 million in 2004 due to an increase in refining costs for our subsidiary CITGO and an increase in production, labor, contractor, and services costs. In addition, $2,402 million of the increase in our operating expenses was related to an increase in the price of feedstock.

Depreciation and Depletion

Depreciation and depletion increased $40 million, or 1%, to $3,082 million in 2004, from $3,042 in 2003. The increase was a result of an increase in capital expenditures related to additions to existing assets.

Exploration Expenses

Our total exploration expenses were $60 million in 2004, as compared to $27 million in 2003. The increase in exploration expenses was attributable to an increase in exploratory activities, particularly with respect to acquisition of 2D and 3D seismic lines. We added 319 mmbls of proved crude oil reserves from newly discovered reserves in 2004 compared to 162 mmbls from newly discovered reserves in 2003. We conducted exploratory drilling of five wells in 2004, as compared to seven wells in 2003.

Production and Other Taxes

Production and other taxes increased by $2,819 million, or 44%, to $9,247 million in 2005, from $6,428 million in 2003. The increase was a result of the higher prices of oil and gas in the international markets. See "—Impact of Taxes on Net Income and Cash Flows."

Asset Impairment

Asset impairment decreased from $296 million in 2003 to $6 million in 2004. There was no significant variation in the results of the asset impairment study in 2004.

Financing Expenses

Financing expenses decreased by 33% to $456 million in 2004 from $684 million in 2003. The decrease in financing expenses resulted mainly from the net decrease in outstanding indebtedness of $3,295 million.

Social Development Expenses

Social development expenses increased $993 million, or 399%, from $249 in 2003 to $1,242 million in 2004 mainly due to new contributions and social missions made during 2004 as a result of the national government guidelines. See note 18 to our financial statements.

Taxes

Income taxes increased during 2004 by $4,101 million to $5,419 million from $1,318 million in 2003. This increase was due to higher export oil prices.

Impact of Taxes on Net Income and Cash Flows

In accordance with Venezuelan income tax law, our income tax expense is based on our accounting records as recorded in bolívares. For fiscal purposes, Venezuelan companies are required to reflect the impact of inflation and the variations in the rate of the bolívar relative to the U.S. dollar and other foreign currencies by adjusting non-monetary assets and stockholder's equity on their fiscal balance sheets. The Venezuelan income tax law considers any gain resulting from this adjustment as taxable income and any loss as a deductible expense. Such adjustments affect our taxable income and therefore the amount of our income tax liability in bolívares. When such tax liabilities are translated into U.S. dollars, the adjustments may create a material difference between the effective tax rate paid when expressed in U.S. dollars and the statutory rate in bolívares.

On May 24, 2006, an amendment to the Organic Hydrocarbons Law modified existing taxes and created new taxes as described below.

Royalty and Production tax. The Organic Hydrocarbons Law came into effect in January 2002 and among other things increased the royalty tax rate from 16 2/3% to 30% based on the volume of extracted hydrocarbons. For mature reservoirs or extra-heavy crude oil from the Orinoco Oil Belt, the Organic Hydrocarbons

Law provides for a tax of 20% to 30%. For natural bitumen, the Organic Hydrocarbons Law provides for a tax of 16 2/3% to 30%, based on the profitability of reservoirs. The tax is fully deductible for the purposes of determining net taxable income. On May 24, 2006, the Organic Hydrocarbons Law was updated to provide for a production tax at a rate of 33%, which is partially compensated with the royalty tax.

On November 30, 2005, the Ministry of People's Power for Energy and Petroleum and PDVSA Petróleo entered into an agreement to establish the terms for the payment of production tax on hydrocarbons exploitation and on participation in the extraction of associated substances, namely coque and sulfur, during the hydrocarbons upgrade and refining process. The agreement entered into effect on December 1, 2005.

Surface tax. The surface tax is calculated at the annual rate of 100 tax units for each square kilometer or fraction thereof. Surface tax is determined based on the concession area not under production, with an annual increase of 2% for five years and 5% in subsequent years.

General consumption tax. The general consumption tax is determined at a rate ranging between 30% and 50% of the price paid by the final customer and is applicable to each liter of hydrocarbon-derived product sold in the domestic market. The consumption tax rate is determined annually.

We are also taxed on our own consumption, equivalent to 10% of the value of each cubic meter of hydrocarbon-derived product consumed as fuel oil in our operations, calculated based on the final sale price.

Extraction tax. The extraction tax is calculated at a rate of one third of the value of all the liquid hydrocarbons extracted from an oil field (from the same base established by the law for royalty calculation). The taxpayer may deduct from the amount to be paid what it will pay as royalty, including any additional royalty paid in advance.

Export registration tax. The export registration tax is calculated at a rate of one thousandth of the value of all hydrocarbons exported from a port in national territory (based on the sale price of these hydrocarbons).

Income Tax. In January 2002, an amendment to Venezuelan income tax laws came into effect that reduced the income tax rate applicable to our Venezuelan subsidiaries engaged in the production of hydrocarbons and related activities from 67.7% to 50%.

On September 25, 2006, an amendment to the income tax laws provided for the following changes:

Article 11 previously excluded the Orinoco Oil Belt associations from an income tax rate of 50%. Effective as of January 1, 2006, Article 11 only excludes those companies, whether integrated or not, that carry out exploration and exploitation activities of non-associated gas or processing, transport, distribution, storage, commercialization and export activities of gas and their components and those companies devoted exclusively to the refining or upgrading of heavy and extra-heavy crude oil.

Article 56 previously granted a tax discount equivalent to 8% of the amount of new investments and an additional 4% for investments in hydrocarbons recovery, gas conservation and hydrocarbon valuation. Effective as of fiscal year 2006, Article 56 provides a tax discount of 10% for investments in assets, programs and activities related to the conservation and protection of the environment. This discount does not apply to companies involved in the exploitation of hydrocarbons and related activities.

An amendment to the Venezuelan Income Tax Law was published on February 16, 2007, which includes the following: (i) interest paid to persons related parties pursuant to the law is deductible only to the extent that indebtedness due to related parties plus indebtedness due to independent parties does not exceed the debtor's paid-in capital stock, (ii) the amount of a taxpayer's indebtedness due to related parties that exceeds its annual average net equity will be treated as net equity, and (iii) foreign exchange profits or losses are deemed to have occurred in the fiscal year in which they are realized or when the related assets or liabilities become due.

Value Added Tax (VAT*).* Prior to August 2004, Venezuela levied a wholesale tax (a form of value added tax) of 16% on domestic sales transactions. Between September 2004 and September 2005, Venezuela levied this tax at a rate of 15% and, as of October 1, 2005, reduced the rate to 14%. On March 1, 2007, President Chávez reduced the VAT rate to 11% and, as of July 1, 2007, will further reduce it to 9%.

As an exporter, each of our Venezuelan operating subsidiaries is entitled to a refund for a significant portion of such taxes paid, which we classify on our balance sheet as recoverable value added tax. The Venezuelan tax authority issues tax recovery certificates, or CERTs, to us which can be used to pay our future tax liabilities. In 2001, we were able to pay $209 million through CERTs. In 2002, 2003, 2004 and 2005, we did not settle any tax liabilities through CERTs. In 2006, we settled tax liabilities amounting to $647 million through CERTs.

We and some of our Venezuelan subsidiaries are entitled to a tax credit for new investments in property, plant and equipment of up to 12% of the amounts invested. In the case of PDVSA Petróleo, such credits, however, may not exceed 2% of its annual net taxable income and, in all cases, the carry forward period may not exceed three years.

Effective March 2002, and for the term of one year, the Venezuelan government introduced a tax on certain banking transactions to be levied at a rate of 0.75%. In March 2003, the term was extended for one more year, and this tax was raised to a rate of 1.00% until June 2003, when the rate was reduced to 0.75%. The tax rate was reduced to 0.50% from December 2003 and at the beginning of February 2006 this tax was eliminated.

In conformity with the Venezuelan tax law, taxpayers subject to income tax who carry out import, export and loan operations with related parties domiciled abroad are obliged to determine their income, costs and deductions by applying transfer pricing rules. We have obtained studies supporting our transfer pricing methodology. The resulting effects are included as a taxable item in the determination of income tax. We undertake significant operations regulated by transfer pricing rules.

A summary of the tax effects on our consolidated operations for the years ended December 2006, 2005 and 2004 is as follows:

	For the year ended December 31,		
	2006	**2005** ($ in millions)	**2004**
Income taxes	4,031	5,793	5,420
Production and other taxes	18,435	13,318	9,247
	22,466	19,111	14,667

For the year ended 2006, we expensed $22,466 million in taxes, compared to $19,111 million in 2005, representing an increase of 18%. Also, the effective income tax rate decreased from 47.3% in 2005 to 42.5% in 2006. See note 15 to our consolidated financial statements.

Liquidity and Capital Resources

Liquidity

Our primary sources of liquidity are cash flow from operations and short- and long-term borrowings in U.S. dollars and Bolívares. We must continue to invest capital to maintain or increase the number of hydrocarbon reserves that we operate and the amount of crude oil that we produce and process. In the ordinary course of business we and our subsidiaries enter into loan agreements and credit facilities to fund our capital requirements and liquidity needs. A number of the credit facilities and loan agreements entered into by our subsidiaries contain covenants that restrict their ability to, among others, make certain payments, incur additional debt, pay dividends, encumber assets and dispose of certain assets. At December 31, 2006 we had available, unsecured credit lines amounting to $1,123 million.

Cash Flows from Operating Activities

For the year ended December 31, 2006, our net cash provided by operating activities amounted to $5,638 million which represents a 16% decrease from our net cash provided by operating activities of $6,694 million in 2005. The main factor contributing to this decrease was a decrease in our net income from $6,483 million in 2005 to $4,774 million in 2006. Our depreciation cost for 2006 totaled $3,550 million which represents a 6.5% increase compared to our depreciation cost for 2005 which was $3,334 million. Dividends received from affiliates for 2006 amounted to $1,333 million which represents a 19% increase over $1,123 million received as dividends in 2005. For the year ended 2006, foreign exchange losses totaled $1,061 million compared with $34 million for 2005. In addition, working capital increased by $2,944 million in 2006 compared to an increase of $3,253 million in 2005.

Cash Flows from Investing Activities

For the year ended December 31, 2006, net cash used in investment activities totaled $3,572 million compared to $5,038 million in 2005, capital expenditures amounted to $6,599 million in 2006, which represents a 67.6% increase over capital expenditures of $3,938 million of 2005. Net investments in restricted cash amounted to $2,254 million in 2006 which represents 299% increase compared to the reduction of $1,131 for 2005.

There was a decrease in investments of $773 million in 2006 compared to a reduction of $31 million in 2005.

For the three-year period ended December 31, 2006, our capital expenditures were as follows:

	For the year ended December 31,		
	2006	**2005**	**2004**
		($ in millions)	
In Venezuela:			
Exploration and Production	4,166	2,077	1,912
Refining	385	282	369
Petrochemicals and others	1,363	915	740
	5,914	3,274	3,021
Foreign-Refining	1,291	664	364
Total	7,205	3,938	3,385

Restricted Cash

The purpose of the FEM (formerly known as FIEM) is to achieve budgetary stability at the national, state and local levels. Under the original terms of the regulations governing the FEM, we and the Venezuelan government, acting on its own behalf and on behalf of states and municipalities, contributed royalties, dividends, tax revenues and transfers related to the petroleum sector in excess of the average of payments on account of royalties, dividends, tax revenues and transfers for the previous five years.

The mechanism pursuant to which calculations were made to the FEM has been modified several times. As a result of such modifications, no contributions were required from the fourth quarter of 2001 through December 31, 2004.

The deposits made to the FEM may be used in the event of a decrease in the fiscal income provided by petroleum, a decrease in the income provided by the oil and by-products exports as compared to the average of such income collected during the last three calendar years, or in the event of a national state of emergency.

In December 2004, the FEM had total funds of $705 million, including $7 million of accrued interest. See note 4 to our consolidated financial statements.

Since 2004, the law established that no new contributions to the FEM would be made. This fund generated interest income of $22 million and $7 million, respectively, which is reflected in net expenses listed in our consolidated income statements.

As of December 31, 2006, funds deposited in the FEM were $765 million.

Funds for Extra-heavy Crude Oil Projects in the Orinoco Oil Belt. Certain restricted funds allocated to the extra-heavy crude oil projects in the Orinoco Oil Belt correspond to restricted cash that cannot be utilized in the operations of the subsidiary of PDVSA Petróleo. The funds, deposited mainly in money market accounts in financial institutions abroad, are restricted in order to comply with commitments related to the financing received for the development of these projects.

Trusts in BANDES. During 2003 and 2004, CVP and the Bank for Social and Economic Development of Venezuela (known by its Spanish acronym as BANDES) entered into trust agreements for the administration and investment of certain trust assets destined for (i) Programs and Projects of Housing and Infrastructure Development, (ii) Programs and Projects related to Ezequiel Zamora Fund for Agricultural Investment, (iii) Programs and Projects of the Works, Goods and Services destined for the Development of Infrastructure, Agricultural Activity, Highways, Health and Education (FONDESPA), and (iv) the Intergral Agreement for cooperation with the Republic of Argentina between Venezuela and the Republic of Argentina, and approved by the Board of Directors of PDVSA on July 15, 2004.

During 2005, our Board of Directors decided to waive the rights, including those as beneficiary, that we enjoy under the Trust for Programs and Projects for Housing and Infrastructure Development and the Trust for Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Investment. Thus, since 2005, our contributions to the trusts are recognized directly as social development expenses when the disbursements are made. The trustees and the new beneficiaries are responsible for administration of the fund. As a result of this decision, these trust contracts were amended and the amounts registered as restricted cash, accounts receivable and long-term accounts receivable and other assets at December 31, 2004 were recognized as social development expenses during 2005. See note 4, 5, 9 and 18 to our consolidated financial statements.

Cash Flows from Financing Activities

For the year ended December 31, 2006, consolidated net cash flow used in financing activities totaled US$1,814 million, which represents a 14% increase compared to net cash flow used in financing activities for the year ended on December 31, 2005 that totaled $1,604 million, resulting from an increase in long term debt of $23 million, an increase in debt service of $542 million and dividend payments of $1,317 million unchanged from 2005.

As of December 31, 2006, we had outstanding aggregate indebtedness amounting to $2,964 million maturing on various dates through 2032. Of this amount, CITGO had long-term debt outstanding amounting to $1,253 million, PDVSA Petróleo had long-term debt outstanding amounting to $840 million, PDVSA Corporate had debt amounting to $658 million, PDVSA Virgin Islands had debt amounting to $137 million, Bariven had debt amounting to $25 million, our other subsidiaries had debt amounting to $6 million, and capital lease obligations amounting to $45 million.

At the Ordinary Stockholders' Meeting on June 20, 2006, dividends were declared for $1,317 million to Venezuela, with charge to retained earnings at December 31, 2004.

The Venezuelan government reimburses taxes through special tax recovery certificates, or CERTs. In 2006, we recovered $647 million through CERTs.

At the Stockholders' Meeting on July 26, 2005, dividends were declared for $1,302 million. Also, during 2005, with the stockholder's approval, advances on account of dividends of $1,317 million were paid.

In 2003, we paid dividends of $2,326 million and we declared $2,594 million in dividends. See note 15 to our consolidated financial statements.

Loan Agreements

Below is a description of the material loan agreements and credit facilities entered into by us and our subsidiaries.

Other Short-Term Liabilities

At December 31, 2006, we had outstanding short-term liabilities with related entities amounting to $4.7 billion. To date, we have repaid $2.8 billion and we expect to repay the remaining $1.9 billion within the next two months.

Loan Agreement with BNP Paribas

On January 31, 2007, we entered into a $1.1 billion unsecured revolving credit facility that was fully drawn-down during February 2007, with a group of lenders led by BNP Paribas, as administrative agent and lead arranger. The credit facility matures on January 30, 2008 and may be extended for an additional 365 days upon approval of lenders representing more than 50 percent of the aggregate original commitment. The proceeds of the credit facility will be used for general corporate purposes, including the financing of import and export transactions, and for working capital purposes. The credit facility contains various operating and financial covenants that, among other things, impose certain limitations on our and our subsidiaries' ability to incur liens.

Loan Agreement with JBIC

On February 23, 2007, we entered into a credit facility with the Japan Bank for International Cooperation, or JBIC, in the aggregate amount of $3.5 billion to finance oil development projects in Venezuela with Marubeni Corporation and Mitsui & Co., Ltd and private banks in Japan. The credit facility has a term of 15 years. Under the facility, we have the option of paying the loan through cash payment or the supply of crude oil and refined petroleum products at market price, subject to agreed upon minimum amounts revised every three years.

CITGO Loan Agreements

In November 2005, CITGO entered into a $1.15 billion, five-year, secured revolving credit facility to replace the $260 million, three-year, unsecured revolving credit facility that was to mature in December 2005. The outstanding balance under the secured revolving credit facility at December 31, 2006 amounted to $21 million. The unused portion of the secured revolving credit facility is subject to a quarterly commitment fee ranging from 15 to 50 basis points or 17.5 basis points at December 31, 2006.

In November 2005, CITGO entered into a $700 million senior secured term loan agreement. The proceeds from the loan were used to redeem the 6% senior notes and the 11.375% senior notes due in 2011, approximately $136 million of the 7.875% senior notes due in 2006, the private placement senior notes and the master shelf agreement senior notes. The senior secured term loan due in 2012 has a variable interest rate based on our senior secured debt rating. The outstanding balance under this facility amounted to $643 million at December 31, 2006. The interest rate at December 31, 2006 was LIBOR plus 137.5 basis points or 6.7%.

In October 2004, CITGO issued $250 million of 6% unsecured senior notes due on October 15, 2011. In connection with the November 2005 senior secured credit facility, CITGO redeemed all of the 6% unsecured senior notes. In 2005, CITGO recorded as charges to interest expense, $11 million in tender premiums, $3 million in unamortized fees, and $1 million in unamortized discounts in connection with the redemption of these notes. On February 27, 2003, CITGO issued $550 million aggregate principal amount of 11.375% unsecured senior notes due February 1, 2011. In connection with this debt issuance, CITGO repurchased $50 million principal amount of its 7.125% senior notes due 2006.

At December 31, 2006, CITGO through state entities had outstanding $333 million in industrial development bonds for certain Lake Charles, Corpus Christi and Lemont port facilities and pollution control equipment and $196 million in environmental revenue bonds to finance a portion of its environmental facilities at its

Lake Charles, Corpus Christi and Lemont refineries and at the LYONDELL-CITGO refinery. The bonds bear interest at various fixed and floating rates, which ranged from 5.1 percent to 8.3 percent at December 31, 2006 and from 4.1 percent to 8.3 percent at December 31, 2005. Additional credit support for the variable rate bonds is provided through letters of credit issued under the CITGO's securing revolving credit facility.

At December 31, 2006, CITGO through a state entity had outstanding $60 million in taxable environmental revenue bonds to finance a portion of the environmental facilities at the Lake Charles refinery. These taxable bonds are secured by a letter of credit issued under CITGO's secured revolving credit facility and have a floating interest rate (6.3 percent at December 31, 2006 and ranging from 5.3 percent to 5.6 percent at December 31, 2005). At the option of CITGO and upon the occurrence of certain specified conditions, all or any portion of these taxable bonds may be converted into tax-exempt bonds. During 2006, $20 million of these bonds were converted into tax-exempt bonds. During 2005, no taxable bonds were converted into tax-exempt bonds.

Capital Expenditure and Budget

The following table sets forth our actual and planned capital expenditures by geographic locations for the period 2005-2009:

	For the year ended December 31,				
	2005 (1)	**2006 (2)**	**2007 (3)**	**2008 (3)**	**2009 (3)**
			($ in millions)		
Venezuela	3,154	5,936	10,070	14,609	15,026
United States	664	358	475	475	475
Europe and Caribbean	120	305	203	203	203
Total	3,938	6,599	10,748	15,287	15,704

(1) Actual figures.
(2) Preliminary and unaudited.
(3) Business plan.

Our capital expenditures for 2005 in Venezuela were as follows: $2,077 million for exploration and production, $282 million for refining and marketing, $735 million for gas projects and $60 million for petrochemicals and others. The capital expenditures for our international subsidiaries and affiliates are principally to comply with increasingly stringent environmental laws affecting their operations. Our capital expenditures for 2006 in Venezuela were as follows: $3,727 million for exploration and production, $1,229 million for natural gas projects and $980 million for refining, trading, marketing and others.

BUSINESS

Overview

We are a corporation (*sociedad anónima*) organized under the laws of Venezuela, formed in 1975 by the Venezuelan government to coordinate, monitor and control all operations relating to hydrocarbons. We are wholly owned by Venezuela and are the holding company of a group of oil and gas companies. We are the largest vertically integrated oil company in Latin America with daily crude oil production of 2,906 mmbpd and the fourth largest vertically integrated oil company in the world as measured by total assets at year-end 2005, based on information published by Petroleum Intelligence Weekly, a trade publication. We carry out our exploration, development and production ("upstream") operations in Venezuela and our sales, marketing, refining, transportation, infrastructure, storage and shipping ("downstream") operations in Venezuela, the Caribbean, North America, South America, and Europe. We indirectly own 100% of CITGO, a refiner and marketer of transportation fuels, petrochemicals, and other industrial oil-based products in the United States. We plan to invest intensively in upstream and downstream projects in Venezuela and abroad in order to satisfy the current and expected global increase in energy demands. Our business plan calls for investments of approximately $77 billion in Venezuela, the Caribbean and Latin America over the next five years to achieve sustainable crude oil production of 5.8 mmbpd and to significantly expand our gas production and refining capacity by 2012.

All hydrocarbon reserves in Venezuela are owned by Venezuela and not by us. Under the Organic Hydrocarbons Law of 2001, as amended, every activity relating to the exploration and exploitation of hydrocarbons and their derivatives is reserved to the government of Venezuela, which may undertake such activities directly or through instrumentalities controlled by Venezuela through an equity participation of more than 50%. At the current production rate of crude oil and gas, Venezuela has proved reserves for the next 73 years.

We mainly sell crude oil to the United States, Canada, the Caribbean, Europe, South America, and Asia. In addition, we refine crude oil and other feedstock in Venezuela and abroad into a number of products, including gasoline, diesel, fuel oil and jet fuel, petrochemicals and industrial products, lubricants and waxes, and asphalt. We are also engaged in the exploration and production of gas from off shore sources, with a production of 705 mmboe in 2005.

Social Development

The Venezuelan National Constitution and the Organic Hydrocarbons Law mandates us to contribute manpower and financial resources to social programs developed and administered by the Venezuelan government. More specifically, article 5 of the Organic Hydrocarbons Law mandates that all revenues generated by the Venezuelan government from oil activities shall be used to promote health programs, macroeconomic stabilization funds, investments. We have made significant contributions to social programs, promoting and participating in Venezuela's social and economic development. Since 2004, we have participated in and contributed significant funding towards low income housing, agricultural developments and other social programs. For example, in January 2004, we approved the creation of a fiduciary fund referred to as *Fondo Para el Desarrollo Económico y Social del País*, or FONDESPA, which is designed to allocate amounts to programs related to work projects, goods and services, development of infrastructure and roads, agricultural activities, health and education. Our subsidiaries CVP and Palmaven S.A., or Palmaven, contribute the necessary managerial and financial resources to support social programs related to education, healthcare, job creation and subsidized food distribution programs. CVP amended its charter in 2004 to focus on social and welfare activities.

In support of social projects developed by the Venezuelan government in 2004, we incurred expenses of $1,242 million in 2004, $6,909 million in 2005 and $13,261 million in 2006, which are included in the consolidated statement of income. See note 18 to our consolidated financial statements.

Organizational structure

We conduct our operations through our Venezuelan and international subsidiaries.

Through December 31, 1997, we conducted our operations in Venezuela through three main operating subsidiaries, Corpoven, S.A., Lagoven, S.A. and Maraven, S.A. In 1997, we established a new operating structure based on business units. Since then, we have been involved in a process of changing our organizational structure with the aim of improving our productivity, modernizing our administrative processes and enhancing the return on capital. The transformation process involved the merger of Lagoven, S.A. and Maraven, S.A. into Corpoven S.A., effective January 1, 1998, and the renaming of the combined entity PDVSA P&G. In May 2001, PDVSA P&G was renamed "PDVSA Petróleo S.A." and, by the end of 2002, certain nonassociated gas assets were transferred to PDVSA Gas S.A.

Additionally, we have made several adjustments within our organization in order to enhance internal controls to improve our corporate governance and to align our operating structure with the long-term strategies of Venezuela by the adopting a new framework of operating structure that increases the involvement of our Board of Directors in our activities, and, at the same time, enhances our operational flexibility.

Business overview

We engage in the following activities in the oil and gas industries through our subsidiaries:

- Upstream operations;
- Downstream operations; and
- Exploration and production of natural gas from offshore sources.

According to a comparative study published by Petroleum Intelligence Weekly, a trade publication, on December 18, 2006, we are the world's fourth largest vertically integrated oil and gas company and ranked fourth in the world in production, fifth in proved reserves of crude oil, fourth in refining capacity, and seventh in product sales. At the end of 2005, we exported approximately 2,377 mbpd (excluding the Orinoco Belt production and extra heavy crudes), of which 1,195 mbpd or 50% went to the United States or Canadian markets.

Venezuela's crude oil and natural gas reserves and our upstream operations are located in Venezuela, while our downstream operations are located in Venezuela, the Caribbean, North America, South America, and Europe.

Our upstream and downstream operations include:

- Operating exploration, development and production of crude oil and gas and the development and operation of associated crude oil and gas production facilities;
- Operating refineries and marketing of crude oil and refined petroleum products in Venezuela under the PDV brand name and operating refineries and marketing of refined products for the eastern and Midwestern regions of the United States under the CITGO brand name;
- Operating a business in the Caribbean through the Isla Refinery (a refinery and storage terminal which we lease in Curaçao);
- Operating storage terminals in Bonaire and the Bahamas in the Caribbean;
- Owning equity interests in two refineries (one that is 50%-owned by ExxonMobil and one that is 50%-owned by Hess) and in a coker/vacuum crude distillation unit (50%-owned by ConocoPhillips) through joint ventures in the United States;
- Owning equity interests in eight refineries and the marketing of petroleum products in Germany, the United Kingdom and Sweden through two joint ventures (one that is 50%-owned by Deutsche BP and one that is 50%-owned by Neste Oil);

- Processing, marketing and transporting of all gas in Venezuela; and
- Shipping activities.

In the United States, we conduct our crude oil refining operations and refined petroleum product marketing through our wholly owned subsidiary, PDV Holding, which owns 50% of Chalmette Refining (through PDV Chalmette) and (through PDV Sweeny). 50% of Merey-Sweeny, a joint venture with ConocoPhillips that owns and operate a coker and vacuum crude distillation unit in Sweeny, Texas.

These joint ventures with ExxonMobil and Conoco-Phillips, respectively, process crude oil in the United States. We also own 50% of Hovensa, a joint-venture with Hess that processes crude oil in the U.S. Virgin Islands.

PDV Holding owns 100% of CITGO through PDV America. We are, through our U.S. subsidiaries, the 5th largest refiner of crude oil in the United States, based on our aggregate net ownership interest in crude oil refining capacity at December 2006, equivalent to 1,201 mbpd. CITGO refines, markets, and transports gasoline, diesel fuel, jet fuel, petrochemicals, lubricants, asphalt, and other refined petroleum products in the United States. CITGO's transportation fuel customers include primarily CITGO-branded independent wholesale marketers; major convenience store chains; and airlines that are located mainly east of the Rocky Mountains. Asphalt is generally marketed to independent paving contractors on the East Gulf Coasts and Midwest of the United States. Lubricants are sold primarily in the United States to independent marketers, mass marketers and industrial customers. In 2006, CITGO sold a total of 25 billion gallons of refined products compared to 26 billion gallons sold in 2005. In April 2006, CITGO commissioned an investment bank to conduct due diligence and solicit potential buyers for CITGO Asphalt Refining Company, or CARCO, a wholly owned subsidiary of CITGO. CARCO owns and operates two asphalt refineries in Paulsboro, New Jersey and Savannah, Georgia.

Within Europe, we conduct our crude oil refining and refined petroleum product activities through our wholly owned subsidiary, PDV Europa, which owns our 50% interest in Rühr, a company based in Germany and jointly owned with BP. Through Rühr, we refine crude oil and market and transport gasoline, diesel fuel, heating oil, petrochemicals, lubricants, asphalt and other refined petroleum products. We also own a 50% interest in Nynäs, a company with operations in Sweden and the United Kingdom and jointly owned with Neste Oil. Through Nynäs, we refine crude oil and market and transport asphalt, specialty products, lubricants, and other refined petroleum products.

The Venezuelan government subscribed the following agreements together with the governments of other countries, mainly from Latin America and the Caribbean: Caracas Energy Cooperation Agreement (ACEC), Integral Agreement of Cooperation (CIC) and the Petrocaribe Energy Cooperation Agreement. These agreements establish, among others, that PDVSA will supply crude oil and products to the state oil companies of the participating countries. See note 10(f) to our consolidated financial statements.

PDV Caribe, S.A. (PDV Caribe) is domiciled in Caracas and monitors compliance with the operational guidelines set forth in the Petrocaribe Energy Cooperation Agreement of June 28, 2005 among Venezuela and fourteen Caribbean countries, or the Petrocaribe Energy Cooperation Agreement. PDV Caribe also focuses on operations in the Caribbean, particularly the exploration and production of crude oil, the import and export of hydrocarbons and derivative products, refining of hydrocarbons, and the production of petroleum products.

In 2006, the Government of El Salvador entered into an agreement with Venezuela to join the Petrocaribe Energy Cooperation Agreement. This agreement establishes that we will provide to the Asociación Intermunicipal de Energía para El Salvador, or ENEPASA, 100 mbpd of oil at a sale price equivalent to the market price, with payment terms of 90 days for a portion of the shipment and payment terms of 23 years with an interest rate between 1% and 2% for the remaining portion.

In 2000, the Venezuelan government entered into a cooperation agreement with the governments of Cuba, the Dominican Republic, Paraguay, Bolivia, Jamaica, and Uruguay that provides that we will enter into a supply agreement with the national oil company of each country for the supply of crude oil and refined products based on the number of barrels agreed by the Venezuelan government, or the Caracas Energy Cooperation Agreement.

In furtherance of the agreements set forth in the Caracas Energy Cooperation Agreement, we entered into supply agreements with the national oil company of each of these countries. These agreements provide for a sale price equivalent to the market value, payment terms of between 30 and 90 days for a significant portion of every shipment, and long-term financing of the remaining portion (between 15 and 23 years). The agreements will be effective for one year, and may be extended by mutual agreement of the parties involved.

Pursuant to the Caracas Energy Cooperation Agreement, we entered into an agreement with the national oil company of Cuba for the supply of 53 mbpd of crude oil. In 2004, the agreement was amended to provide for the supply of 92 mbpd of crude oil.

In 2005, we deposited an initial contribution of $44 million into an account held with a financial institution in the Oriental Republic of Uruguay, or Uruguay. This account will receive deposits from the Administradora Nacional de Combustibles, Alcohol y Portland Cement (ANCAP), Uruguay's oil company, for payment of our sales of crude oil, refined petroleum products and LPG or its energy equivalents to Uruguay. The initial contribution and any subsequent funds deposited by ANCAP corresponding to payments for oil imports will be used to pay Uruguayan companies for the import of products by Venezuela.

Our gas exploration and production business is conducted by our vertically integrated wholly owned subsidiary, PDVSA Gas. This subsidiary engages in gas exploration and production activity and the processing of gas for NGL production, as well as transportation and marketing gas in the domestic market. Additionally, PDVSA Gas processes gas produced by our eastern and western exploration and production divisions, receiving all the remaining gas after consumption for our operations, for transport and marketing in the domestic market. Our wholly owned subsidiary CVP manages offshore natural gas projects.

DELTAVEN, a local retailing subsidiary, has marketed and distributed retail gasoline and other refined petroleum products in Venezuela, under the PDV brand, since 1997. DELTAVEN, together with the private sector, is also promoting the development of the commercial infrastructure and services related to gasoline and other refined petroleum products for retail clients.

We manage our research and development activities through our wholly owned subsidiary INTEVEP.

Business Strategy

Our business strategy is focused on developing Venezuela's hydrocarbon resources, contributing to the development of the country, diversifying our markets, and strengthening energy integration with the countries of the Caribbean, South America and Central America.

We plan to invest intensively in upstream and downstream projects in order to satisfy the expected worldwide increase in demand for crude oil, natural gas and refined petroleum products, and in order to provide Venezuela with the necessary resources to achieve sustainable development. In the downstream business, we seek a balance between our overseas and local assets in order to assure domestic supply and quality for customers, while maximizing the value of Venezuelan hydrocarbon resources.

Our strategy includes the following key initiatives:

- *Exploration of Condensate and Light and Medium Crude Oil.* We intend to focus primarily on traditional production areas. All other exploration areas, both onshore and offshore, are open to third party participation, under the umbrella of the Venezuelan Organic Hydrocarbons Law and the Venezuelan National Constitution.

- *Development of the Orinoco Oil Belt Magna Reserves.* The Orinoco Oil Belt area (18,220 km^2) has been divided into 27 blocks for reserves quantification and certification purposes. We expect that the certification process will increase the Orinoco Oil Belt reserves by 236 billion barrels from the current proved reserves of 38 billion barrels, confirming that Venezuela has the world's largest oil reserves. We intend to actively participate in the development of these reserves.

- *Production Growth in Traditional Areas.* We are investing in traditional areas with a view to achieve a crude oil production capacity of 5,837 mbpd by 2012. The projected production for the period leading up to 2012 includes the following: 4,019 mbpd from areas where we are the sole operator; 460 mbpd from the PDVSA–International Oil Companies, or IOC, partnership blocks, 112 mbpd from profit-sharing agreements; and 9 mbpd from additional IOC partnership blocks. The remaining 1,237 mbpd are expected to result from the expansion of Orinoco Oil Belt production.

- *Expansion of Orinoco Oil Belt Production.* We intend to expand the Orinoco Oil Belt by developing its extra-heavy crude oil reserves, including new upgrading facilities and pipelines to terminals. Through the implementation of this project, we expect to increase the production of the Orinoco Oil Belt to 1,237 mbpd by 2012 as follows: 622 mbpd from actual association agreements and 615 mbpd from new developments.

- *Development of Major Projects in Refineries.* We intend to expand our refinery capacity from 3.1 mmbpd (1.3/1.8 mmbpd Venezuela/Overseas capacity) to 4.1 mmbpd by 2012 (1.8/2.3 mmbpd Venezuela/Overseas capacity). We expect that the implementation of this initiative will allow us to increase our production of refined petroleum products and upgrade our product slate towards higher-margin products, as well as improve the efficiency of our existing refining capacity. Specifically, we plan to develop new refining centers, including Cabruta (400 mbpd), Batalla de Santa Inés (50 mbpd), Caripito (50 mbpd) and Zulia (50 mbpd).

- *Development of the Gas Sector.* We are planning to fast-track development of this business segment with third party participation both onshore and offshore under the framework of the Venezuelan Organic Law of Gaseous Hydrocarbons.

- *Development of the Delta Caribe.* This natural gas development initiative consists of the Northeast Delta Caribbean Project and the Rafael Urdaneta Project in western offshore Venezuela. The project involves the development of gas reserves located north of Paria (the Mariscal Sucre Project), Plataforma Deltana, the Gulf of Paria, Guarapiche, Punta Pescador and the Delta Centro area. We intend to link all blocks by a gas pipeline network to the future Güíria Hub, where an industrial complex CIGMA is expected to be developed.

- *Development of Infrastructure.* We are implementing an infrastructure program focused on multiple projects with the aim of assuring the development of the crude oil and gas reserves. This program includes the building of about 9.3 million barrels of oil storage capacity, 3 additional loading docks, approximately 650 km in oil pipelines, 4 new distribution facilities, the expansion of existing gas pipelines, and building new pipelines for an estimated length of 6,210 km.

- *Marketing of Crude and Products.* We focus on the marketing of all crude oil and refined petroleum products projected in our marketing plan and the renewing and expanding of our tanker fleet. Our subsidiary, PDV Marina, intends to increase its tanker capacity from its current 1,348,000 dwt (Dead Weight Ton) to 4,151,000 dwt by 2012. We expect to increase the number of our tankers and transport capacity in order to match the expected increase in production and better distribute our crude oil and refined petroleum products. In addition, we intend to expand and diversify our marketing efforts in Latin America, the Caribbean and Asia, including China and India.

Our business plan calls for investments of approximately $77 billion for investments in Venezuela, the Caribbean and Latin America over the next five years to achieve sustainable crude oil production of 5.8 mmbpd by 2012 and to significantly expand our gas production and refining capacity. We expect to provide about 70% of the funds required for this plan from our own resources and 30% by means of contributions from third parties and financing. The following table sets forth a summary of capital expenditures for 2006 and the business plan for 2007 through 2012. Not included in this business plan are the capital expenditures for CITGO and our investments in Europe, which we expect to be funded with cash from our operations.

Capital Investment Plan 2006-2012 for Venezuela and Venezuelan sourced projects.

	At and for the year-ended December 31, ($ in millions)							
	(1) 2006	2007	2008	2009	2010	2011	2012	Total
Exploration	303	518	397	505	413	284	24	2,444
Production	3,121	2,802	2,506	2,387	2,400	2,485	998	16,699
Empresas Mixtas	200	523	660	527	467	361	253	2,991
OS Acuerdos (2)	62	-	-	-	-	-	-	62
Orinoco Actual (3)	196	300	283	309	388	320	695	2,491
Orinoco New (3)	-	305	14	1,576	4,533	3,542	6,493	16,463
AGC (4)	113	209	289	174	369	380	133	1,667
Gas	1,219	3,400	2,469	2,197	2,534	2,201	2,176	16,196
Refining	356	720	3,259	3,733	3,834	3,290	1,094	16,286
Supply & Trading	256	1,293	128	73	117	126	48	2,041
Total	**5,826**	**10,070**	**10,005**	**11,481**	**15,055**	**12,989**	**11,914**	**77,340**

(1) Actual numbers
(2) Old operative agreements
(3) Orinoco Oil Belt Associations.
(4) Profit-sharing Agreements.

The implementation of our business strategy includes the following initiatives:

Exploration, production and upgrading. The exploration and production strategy focuses on increasing our efforts to search for new light crude oil and medium crude oil reserves and the systematic replacement of such reserves in traditional areas, developing new production areas and adjusting our production activities to cater for market demands and agreements reached among OPEC members and other oil producing countries. For this purpose, we intend to acquire 5,150 km^2 of 2D seismic lines, 21,530 km^2 of 3D seismic lines and drill about 219 exploratory wells. We intend to drill some 6,525 production wells and perform maintenance (Ra/Rc) on 8,343 wells, among other activities, in order to reach a production capacity of 5.8 mmbpd by 2012. We also seek to maintain competitive production costs and increase our overall recovery factor by using state-of-the-art technology. The first four Orinoco Oil Belt projects have been completed and are in full operation: Hamaca (a PDVSA–ConocoPhillips–Chevron Joint Venture), Petrozuata (a joint venture between PDVSA and ConocoPhillips), Cerro Negro (a PDVSA–ExxonMobil–BP joint venture), Sincor (a PDVSA–TotalFina–Statoil joint venture). These developments are currently producing more than 574 mbpd of heavy crude oil and extra heavy crude oil. Pursuant to Decree-Law No. 5,200, these joint ventures will be converted into Empresas Mixtas and we will have at least a 60% ownership interest in them and will control their operations. We presently have a project underway to quantify and certify proved hydrocarbons reserves in the Orinoco Oil Belt in order to determine its economic prospects and properly develop future business in that area.

Refining. Our refining strategy focuses on expanding and improving the efficiency of our downstream operations. In Venezuela, we intend to construct four new refineries: Cabruta (400 mbpd), Batalla de Santa Inés (50 mbpd), Caripito (50 mbpd) and Zulia (50 mbpd). Also, we intend to add deep conversion capacity to the Puerto La Cruz, CRP (Amuay and Cardón) and El Palito refineries in order to increase the efficiency of heavy crude oil processing, while maintaining our environment compliance. In our refineries in the United States, Europe and the Caribbean, we intend to continue to invest in order to comply with quality standards required by those markets. In addition, we intend to invest in the refineries of Kingston-Jamaica and Cienfuegos-Cuba and are evaluating a new refinery with Petrobras in the northern section of Brazil, and we intend to invest in a deep conversion project in La Teja refinery in Uruguay. Through these investments and upgrades we aim to achieve a higher margin on our refined petroleum products.

International marketing. We plan to continue expanding our international marketing operations to ensure the growth of our market share for our crude oil and refined petroleum products and to increase brand recognition for our products. We seek to diversify our customer portfolio by entering new markets such as China and India. We also intend to expand our operations in the Caribbean and South America and aim to maintain our market position in the United States through a more efficient distribution system of CITGO's refined petroleum products. In order to improve our logistic and maritime transportation capabilities, we intend to construct 42 tankers (including the replacement of five tankers to be taken out of commission) through strategic agreements with Argentina, Brazil, China and Spain. These tankers, are turn, is expected to increase the number of ships owned and operated by our subsidiary, PDV Marina, from 21 to 58. The planned increase in PDV Marina's tanker fleet is expected to enable us to increase our export volume from approximately 600 mbpd in 2005 to approximately 2,100 mbpd in 2012.

Domestic marketing. In Venezuela, we plan to continue to supply our products and promote the use of unleaded gasoline (a process started during the fourth quarter of 1999) and to improve the competitive position of our network of service stations, lubrication centers and macro-stores. We also to intend to continue the development of our commercial network through business relationships and other associations and to increase our product supply to high-traffic airports.

Natural Gas. The development of the gas exploration and production business is one of our major goals. We intend to focus our activities on meeting the growing gas demand to foster national development and a higher standard of living. We plan to focus on creating attractive investment opportunities for the private sector in non-associated gas production. We intend to expand our transportation and distribution systems and LNG extraction, processing and fractionation capacity, and develop new gas export ventures, including exports of LNG. We intend to operate most of the existing associated natural gas production fields, currently assigned to us by the Ministry of People's Power for Energy and Petroleum. We intend to continue to explore and develop non-associated gas reserves with the support of private investors. We expect to support the activities related to our gas business using our existing gas transmission and distribution systems. We are engaged in the development of a large gas distribution network in different cities to provide gas for residential, commercial and industrial purposes. We anticipate that development of our gas business will require approximately $16 billion in capital expenditures from 2006 to 2012. We expect that such capital expenditures will be made by us and by the private sector. We believe that our natural gas resources and Venezuela's geographical location at the center of the Atlantic Basin puts us in an advantageous position to achieve our goals by 2012. We intend to promote an increased and more diverse use of gas in Venezuela.

Private Sector Participation in Natural Gas. In 2001, the Ministry of People's Power for Energy and Petroleum completed a round of onshore non-associated gas licensing bids for exploration and production activities in 11 new onshore areas. Six areas were awarded to foreign and domestic investors: Yucal-Placer Norte, Yucal-Placer Sur, Barrancas, Tinaco, Tiznado and Barbacoas. Both Yucal-Placer areas produced approximately 100 mmcfd in 2005, and approximately 300 mmcfd are expected to be produced by 2010. During the first quarter of 2003, the Venezuelan government assigned two blocks within the Deltana Platform area (eastern Venezuela and on the maritime border with Trinidad & Tobago) to Statoil, Chevron and ConocoPhillips. More recently, the government has assigned another block to Chevron. In addition, the Ministry of People's Power for Energy and Petroleum has plans for a new bidding round to explore and develop offshore resources in the west and northeast of Venezuela. These developments are likely to include projects for the production of LNG once demand in Venezuela has been met. The Ministry of People's Power for Energy and Petroleum has defined an offshore gas project called Rafael Urdaneta located in the Venezuelan Gulf and northeast of Falcon State with an area of 30,000 km^2 divided into 29 blocks to be offered in three phases. Phase one began during the second quarter of 2005, when the Venezuelan government offered the first six blocks to 37 national and foreign oil companies. During this phase, three blocks were awarded. During the third quarter, phase two began with the offering of 5 blocks (4 new and 1 from the 1st phase), 2 of which were awarded. Blocks Urumaco I and II were awarded to the Russian company Gazprom, block Cardón III was awarded to Chevron, block Cardón IV was awarded to Repsol-ENI and block Moruy II was awarded to Petrobras-Teikoku. The third phase will be defined in the future.

Orimulsion®. Our subsidiary BITOR has been responsible for producing Orimulsion® to meet its existing contractual obligations in Europe, Asia and North America. However, in the first quarter of 2006, BITOR decided to apply most of its extra-heavy crude oil reserves towards the production of commercial crude oil. On December 31, 2006, BITOR, through its joint venture Orifuels Sinoven, S.A., suspended the production of Orimulsion®. In 2007, BITOR initiated negotiations with its existing clients to renegotiate its obligations for the supply of Orimulsion®. As part of these negotiations, some of BITOR's existing clients have agreed to receive fuel oil instead of Orimulsion®. Other clients have agreed to terminate their supply agreements.

Regulatory Framework in Venezuela

The hydrocarbons industry in Venezuela is regulated pursuant to the Organic Hydrocarbons Law, effective as of 2002, and the Organic Law of Gaseous Hydrocarbons, enacted in 1999. The Organic Hydrocarbons Law reserves oil-related activities to Venezuela. Under the Organic Hydrocarbons Law, private participation in hydrocarbon upstream activities, as well as gathering and initial transportation and storage, is only allowed through *Empresas Mixtas*, or joint ventures, in which the Venezuelan government has more than 50% equity ownership. The Organic Law of Gaseous Hydrocarbons, which governs gas-related activities, provides for a non-reserved legal regime. Under the Organic Law of Gaseous Hydrocarbons, gas-related activities may be carried out by government entities or national and foreign private companies with no minimum government participation.

Prior to the Organic Hydrocarbons Law coming into effect, we had auctioned the rights to 33 oil fields that no longer met our minimum rate of return on investment threshold and entered into operating services agreements with several international companies. The terms of these operating services agreements required that the international oil company investors make capital investments in the form of assets necessary to increase production in the oil fields. The investors would then recover their investments by collecting operating fees and stipends from us. Pursuant to the Organic Hydrocarbons Law, in 2005, the Ministry of People's Power for Energy and Petroleum instructed us to convert our operating service agreements to a regime of Empresas Mixtas, in which we would hold more than 50% equity ownership.

Exploration, Production and Upgrading

Venezuela's commercial production of crude oil is concentrated in the Western Zulia Basin, in the Central Southern Barinas–Apure Basin and in the Eastern Basin situated in the states of Monagas and Anzoategui. The numerous fields in production in these three basins are broadly distributed geographically and, as a result, our production risk is substantially diversified. The impact of a loss of production in any one field would be relatively minor when compared to Venezuela's total production. Fifty-two percent of the crude oil produced in 2005 was heavy crude oil and extra-heavy crude oil. The Western and Eastern basins have produced approximately 41.6 billion barrels and approximately 16.4 billion barrels, respectively, of crude oil to date. Substantial portions of the sedimentary basins in Venezuela have not yet been explored.

The following table presents our proved reserves, proved and developed reserves, production volume for 2005 and the ratio of proved reserves to annual production in Venezuela December 31, 2005:

	For the year ended December 31, 2005			
	Proved (1)	Proved developed	Production	Ratio Res/Prod
	(mmb)	(mbpd)	(mbpd)	
Crude Oil (2):				
Light and condensate	11,605	3,167	619	51
Medium	12,345	4,812	1,067	32
Heavy	17,391	5,333	833	57
Extra-heavy	45,983	6,308	748	168
Total Crude Oil	**87,324**	**19,620**	**3,267**	**73**
Gas in boe (3):	28,664	18,985	699	113
Total Natural Hydrocarbon in boe	115,988	38,605	3,966	80

(1) Developed and undeveloped.
(2) Production obtained from the top of wells, includes condensates.
(3) Net natural gas production (gross production less natural gas reinjected).

The following table presents the location, production volume for 2006, discovery year, proved reserves and the ratio of proved reserves to annual production for each of our largest oil fields in Venezuela as of December 31, 2006:

Name of field	Location	2006 production	Year of discovery	Proved Reserves	Ratio Res/Prod
	(State of)	(mbpd)		(mmb)	(years)
Zuata Principal	Anzoátegui	291	1985	14,304	135
Cerro Negro	Anzoátegui	115	1979	7,118	170
Cerro Negro	Monagas	47	1979	6,348	367
Tia Juana Lago	Zulia	163	1925	3,746	63
Huyapari	Anzoátegui	156	1979	3,690	65
Bare	Anzoátegui	73	1950	1,939	73
El Furrial	Maturín	395	1986	1,902	13
Mulata	Maturín	241	1941	1,831	21
Bloque VII Ceuta	Zulia	136	1956	1,816	37
Bachaquero Lago	Zulia	114	1930	1,669	40
Boscan	Zulia	109	1946	1,488	37
Lagunillas	Zulia	142	1925	2,450	47
Urdaneta Oeste	Zulia	102	1955	1,451	39
Santa Barbara	Monagas	137	1941	1,371	27
Lagunillas Lago	Zulia	81	1925	1,326	45
Uverito	Maturín	0	1949	1,237	-
Tia Juana Tierra	Zulia	34	1925	1,216	98
Lagunillas Tierra	Zulia	59	1925	1,073	49

Reserves

We use geological and engineering data to estimate the proved crude oil and gas reserves, including proved developed and undeveloped reserves. Such data is capable of demonstrating with reasonable certainty whether such reserves are recoverable in future years from known reservoirs under existing economic and operating conditions. We expect to recover proved crude oil and natural gas reserves principally from new wells and acreage that has not been drilled using currently available equipment and operating methods. The estimates of reserves are not precise and are subject to revision. We review these crude oil and gas reserves annually to take into account, among other things, production levels, field reviews, the addition of new reserves from discoveries, year-end prices and economic and other factors. Proved reserve estimates may be materially different from the quantities of crude oil and gas that are ultimately recovered.

Crude oil and gas proved developed reserves represented approximately 21% and 70%, respectively, of Venezuela's total estimated proved crude oil and gas reserves on an oil equivalent basis at December 31, 2005.

Crude Oil. Venezuela had estimated proved crude oil reserves at December 31, 2005 totaling approximately 80.0 billion barrels (including an estimated 38 billion barrels of extra-heavy crude oil in the Orinoco Oil Belt). Based on production levels for 2005, estimated proved reserves of crude oil, including heavy and extra-heavy crude oil reserves that will require significant future development costs to produce and refine, have a remaining life of approximately 67 years.

Natural Gas. Venezuela had estimated proved reserves of gas totaling approximately 152,264 bcf (including an estimated 15,383 bcf in the Orinoco Oil Belt of which 13,819 bcf is associated with extra-heavy crude oil) as of December 31, 2005 compared to 151,479 bcf (or 26,117 mmb and boe) as of December 31, 2004. Venezuela's gas reserves are comprised of associated gas that is developed incidental to the development of our crude oil reserves. A large proportion of our Venezuela's gas reserves are developed. During 2006, approximately 43% of the gas that we produced was reinjected for well pressure maintenance purposes.

The following table presents Venezuela's proved reserves of crude oil and gas, which include both developed and undeveloped reserves. All of them are located in Venezuela. See note 25 to our consolidated financial statements.

	For the year ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(in million barrels, unless otherwise indicated)				
Proved reserves:					
Condensate	1,870	1,833	1,867	1,919	1,900
Light	9,735	9,747	9,830	10,078	10,012
Medium	12,345	12,456	12,487	12,340	12,450
Heavy	17,391	17,533	17,708	17,617	17,414
Extra-heavy	45,983	38,443	38,690	35,186	35,381
Total crude oil	**87,324**	**80,012**	**80,582**	**77,140**	**77,157**
Ratio Res/Prod (years)	**73**	**67**	**69**	**74**	**70**
Natural gas (bcf)	166,249	152,264	151,479	150,040	147,111
Natural gas in boe	28,664	26,252	26,117	25,869	25,364
Total hydrocarbons in boe	**115,988**	**106,264**	**106,699**	**103,009**	**102,521**
Proved developed reserves:					
Condensate	407	321	387	416	419
Light	2,760	2,359	2,772	2,760	2,716
Medium	4,812	5,026	5,471	5,419	5,533
Heavy	5,333	5,406	4,569	4,683	4,877
Extra-heavy	6,308	3,826	4,076	3,010	2,154
Total crude oil	**19,620**	**16,938**	**17,275**	**16,288**	**15,699**
Natural gas (bcf)	110,108	106,726	106,035	105,030	102,190
Natural gas in boe	18,985	18,401	18,282	18,109	17,619
Total hydrocarbons in boe	**38,605**	**35,339**	**35,557**	**34,397**	**33,318**
Percent of proved developed to total reserves (1):					
Crude Oil	22%	21%	21%	21%	20%
Natural gas	66%	70%	70%	70%	69%

(1) Proved developed reserves divided by total proved reserves.

Operations

We maintain an exploration and development program aimed at increasing Venezuela's proved crude oil reserves and our production capacity. Beginning in 1992, we commenced a program designed to attract and incorporate private sector participation into our exploration and production activities. We currently conduct our exploration and development activities in the Western Zulia Basin, the Western Barinas–Apure Basin and the Eastern Basin in the states of Monagas and Anzoátegui. We are currently conducting extensive exploration and development activities in the Orinoco Oil Belt of the Eastern Basin and in the other basins, either independently or together with foreign partners through joint ventures.

In 2005, our exploration expenditures were used mainly to fund the drilling of 16 exploratory wells and the acquisition of 2,373 km^2 of 3D seismic lines. In addition, in 2006, we drilled 19 exploratory wells and acquired 617 square kilometers of 3D seismic lines.

The following table summarizes our drilling activities for the periods indicated:

	For the year ended December 31, (Number of wells)				
	2006	2005	2004	2003	2002
Exploration wells:					
Completed	4	5	1	3	3
Suspended	1	0	0	1	2
Under evaluation	5	2	1	0	0
In progress	2	8	2	3	3
Dry or abandoned	7	1	1	0	2
Total	**19**	**16**	**5**	**7**	**10**
of which are carry-overs	10	6	1	5	7
Development wells drilled (1):	**543**	**379**	**313**	**206**	**366**

(1) Includes wells in progress, even if they were wells spud in previous years, and injector wells. Does not include 26 development wells from PDVSA Gas and 62 development wells (including two injector wells) attributable to our operating service agreements located in the Eastern Division. See "Initiatives Involving Private Sector Participation—Operating Service Agreements."

In furtherance of the Orinoco Oil Belt extra-heavy crude oil projects, 122 development wells and 33 stratigraphic wells were drilled in 2004, 64 development wells were drilled in 2003, 17 exploration wells and 144 development wells were drilled in 2002.

In 2005, our crude oil production averaged approximately 2,906 mbpd (including approximately 234 mbpd attributable to our participation in the Orinoco Oil Belt projects) with API gravity between 16° and 32°. This production level represented approximately 77% of our estimated crude oil production capacity of 3,785 mbpd (including approximately 630 mbpd of crude oil production capacity attributable to our Orinoco Oil Belt projects). During 2005, our average production cost of crude oil was approximately $3.93 per boe, or $3.13 per boe excluding the production costs attributable to our operating service agreements.

On average, during 2005, our gas production was approximately 7,008 mmcfd (or approximately 1,208 mbpd on an oil equivalent basis), of which approximately 2,920 mmcfd, or approximately 42%, was reinjected for purposes of maintaining reservoir pressure. A significant portion of our gas production is transported through our pipeline systems for use by industries in the coastal and central regions of Venezuela.

The following table summarizes our historical average net daily crude oil and natural gas production by type and by basin and the average sales price and production cost for the periods specified:

	For the year ended December 31,				
	2006	2005	2004	2003	2002
	(In thousand barrels per day, unless otherwise indicated)				
Production					
Crude oil:					
Condensate	125	18	25	22	46
Light	642	776	767	727	774
Medium	1,020	999	1,001	914	962
Heavy/Extra-heavy	1,120	1,113	1,040	899	934
Total crude oil	**2,907**	**2,906**	**2,833**	**2,562**	**2,716**
Liquid petroleum gas	177	165	166	144	173
Total crude oil and LPG	**3,084**	**3,071**	**2,999**	**2,706**	**2,889**
Natural gas (mmcfd):					
Gross production	7,072	7,008	6,566	5,938	6,023
Less: Reinjected	3,019	2,920	2,747	2,506	2,351
Net natural gas (mmcfd)	**4,053**	**4,088**	**3,819**	**3,432**	**3,672**
Net natural gas (in mbpd boe)	699	705	658	592	633
Total hydrocarbons in boe	**3,783**	**3,776**	**3,657**	**3,298**	**3,522**
PDVSA's crude oil production by basin:					
Western Zulia Basin	1,180	1,187	1,237	1,121	1,332
Western Barinas–Apure Basin	87	88	85	86	93
Eastern Basin	1,640	1,631	1,511	1,355	1,291
Total crude oil	**2,907**	**2,906**	**2,833**	**2,562**	**2,716**
Natural gas production by basin (mmcfd):					
Western Zulia Basin	1,123	1,255	1,187	1,031	1,261
Western Barinas–Apure Basin	28	17	4	6	8
Eastern Basin	5,921	5,736	5,375	4,901	4,754
Total natural gas	**7,072**	**7,008**	**6,566**	**5,938**	**6,023**
Average export price (2):					
Crude oil ($ per barrel)	55.21	45.32	32.22	24.35	21.19
Gas ($ per mcf)	1.13	0.84	0.74	0.61	0.71
Average production cost ($/boe) (3)					
Including operating service agreements	4.34	3.93	3.77	3.85	3.92
Excluding operating service agreements	4.01	3.13	3.29	2.06	2.42

(1) See "Initiatives Involving Private Sector Participation—Former Operating Service Agreements."
(2) Including sales to subsidiaries and affiliates.
(3) The combined average production cost per barrel (for crude oil, gas and LPG), is calculated by dividing the sum of all direct and indirect production costs (including our own consumption but not including depreciation and depletion); by the combined total production volumes of crude oil, gas and LPG.

Venezuelan Crude Oil Production Subject to Royalties

In 2006, Venezuela's total crude oil production subject to royalties amounted to approximately 3,250 mbpd, which includes approximately 2,833 mbpd from our own production, approximately 15 mbpd from our own production of less than 8° API extra-heavy crude oil, 59 mbpd from our participation in Petrozuata production and approximately 343 mbpd from third party participation in the Orinoco Oil Belt production activities.

In 2005, Venezuela's total crude oil production subject to royalties amounted to approximately 3,274 mbpd, which includes approximately 2,785 mbpd from our own production, approximately 61 mbpd from our own production of less than 8° API extra-heavy crude oil, 60 mbpd from our participation in Petrozuata production and 368 mbpd from third party participation in the Orinoco Oil Belt production activities.

Initiatives Involving Private Sector Participation

Prior to 2003, we encouraged private initiatives and investment in the oil industry with the approval of the Venezuelan National Assembly, and we were permitted to enter into operating and association agreements with private entities. In 2003, we took over the management of our business ventures with private sector entities and assigned them to our subsidiary CVP. All dividends and profits from production activities conducted pursuant to our operating service agreements and our other strategic associations continue to be paid to us, except for dividends from our operating service agreements, which are paid to CVP.

Former Operating Service Agreements. During 1992, 1993 and 1997, we auctioned the rights to 33 oil fields that no longer met our minimum rate of return on investment threshold and entered into agreements with several international companies. The agreements reactivated the operation of these oil fields using secondary and tertiary recovery techniques.

The following table sets forth the proved reserves and production for our empresas mixtas/operating agreements for the five years ended December 31, 2006:

	At or for the year ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Proved reserves (mmbls) (1)	4534	5,362	5,491	5,446	5,501
Production (mbpd)	358	502	519	465	481

(1) Portion of reserves in fields assigned to operating service agreements as of December 31 of the year in which each such operating service agreement became effective. Such agreements were not expected to necessarily result in the exploitation of 100% of those reserves during their term. Includes 50 mmbls at Socorro field and 70 mmbls at Mara field related to the Operating Service Agreement with National Universities.

In 2006, our operating agreements migrated to empresas mixtas. See note 13(c) to our consolidated financial statements.

The terms of these operating service agreements required that the international oil company investors make capital investments in the form of assets necessary to increase production in the oil fields. These investors recover their investments by collecting operating fees and stipends from us. The amount of the fees and stipends is determined based on pricing formulas derived from the amount of crude oil delivered to us during the term of the operating service agreement. The operating service agreements also provide that we would own the capital assets employed in the production, retain title to the hydrocarbons produced and have no further obligations as to any remaining value of the assets existing in the fields. See note 10(c) to our consolidated financial statements.

In 2005, pursuant to the Organic Hydrocarbons Law, the Ministry of People's Power for Energy and Petroleum instructed us to convert the operating service agreements to a regime of Empresas Mixtas, in which we will hold a minimum of 51% stock ownership. CVP signed transition agreements for each operating service agreement during 2006.

Conversion of Operating Service Agreements to Empresas Mixtas

During 2006, 19 joint-operating agreements were converted into Empresas Mixtas which in which CVP has an equity holding between 60% and 80%.

Commencing in 2005, the Ministry of People's Power for Energy and Petroleum conducted a legal and technical analysis of the 33 operating service agreements that we entered into with several oil companies between 1992 and 1997. The analysis indicated that these agreements had, among other things, clauses relating to fees calculated on the basis of the price and volume of hydrocarbons produced that were not in accordance with the Organic Hydrocarbons Law.

On April 12, 2005, the Ministry of People's Power for Energy and Petroleum instructed our Board of Directors that our operating service agreements had to be amended to comply with the Organic Hydrocarbons Law and to evaluate the feasibility of terminating the operating service agreements in a period of not more than one year. In the last quarter of 2005, each company party to operating service agreements signed "Transition Agreements" with us in order to review its operating service agreements. On March 30, 2006, the National Assembly approved the Model Contracts for Empresas Mixtas and, on March 31, 2006, it approved the "Memorandum of Understanding" for the conversion of the operating service agreements to contracts implementing Empresas Mixtas, which would apply to all but two companies that entered into operating service agreements with us with which we were unable to reach an agreement. In addition, five of the fields under operating service agreements were agreed to be returned to us. The following table lists each field affected by the transition from operating service agreements to Empresas Mixtas, the previous operator of each field and our participation in each field under the Empresas Mixtas regime:

<table>
<tr><th>FIELDS (25)</th><th>PARTNER</th><th>COUNTRY</th><th>NAME OF THE NEW EMPRESA MIXTA (21)</th><th>% PDVSA</th><th>% PARTNER</th></tr>
<tr><td>MENE GRANDE</td><td>REPSOL</td><td>SPAIN</td><td rowspan="2">PETROQUIRIQUIRE, S.A</td><td rowspan="2">60%</td><td rowspan="2">40%</td></tr>
<tr><td>QUIRIQUIRE</td><td>REPSOL</td><td>SPAIN</td></tr>
<tr><td>CARACOLES</td><td>CNPC</td><td>CHINA</td><td rowspan="2">PETRO SINO-VENEZOLANA, S.A</td><td rowspan="2">75%</td><td rowspan="2">25%</td></tr>
<tr><td>INTERCAMPO N.</td><td>CNPC</td><td>CHINA</td></tr>
<tr><td>FALCÓN ESTE</td><td>V.O.G.</td><td>VENEZUELA</td><td rowspan="2">PETROCUMAREBO, S.A</td><td rowspan="2">60%</td><td rowspan="2">40%</td></tr>
<tr><td>FALCÓN OESTE</td><td>V.O.G.</td><td>VENEZUELA</td></tr>
<tr><td>AMBROSIO</td><td>PERENCO</td><td>FRANCE</td><td rowspan="2">PETROWARAO, S.A</td><td rowspan="2">60%</td><td rowspan="2">40%</td></tr>
<tr><td>PEDERNALES</td><td>PERENCO</td><td>FRANCE</td></tr>
<tr><td>CABIMAS</td><td>SUELOPETROL</td><td>VENEZUELA</td><td>PETROCABIMAS, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>KAKI</td><td>INEMAKA</td><td>VENEZUELA</td><td>PETROLERA KAKI, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>CASMA-ANACO</td><td>OPEN</td><td>VENEZUELA</td><td>PETROCURAGUA, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>COLÓN</td><td>TECPETROL</td><td>ARGENTINA</td><td>BARIPETROL, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>ONADO</td><td>CGC</td><td>ARGENTINA</td><td>PETRONADO, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>ORITUPANO-LEONA</td><td>PETROBRAS</td><td>BRAZIL</td><td>PETRORITUPANO, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>LA CONCEPCIÓN</td><td>PETROBRAS</td><td>BRAZIL</td><td>PETROWAYU, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>ACEMA</td><td>PETROBRAS</td><td>BRAZIL</td><td>PETROVEN-BRAS, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>MATA</td><td>PETROBRAS</td><td>BRAZIL</td><td>PETROKARIÑA, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>BOSCÁN</td><td>CHEVRON</td><td>USA</td><td>PETROBOSCÁN, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>LL-652</td><td>CHEVRON</td><td>USA</td><td>PETROINDEPENDIENTE, S.A</td><td>74.8%</td><td>25%</td></tr>
<tr><td>MONAGAS SUR</td><td>HARVEST V</td><td>USA</td><td>PETRODELTA, S.A (1)</td><td>60%</td><td>40%</td></tr>
<tr><td>GUA. ORIENTAL</td><td>TEIKOKU</td><td>JAPAN</td><td>PETROGUÁRICO, S.A</td><td>70%</td><td>30%</td></tr>
<tr><td>DZO</td><td>BP</td><td>UNITED KINGDOM</td><td>PETROPERIJÁ, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>BOQUERÓN</td><td>BP</td><td>UNITED KINGDOM</td><td>BOQUERÓN, S.A</td><td>60%</td><td>40%</td></tr>
<tr><td>B-2X 70/80</td><td>HOCOL</td><td>UNITED KINGDOM</td><td>LAGOPETROL, S.A (1)</td><td>80%</td><td>20%</td></tr>
<tr><td>URDANETA OESTE</td><td>SHELL</td><td>UNITED KINGDOM</td><td>PETROREGIONAL DEL LAGO, S.A</td><td>60%</td><td>40%</td></tr>
</table>

(1) Pending signature in contracts to migrate to empresas mixtas.

Exploration and Production in New Areas under Profit-sharing Agreements. In July 1995, the Venezuelan Congress approved profit-sharing arrangements pursuant to which private sector oil companies were offered the right to explore, drill and develop light and medium crude oil in ten designated blocks with a total area of approximately 13,774 km^2, pursuant to the terms of the profit-sharing agreements entered into by such companies and CVP, our subsidiary appointed to coordinate, control and supervise these agreements. Under the profit-sharing agreements, CVP has the right to participate, at its option, with an ownership interest of between 1% and 35% in the development of any recoverable reserves with commercial potential. Eight oil fields were awarded to 14 companies in 1996. The awards were based on the percentage of pretax earnings that the bidders were willing to share with the Venezuelan government. The profit-sharing agreements provide for the creation of a control committee, as the authority with oversight power with respect to these agreements.

In 2004, these companies invested approximately $132 million in activities related to the discovery, well evaluation, development and exploration of the Western Paria Gulf, where the commercial stage of production has been reached. See note 10(b) to our consolidated financial statements.

Originally, CVP was entitled to hold shares representing a maximum of 35% participation in the joint ventures that could be formed pursuant to profit-sharing agreements in the following oil fields:

Field	CVP Partners	Empresas Mixtas
Western Paria Gulf	Conoco Venezuela, C.A.–ENI–OPIC (1)	Compañía Agua Plana, S.A.
Eastern Paria Gulf	Ineparia–Conoco Venezuela, C.A.–ENI–OPIC	Administradora del Golfo de Paria Este, S.A.
La Ceiba	ExxonMobil–PetroCanada	Administradora Petrolera La Ceiba, C.A.

(1) Profit-sharing agreements under Phase I (development).

On February 26, 2007, President Chávez issued Decree-Law No. 5,200 establishing the timeline and general guidelines for the transfer of the profit-sharing agreements to Empresas Mixtas, including that our subsidiary CVP, or any of our subsidiaries, must hold an equity interest of no less than 60%. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Other Recent Developments—Decree-Law No. 5,200."

Orinoco Oil Belt Extra-heavy Crude Oil Projects. Between 1993 and 1997, the Venezuelan National Assembly approved the creation of four vertically integrated joint venture projects in the Orinoco Oil Belt for the exploitation and upgrading of extra-heavy crude oil of average API gravity of 9° and marketing of the upgraded crude oil with API gravities ranging from 16° to 32°. These joint venture projects were implemented through association agreements between various foreign participating entities and us. The term of each association agreement is approximately 35 years after commencement of commercial production, and, upon termination, the foreign participant's ownership is transferred to us. Each of the projects has been assigned an area that is expected to contain sufficient recoverable extra heavy crude oil to meet planned output during the life of the association.

Each of these associations is required to pay the standard Venezuelan corporate tax rate of 34% (as compared to a tax rate of 50% that is applicable to our Venezuelan subsidiaries engaged in the production of hydrocarbons). Previously, these associations paid a production tax at a rate ranging between 1% to 16 2/3%, depending on accumulated revenues and total investment. Currently, these associations pay the production tax at a rate ranging between 16 2/3 % and 30%, depending on contract conditions. Also, these strategic associations benefit from a 10% investment tax credit on capital investments made after December 31, 2001, plus an additional 10% on capital investments that contribute to the environmental preservation of their operational areas.

On February 26, 2007, President Chávez issued Decree-Law No. 5,200 establishing the timeline and general guidelines for the transfer of the association agreements to Empresas Mixtas, including that our subsidiary CVP, or any of our subsidiaries, must hold an equity interest of no less than 60%. Private entities will have a four-month period commencing on February 26, 2007 to establish the terms under which they will participate in the newly-created Empresas Mixtas. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Other Recent Developments—Decree-Law No. 5,200.”

The four projects in the Orinoco Oil Belt were originally established as follows:

- *The Petrozuata Project*. Petrozuata is a project that has been implemented by a company currently owned by PDVSA Petróleo and ConocoPhillips. The construction of facilities at Petrozuata began in 1997. Initial production of extra-heavy crude oil commenced in September 1998. Upgraded facilities were completed in 2001. During 2006, Petrozuata produced 119 mbpd of extra-heavy crude oil and 102 mbpd of upgraded crude oil with an average API gravity ranging from 16° to 19°. Under the terms of the joint venture agreement, ConocoPhillips has agreed to undertake the refining process at its Lake Charles refinery, in Lake Charles, Louisiana.

- *The Sincor Joint Venture*. Sincor is currently a joint venture between PDVSA Sincor (our subsidiary), TotalFina and Statoil. In 2006, this project produced approximately 172 mbpd of extra-heavy crude oil and 143 mbpd of upgraded crude oil with an average API gravity ranging from 26° to 32°. We anticipate that this joint venture will reach a production level of 170 mbpd of upgraded crude oil by 2007.

- *The Ameriven Joint Venture*. Petrolera Hamaca is a project being implemented by a company jointly owned by Corpoguanipa (our subsidiary), Chevron and ConocoPhillips. Hamaca started producing upgraded crude oil in October 2004. In 2006, the joint venture produced approximately 100 mbpd of extra-heavy crude oil, which was diluted with 65 mbpd of mesa crude. Production of upgraded crude oil was 135 mbpd with an average API gravity ranging from 24º to 26º and 157 mbpd of upgraded crude oil with an average API gravity ranging from 24° to 26°.

- *The Cerro Negro Joint Venture*. Petrolera Cerro Negro is a project currently being implemented by a company jointly owned by PDVSA Cerro Negro, S.A. (our subsidiary), ExxonMobil and BP (formerly Veba Oel). Pursuant to the terms of the joint venture agreement, we have agreed to sell our share of upgraded crude oil produced by this project (approximately 80% of total production) to Chalmette Refining, a refinery in Chalmette, Louisiana, which is an equal share joint venture between us and ExxonMobil. During 2006, this joint venture produced approximately 115 mbpd of extra-heavy crude oil and 101 mbpd of upgraded crude oil with an average API gravity of 16°.

The Orinoco Oil Belt projects vary by the quantity and quality of the output. For the Hamaca and Sincor joint ventures, the projects were designed to produce upgraded crude oil that can be sold to third-party refiners which would otherwise process light sweet conventional crude oil. For the Petrozuata and Cerro Negro joint ventures, the projects were designed to produce upgraded crude oil that is suitable for a dedicated refinery.

The following table sets forth for each association in the Orinoco Oil Belt the parties’ estimated proved reserves in the areas associated with the projects and estimated production.

At or for the year ended December 31, 2006

Project	Private Sector Participants	PDVSA's Interest	Reserves (1)	Production (2)	Range API (3)	
		(%)	(mmbls)	(mbpd)	(degrees)	
Petrozuata	ConocoPhillips	49.90	2,434	102	16	19
Sincor	TotalFina, Statoil	38.00	3,301	143	26	32
Hamaca	Chevron, ConocoPhillips	30.00	3,690	135	24	26
Cerro Negro	ExxonMobil, BP (4)	41.67	3,244	101	16	16

(1) Gross proved reserves.
(2) Estimated production of upgraded crude oil.
(3) Expected average API of upgraded crude oil.
(4) Formerly Veba Oel.

Overview of Main Projects with Private Sector Participation.

The Plataforma Deltana Project. The Plataforma Deltana area is located 250 km offshore east of the Orinoco River Delta and southeast of the territorial border with the Republic of Trinidad and Tobago. For bidding and business purposes, the zone has been divided into five blocks. The main objective of the project is to confirm and develop new non-associated gas reserves to meet domestic market requirements as well as for export, mainly to the Atlantic Basin.

On July 9, 2003, we completed the initial exploration phase, with disbursement amounting to $180 million, in an area of 1,000 km^2 adjacent to the border with Trinidad and Tobago. Such exploration activity resulted in an increase of the non-associated natural gas reserves estimates to 5.6 trillion cubic feet. Total investments required for the development of this project have been estimated at approximately $3,810 million.

Licenses for exploration and development for blocks 2 and 4 were granted by the Ministry of People's Power for Energy and Petroleum to three international oil and gas companies in February 2003 (in block 2, Chevron and ConocoPhillips and in Block 4, Statoil joined as a minority partner). The international companies are committed to a minimum exploratory program, with an estimated investment of $150 million (drilling activities started in August 2004), and to subsequent investments for development if commercial viability is confirmed. Our participation in the partnership, which could range from 1% to 35%, will be determined upon declaration of commercial viability.

The selection process of partners for block 3 was completed in 2003. In February 2004, the Ministry of People's Power for Energy and Petroleum granted a license for exploration and development to Chevron. Block 1 is reserved for potential business opportunities. Block 1 and 2 are subject to a unitization agreement with Trinidad and Tobago. In August 2003, Venezuela and Trinidad and Tobago entered into a memorandum of understanding to manage all common reservoirs along the territorial border. The exploratory program for this block will cost approximately $27 million. Block 5 remains as a part of Venezuela's offshore portfolio for future opportunities.

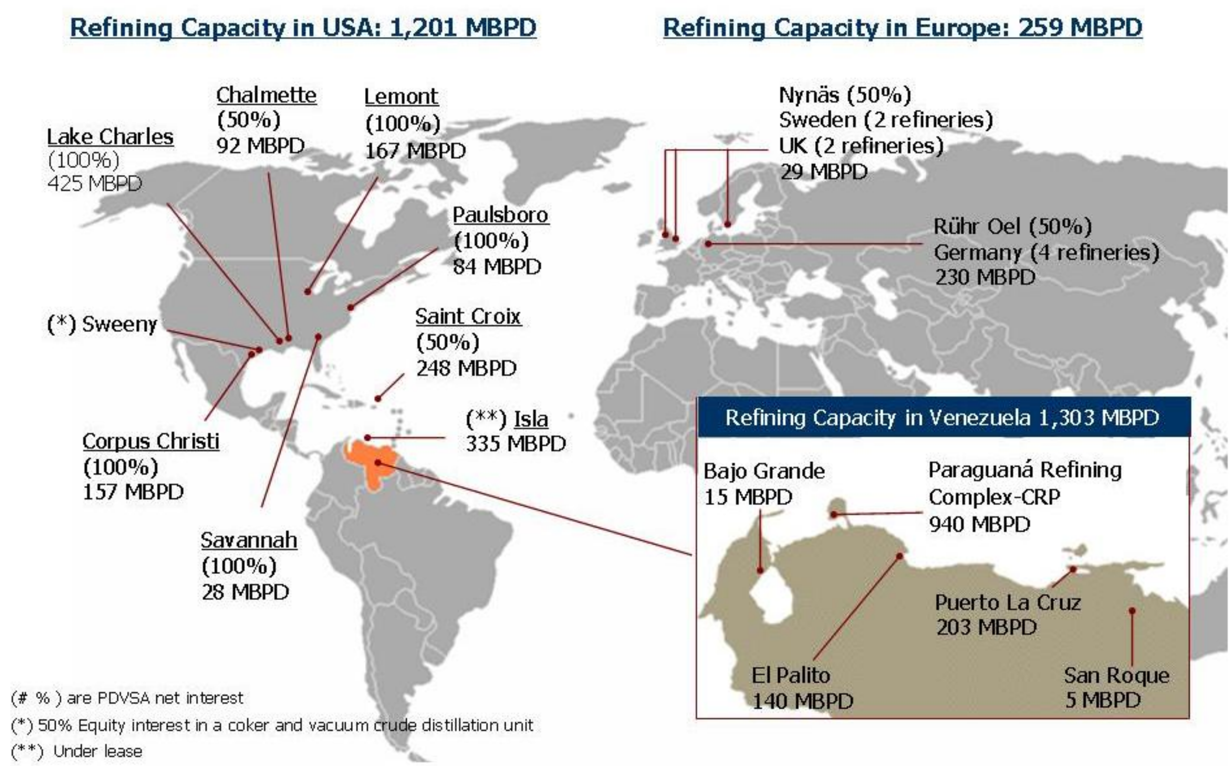
The natural gas produced offshore will be processed onshore in a new industrial complex (CIGMA Project) to be located near the city of Guiria, in the state of Sucre in the northeast of Venezuela. As planned, this industrial complex will also serve the LNG Mariscal Sucre and other gas projects in the region.

Refining and Marketing

Refining

Our downstream strategy is focused on the expansion and upgrading of our refining operations in Venezuela, the Caribbean, the United States and Europe to allow us to increase our production of refined petroleum products and upgrade our product slate toward higher-margin refined petroleum products. We have increased the complexity ratings of our refining capacity in Venezuela and made extensive investments to convert our worldwide refining assets from simple conversion to deep conversion capabilities. Deep conversion capabilities in our Venezuelan refineries have enabled us to improve yields by allowing a greater percentage of higher value products to be produced. Such capabilities have led to an increase in our gasoline and distillate yield from approximately 35% in 1976 to approximately 66% in 2005 and have allowed us to reduce our residual fuel oil production from 60% to 22% during the same period, resulting in an improved export product portfolio. Our net interest in refining capacity has grown from approximately 2,362 mbpd in 1991 to 3,098 mbpd at December 31, 2006.

The following diagram presents a summary of our refining operations worldwide in 2006.



The following table sets forth the refineries in which we hold an interest, the rated crude oil refining capacity and our net interest at December 31, 2006.

At or for the year ended December 31, 2006

Location	Owner	PDVSA's Interest	Refining Capacity Total Rated Crude Oil	Refining Capacity PDVSA's Net Interest
		(%)	(mbpd)	(mbpd)
Venezuela:				
CRP, Falcón	PDVSA	100	940	940
Puerto La Cruz, Anzoátegui	PDVSA	100	203	203
El Palito, Carabobo	PDVSA	100	140	140
Bajo Grande, Zulia	PDVSA	100	15	15
San Roque, Anzoátegui	PDVSA	100	5	5
Total Venezuela			**1,303**	**1,303**
Netherlands Antilles (Curaçao):				
Isla (1)	PDVSA	100	**335**	**335**
United States:				
Lake Charles, Louisiana (2)	CITGO	100	425	425
Corpus Christi, Texas	CITGO	100	157	157
Paulsboro, New Jersey	CITGO	100	84	84
Savannah, Georgia	CITGO	100	28	28
Lemont, Illinois	CITGO	100	167	167
Chalmette, Louisiana	Chalmette (4)	50	184	92
Saint Croix, U.S. Virgin Islands	Hovensa (5)	50	495	248
Total United States			**1,540**	**1,201**
Europe:				
Gelsenkirchen, Germany	Ruhr (6)	50	230	115
Schwedt, Germany	Ruhr (6)	19	240	45
Neustadt, Germany	Ruhr (6)	13	260	33
Karlsruhe, Germany	Ruhr (6)	12	312	37
Nynäshamn, Sweden	Nynäs (7)	50	29	15
Gothenburg, Sweden	Nynäs (7)	50	11	5
Dundee, Scotland	Nynäs (7)	50	9	4
Eastham, England	Nynäs (7)	25	18	5
Total Europe			**1,109**	**259**
Worldwide Total			**4,287**	**3,098**

(1) Leased in 1994. The lease expires in 2019.
(2) A joint venture with ExxonMobil.
(3) A joint venture with Hess.
(4) A joint venture with Deutsche BP.
(5) A joint venture with Neste Oil.

In order to maintain our competitiveness within international markets, we have an intensive business plan, which involves large investments in Venezuela and overseas. These investments are made to improve our refining systems and to adapt them to meet environmental regulations and domestic and international product quality requirements. The business refining plan includes projects aimed at manufacturing gasoline and diesel through deep conversion. All investments efforts will support our commercial strategy of market diversification.

On March 13, 2001, we entered into a contract for approximately $300 million with a Venezuelan-Japanese consortium led by the Japanese JGC Corporation (formed by the Japanese Chiyoda Corporation and the Venezuelan companies, Jantesa and Vepica) to construct naphtha hydrotreating facilities and diesel hydro-desulfurization and environmental units in a refinery located in Puerto La Cruz, or the VALCOR project. The primary objective of this project is to produce unleaded gasoline to meet the demands in Venezuela and to produce distillates of low sulfur content for export to international markets. The facilities and processing units of the VALCOR project were completed in December 2004 at a cost of approximately $553 million. The VALCOR project is currently in operation, producing blending components for gasoline and diesel such as 35 mbpd of reformate and 38 mbpd of hydrotreated diesel.

At the Cardón refinery (CRP), the fluid catalytic cracking unit is being modified to produce additional levels of gasoline. A low sulfur gasoline production unit (currently in the engineering phase) is expected to be operational in the Amuay refinery (CRP) by 2009. We also plan to increase the heavy crude oil refining capacity, and we foresee the expansion of our delayed coking plants located at the CRP, in Falcón State, Venezuela.

Basic engineering for the Puerto La Cruz refinery deep conversion project was approved by our Board of Directors in June 2005. The process used is based on Venezuelan deep conversion technology HDHPLUS®. The project seeks to increase heavy crude oil refining processing capacity up to 170 mbpd in 2010, leaving current light crude oil feed for export. We expect to reduce residual production of this refinery from 28% in 2005 to 10% by 2012.

The El Palito refinery is undergoing a deep conversion project. The goal is to increase heavy crude oil refining processing capacity by approximately 70 mbpd by 2010, leaving current medium crude oil feed for the new Batalla de Santa Inés refinery, planned to start operations by 2010. Through this project, the El Palito refinery is expected to be able to eliminate residual production.

Our 2006-2012 business plan contemplates the construction of three new refineries in Venezuela: the Cabruta, Batalla de Santa Ines, and Caripito refineries. Cabruta refinery will process 400 mpbd of heavy crude oil from the Orinoco Oil Belt, based on a deep conversion scheme. This refinery will be located in Cabruta in the southern part of Guarico state, Venezuela and is scheduled to produce gasoline and distillates for export by 2011. The new Batalla de Santa Ines refinery, located in Barinas state, will process 50 mpbd of light crude oil and is intended to satisfy local market demands by 2011. The Caripito refinery, located in Monagas state, will process 50 mbpd of heavy crude oil and will be designed to produce asphalt for domestic consumption. These three new refineries are undergoing visualization engineering stage.

Venezuela and the Caribbean. Our refineries in Venezuela are located at Amuay-Cardón (CRP), Puerto La Cruz, El Palito, Bajo Grande and San Roque, with rated crude oil refining capacities of 635–305 mbpd, 203 mbpd, 140 mbpd, 15 mbpd and 5 mbpd, respectively. We also operate the Isla Refinery in Curaçao, which we lease on a long-term basis from the Netherlands-Antilles government. The lease expires in 2019. Through these refineries, we produce reformulated gasoline and distillates to meet U.S. and other international regulatory requirements and quality standards.

Under the Petrocaribe agreement, we have also approved enhancements to the Cienfuegos refinery, located in Cienfuegos, Cuba, to process 70 mbpd of Venezuelan medium crude oil. Refinery operations are due to start by the end of 2007 to meet local refined products demand. Also, an expansion of the Kingston Refinery in Jamaica is currently in basic engineering. This project is expected to increase the refinery production up to 50 mbpd by 2009, with a medium conversion scheme. We are responsible for 49% of the necessary investment in both refineries. Crude oil feed will be provided by Venezuela.

South America. We signed a letter of intent to provide heavy crude oil to a new refinery located in Pernambuco, Brazil. The refinery is being designed to process 200 mbpd of heavy crude oil from the Venezuelan Orinoco Oil Belt (50%) and Brazilian Marlin crude oil (50%) using a deep conversion scheme. Operations are scheduled to start in 2011 to meet Brazilian demand for refined products.

United States. Through our wholly owned subsidiary, CITGO, we produce light fuels and petrochemicals primarily through our refineries in Lake Charles, Louisiana; Corpus Christi, Texas; and Lemont, Illinois. Our asphalt refining operations are carried out through refineries in Paulsboro, New Jersey and Savannah, Georgia.

CITGO purchases approximately 40% of the crude oil processed in its refineries from our subsidiaries under long-term supply agreements and spot purchases. These supply agreements extend through 2010 for the Paulsboro refinery, 2012 for the Corpus Christi refinery and 2013 for the Savannah refinery. The supply agreement for the Lake Charles refinery expired in September 2006 but was extended through December 31, 2006.

These crude oil supply agreements require us to supply minimum quantities of crude oil and other feedstock to CITGO. The supply agreements differ somewhat for each refinery but generally incorporate formula prices based on the market value of a slate of refined products deemed to be produced from each particular grade of crude oil or feedstock, less (i) specified deemed refining costs; (ii) specified actual costs, including transportation charges, actual cost of natural gas and electricity, import duties and taxes, and (iii) a deemed margin, which varies according to the grade of crude oil or feedstock delivered. Under each supply agreement, deemed margins and deemed costs are adjusted periodically by a formula primarily based on the rate of inflation. Because deemed operating costs and the slate of refined products deemed to be produced for a given barrel of crude oil or other feedstock do not necessarily reflect the actual costs and yields in any period, the actual refining margin earned by CITGO under the various supply agreements will vary depending on, among other things, the efficiency with which CITGO conducts its operations during such period. The price CITGO pays for crude oil purchased under these crude oil supply agreements is not directly related to the market price of any other crude oil. Thus, there are periods in which the price paid for crude oil purchased under those crude oil supply agreements may be higher or lower than the price that might have been paid in the spot market.

The Lake Charles refinery had a rated refining capacity of approximately 425 mbpd by 2005 and is capable of processing large volumes of heavy crude oil into a flexible slate of refined products, including significant quantities of high-octane unleaded gasoline and reformulated gasoline. The Lake Charles refinery's main petrochemical products are propylene, benzene, toluene and mixed xylenes. Its industrial products include sulfur, residual fuels and petroleum coke. This refinery has one of the highest capacity levels for higher value-added products production in the United States, with a multiple stream capacity that allows it to continue operating with one or more units shut down. This refinery has a Solomon Process Complexity Rating of 18.3 (as compared to an average of 14.3 for U.S. refineries as rated by the most recently available survey by Solomon Associates, Inc.). The Solomon Process Complexity Rating is an industry measure of a refinery's ability to produce higher value products. A higher Solomon Process Complexity Rating indicates a greater capability to produce such products.

On June 19, 2006, the Lake Charles refinery experienced an environmental incident due to very heavy rainfall in the area. The runoff from the rainfall exceeded the capacity of the wastewater treatment tanks and system and was released into the Calcasieu River and ship channel. Emergency response efforts ended July 5, 2006 and clean up efforts continued through December 2006. CITGO has insurance coverage for these types of events and has submitted a notice of loss to its insurance carriers due to the incident including third party claims. The cost of clean up and claims related to the incident have not been completely determined, but it is expected that a substantial portion of the cost will be covered by insurance recoveries. Thousands of individual claims for bodily injury have been made as well as several claims for business interruption and property damage. Several lawsuits have been filed. CITGO intends to continue to vigorously defend these claims. CITGO does not believe that the resolution of this matter will have a material adverse effect on its financial condition or results of operations.

The Corpus Christi refinery has a refining capacity of approximately 157 mbpd and a processing technology that enables it to produce premium grades of gasoline that exceed that of most of its U.S. competitors and to reduce sulfur levels in refined petroleum products. This refinery has a Solomon Process Complexity Rating of 16.4. The Corpus Christi refinery's main petrochemical products include cumene, cyclohexane, and aromatics (including benzene, toluene and xylenes).

The Lemont refinery processes heavy crude oil into a flexible slate of refined products. This refinery has a rated refining capacity of approximately 167 mbpd and has a Solomon Process Complexity Rating of 12.0. The refinery is one of the most recently designed and constructed in the United States and includes a flexible deep conversion facility that produces primarily gasoline and also diesel, jet fuel and petrochemicals.

Refineries in Paulsboro, New Jersey and Savannah, Georgia are specialized asphalt refineries. The Paulsboro refinery, which is particularly suited to processing asphalts, also has facilities to process low sulfur, light crude oil whenever favorable conditions exist.

Through Chalmette Refining, an equal-share joint venture between us and ExxonMobil, we have a net interest in refining capacity of approximately 92 mbpd in a refinery located in Chalmette, Louisiana. The Chalmette refinery processes upgraded extra heavy crude oil produced by our Cerro Negro project. We (through PDV Chalmette) have an option to purchase up to 50% of the refined products produced at the Chalmette refinery.

PDV Holding and ConocoPhillips own an integrated 58 mbpd coker and 110 mbpd vacuum crude distillation unit within an existing refinery owned by ConocoPhillips in Sweeny, Texas. Each party owns a 50% equity interest in the facility. ConocoPhillips has entered into a long-term supply agreement with us to supply the Sweeny refinery with heavy sour crude oil. Revenues from the Sweeny joint venture consist of fees paid by ConocoPhillips to the joint venture under the processing agreement and any revenues from the sale of coke to third parties.

We and a subsidiary of Hess each own a 50% interest in the Hovensa refinery in the U.S. Virgin Islands, which has a current refining capacity of approximately 495 mbpd. The joint venture has entered into long-term supply contracts with us for up to 60% of its crude oil requirements. During 2002, Hovensa completed construction of a delayed coker unit and related facilities that it had been building in connection with the formation of the joint venture.

Europe. Through Ruhr, a joint venture owned 50% by us and Deutsche BP, we have equity interests in four German refineries (Gelsenkirchen, Neustadt, Karlsruhe and Schwedt) in which our net interest in crude oil refining capacity at December 31, 2005 was 115 mbpd, 33 mbpd, 37 mbpd and 45 mbpd, respectively. Ruhr also owns two petrochemical complexes (Gelsenkirchen and Münchmünster). The Gelsenkirchen complex, which includes modern, large-scale units that are integrated with the crude oil refineries located in the same complex, primarily produces olefins, aromatic products, ammonia and methanol. The Münchmünster complex, integrated with the nearby Bayernoil refinery, primarily produces olefins. Ruhr's petrochemical complexes have an average production capacity of approximately 3.8 million metric tons per year of olefins, aromatic products, methanol, ammonia and various other petrochemical products.

Through Nynäs, a joint venture owned 50.001% by PDV Europa and 49.999% by Neste Oil, we own interests in three specialized refineries: Nynäshamn and Gothenburg in Sweden and Dundee in Scotland. Our net interest in crude oil refining capacity in each of these refineries at December 31, 2005 was 15 mbpd, 5 mbpd and 4 mbpd, respectively. The Nynäs refineries are specially designed to process heavy sour crude oil. Nynäs also owns a 25% interest in a refinery in Eastham, England. The Eastham refinery is a specialized asphalt refinery in which our net interest crude oil refining capacity at December 31, 2005 was 5 mbpd.

The Nynäs refineries in Nynäshamn produce asphalt and naphthenic specialty oils. The Dundee, Gothenberg and Eastham refineries are specialized asphalt refineries. Nynäs purchases crude oil from us and produces asphalt and naphthenic specialty oils, two products for which Venezuelan heavy sour crude oil is particularly well-suited feedstock due to its proportions of naphthenic, paraffinic and aromatic compounds. Asphalt products are used for road construction and various industrial purposes, while naphthenic specialty oils are used mainly in electrical transformers, as mechanical process oils and in the rubber and printing ink industries.

The following table sets forth our aggregate refinery capacity, input supplied by us (out of our own production or bought in the open market), utilization rate and product yield for the three-year period ended December 31, 2006.

Refining Production

	At or for the year ended Dec. 31,					
	2006		2005		2004	
	mbpd		mbpd		mbpd	
Total Refining Capacity	**4,287**		**4,552**		**4,447**	
PDVSA's net interest in refining capacity	**3,098**		**3,207**		**3,102**	
Refinery input (1)						
Crude Oil–Sourced by PDVSA (2)						
Light	466	16%	456	16%	350	12%
Medium	607	21%	595	21%	678	24%
Heavy	776	27%	782	28%	932	33%
Sub-total	1,849	64%	1,833	65%	1,960	69%
Crude Oil–Sourced by Others						
Light	449	15%	396	14%	378	13%
Medium	108	4%	151	5%	86	3%
Heavy	242	8%	230	8%	136	3%
Sub-total	798	28%	777	27%	600	21%
Other Feedstock						
Sourced by PDVSA	164	6%	155	5%	191	7%
Sourced by Others	88	3%	84	3%	103	4%
Sub-total	253	9%	239	8%	294	10%
Total Refining Input (3)						
Sourced by PDVSA	2,013	69%	1,988	70%	2,151	75%
Sourced by Others	887	31%	860	30%	703	25%
Total refinery input	**2,900**	**100%**	**2,848**	**100%**	**2,854**	**100%**
Crude Utilization (4)	85%		81%		83%	
Product Yield (5)						
Gasoline / Naphtha	960	33%	955	34%	960	34%
Distillate	985	34%	934	33%	942	33%
Low Sulfur Residual	69	2%	62	2%	60	2%
High Sulfur Residual	246	8%	247	9%	212	7%
Asphalt / Coke	132	5%	118	4%	147	5%
Naphthenic Specialty Oil	18	1%	17	1%	14	0%
Petrochemicals	87	3%	85	3%	88	3%
Others	449	15%	497	17%	500	17%
Net output	**2,947**	**102%**	**2,915**	**102%**	**2,923**	**102%**
Consumption, net (gain)/loss	(47)	(2)%	(67)	(2)%	(69)	(2)%
Total yield	**2,900**	**100%**	**2,848**	**100%**	**2,854**	**100%**

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(1) Our refineries sourced 69%, 69% and 75% of the refineries' total crude oil requirements from crude oil produced by us in 2006, 2005 and 2004, respectively.
(2) Sourced by us (including supplies from entities that are not subject to our control).
(3) Includes our interest in crude oil and other feedstock.
(4) Crude oil refinery input divided by the net interest in refining capacity.
(5) Our interest in product yield.

In 2006, we supplied all of the crude oil requirements to our Venezuelan refineries (approximately 1,022 mbpd), approximately 205 mbpd of crude oil to our leased refinery in Curaçao and an aggregate of 1,420 mbpd of crude oil to refineries owned by our international subsidiaries or in which we otherwise have an interest (refinery input takes into account our net interest in crude oil). Of the total volumes supplied by us to our international affiliates, approximately 218 mbpd were purchased by us in the global market and supplied to our European affiliates. Additionally, CITGO purchased a total of approximately 446 mbpd of crude oil from us for processing in its refineries.

Marketing

In 2005, we exported 1,962 mbpd of crude oil, or 75%, of our total exports and 650 mbpd of refined petroleum products produced in Venezuela. Exports of crude oil and refined petroleum products (excluding the Orinoco Oil Belt) to the United States and Canada amounted to approximately 1,195 mbpd (or 50% of total exports).

Of our total crude oil exports in 2005, a total of approximately 947 mbpd (55%) was exported to the United States and Canada; 555 mbpd (32%) to Latin America and the Caribbean; 92 mbpd (5%) to Europe; and 133 mbpd (8%) to Asia and other destinations.

Of our total refined petroleum products produced in Venezuela in 2005, approximately 506 mbpd were used in the domestic market and approximately 650 mbpd were exported. Of the total exports of refined petroleum products in 2005, approximately 248 mbpd (38%) were sold to the United States and Canada; approximately 161 mbpd (25%) to Latin America and the Caribbean; approximately 69 mpdb (11%) to Europe; and approximately 172 mbpd (26%) to Asia and other destinations.

The following table sets forth the composition and average prices of our exports of crude oil and refined petroleum products from Venezuela for the three-year period ending December 31, 2006.

	For the year ended December 31,		
	2006	2005	2004
	mbpd	**mbpd**	**mbpd**
Crude oil(1)			
Light	634	689	624
Medium	255	248	298
Heavy and extra-heavy	1,028	939	945
Sub-total crude oil	**1,917**	**1,876**	**1,867**
Refined products			
Gasoline/naphtha	95	87	103
Distillates (2)	140	162	178
High sulfur residual	182	189	185
Liquid petroleum gas	74	56	49
Other	207	242	145
Sub-total products	**698**	**736**	**660**
Total Exports(3)	**2,615**	**2,612**	**2,527**
Average Sales Price ($/Bl)			
Crude oil:			
Light crudes	61.08	50.98	36.57
Medium, heavy and extra-heavy	52.05	41,68	29.86
Crude oil	55.20	45.32	32.22
Refined products	55.23	48.51	34.66
Average export price	**55.21**	**46.15**	**32.88**

(1) Includes sales of crude oil to subsidiaries and affiliated refineries (including to the Isla Refinery in Curaçao) of 1,221 mbpd, 1,156 mbpd and 1,158 mbpd in 2006, 2005 and 2004, respectively.
(2) Includes kerosene.
(3) Excludes third party' equity participation from the Orinoco Oil Belt of 360 mbpd, 381 mbpd and 307 mbpd in 2006, 2005 and 2004, respectively.

The following table sets forth the geographic breakdown of our exports by types of crude oil, identifying sales to affiliates and third parties for the three-year period ended December 31, 2006.

	For the year ended December 31,					
	2006		2005		2004	
Crude Oil						
North America	986	51%	1,032	55%	1,064	57%
Europe	191	10%	110	6%	64	3%
Caribbean & Central America	612	32%	598	32%	645	35%
South America & Others	128	7%	136	7%	94	5%
Sub-Total Crudes	1,917	100%	1,876	100%	1,867	100%
Refined Products						
North America	267	38%	305	41%	277	42%
Others	431	62%	431	59%	383	58%
Sub-total Refined Products	698	100%	736	100%	660	100%

Crude Oil and Refined Products						
North America	1,195	50%	1,167	50%	1,077	51%
Latin America & Caribbean	716	30%	859	37%	647	31%
Europe	161	7%	120	5%	185	9%
Asia & Others	305	13%	183	8%	206	10%
Total Crude Oil and Refined Products(1)	2,377	100%	2,329	100%	2,115	100%

(1) Excludes exports from the Orinoco Oil Belt and crude with an API lower than 8° of 235 mbpd, 198 mbpd and 161 mbpd in 2005, 2004 and 2003, respectively.

The following table sets forth our consolidated sales volume of crude oil and refined petroleum products for the three-year period ended December 31, 2006.

	At or for the year ended Dec. 31, (In thousand barrels per day)					
	2006		**2005**		**2004**	
	mbpd		**mbpd**		**mbpd**	
Crude oil	1,471	35%	1,269	31%	1,159	30%
Refined petroleum products	2,545	65%	2,628	69%	2,648	70%
Total	**3,962**	100%	**3,897**	100%	**3,807**	**100%**
Average price	**66.9**		**57.02**		**42.11**	

Marketing in the United States

Sales of Crude Oil to Affiliates. We supply our international refining affiliates with crude oil and feedstock either produced by us or purchased in the open market. Some of our U.S. affiliates have entered into long-term supply contracts with us that require us to supply minimum quantities of crude oil and other feedstock to such affiliates, usually for 20 to 25 years. These contracts are scheduled to expire in or after 2007.

Such contracts incorporate price formulas based on the market value of a slate of refined petroleum products deemed to be produced from each particular grade of crude oil or feedstock, less certain deemed refining costs, certain actual costs, including transportation charges, import duties and taxes, and a deemed margin, which varies according to the grade of crude oil or other feedstock delivered. Deemed margins and deemed costs are adjusted periodically by a formula primarily based on the rate of inflation. Because deemed operating costs and the slate of refined petroleum products deemed to be produced for a given barrel of crude oil or other feedstock do not necessarily reflect the actual costs and yields in any period, the actual refining margin earned by the purchaser under the various contracts will vary depending on, among other things, the efficiency with which such purchaser conducts its operations during such period. These contracts are designed to reduce the inherent earnings volatility of the refining and marketing operations of our international refining affiliates. Other supply contracts between us and our U.S. affiliates provide for the sale of crude oil at market prices.

Some of these contracts provide that, under certain circumstances, if supplies are interrupted, we are required to compensate the affected affiliate for any additional costs incurred in securing crude oil or other feedstock. These crude oil supply contracts may be terminated by mutual agreement, by either party in the event of a material default, bankruptcy or similar financial hardship on the part of the other party or, in certain cases, if we no longer hold, directly or indirectly, 50% or more of the ownership interests in the related affiliate.

Sales of Crude Oil to Third Parties. Most of our export sales of crude oil to third parties, including customers in the United States with which we maintain long-standing commercial relationships, are made at market prices pursuant to our general terms and conditions, and priced in dollars. Among our customers are major oil companies and other medium-sized companies.

Sales of Refined Products. We conduct all our retail sales in the U.S. through CITGO. CITGO's major products are light fuels (including gasoline, jet fuel and diesel fuel), industrial products and petrochemicals, asphalt, and lubricants and waxes.

CITGO markets gasoline through agreements with independent marketers and does not own or operate any of the CITGO branded locations. Prior to 2007, CITGO's obligations to its independent marketers exceeded the capacity of its refinery production and CITGO purchased significant quantities of refined products from affiliated and non-affiliated suppliers to offset the shortfall. In July 2006, CITGO decided to discontinue supply to its independent marketers in parts of the Midwest, Kentucky, Oklahoma and northern Texas by the end of March 2007 in order to more closely balance CITGO's production and purchases from affiliated suppliers with its obligation to marketers.

CITGO also markets jet fuel directly to airlines at 7 airports and indirectly to four airports, diesel fuel in wholesale rack sales to distributors and in bulk through contract sales (primarily as heating oil in the Northeast region of the United States) or on a spot basis, petrochemicals in bulk to a variety of U.S. manufacturers as raw materials for finished goods, including sulfur, cycle oils, liquid petroleum gas, petroleum coke and residual fuel oil, asphalt to independent contractors for use in the construction and resurfacing of roadways, and many different types, grades and container sizes of lubricant and wax products.

Crude Oil and Refined Product Purchases. CITGO does not own crude oil reserves or production facilities and must therefore rely on purchases of crude oil and feedstock for its refinery operations. We are CITGO's largest supplier of crude oil, and CITGO has entered into long-term supply agreements with us with respect to the crude oil requirements for each of CITGO's refineries. CITGO also purchases crude oil in the market. In addition, because CITGO's refinery operations do not produce sufficient refined petroleum products to meet the demands of its independent branded marketers, CITGO purchases refined petroleum products, primarily gasoline, from third-party refiners. CITGO also purchases refined petroleum products from its affiliates, including Hovensa, pursuant to long-term contracts. In 2005, CITGO purchased approximately 318 mbpd of refined petroleum products under these contracts. In addition, CITGO occasionally purchases, on a spot basis, refined petroleum products from our Venezuelan refineries.

Marketing in Europe**.** We supply crude oil to our European affiliates pursuant to various supply agreements. The crude oil that we supply to our European affiliates exceeds, as a percentage of total supply, our aggregate net ownership interest in such entities' combined refining capacity. In 2005, we supplied to the European refineries in which we held an interest, approximately 230 mbpd of crude oil, of which approximately 26 mbpd were exported from Venezuela and approximately 204 mbpd were purchased in international markets.

The crude oil processed at the Ruhr Oel refineries is supplied 50% by us and 50% by Deutsche BP pursuant to a joint venture agreement and a long-term supply contract. Pursuant to these agreements, Ruhr does not acquire title to any crude oil or refined petroleum products. Instead, the crude oil supplied by us or Deutsche BP remains owned by us or Deutsche BP, as applicable, throughout the refining process. Our share of the refined petroleum products processed at the Ruhr Oel refineries is distributed through Deutsche BP's marketing network. The operating costs of the Ruhr Oel refineries are shared equally by us and Deutsche BP.

We receive 50% of the revenues from Deutsche BP's sales of the refined petroleum products processed at the Ruhr Oel refineries, minus operating and marketing costs. We supply crude oil to the Ruhr Oel refineries and receive revenues from the sale of refined petroleum products attributable to such crude oil.

Nynäs purchases crude oil from us and produces asphalt and naphthenic specialty oils, two products for which Venezuelan heavy sour crude oil is a particularly well-suited feedstock due to its high content of naphthenic, paraffinic and aromatic compounds. Nynäs does not own crude oil reserves or crude production facilities and, therefore, must purchase crude oil for its refining operations. Nearly all crude oil purchased by Nynäs is supplied by us pursuant to long-term supply contracts. We only supply Nynäs with high sulfur, extra-heavy crude oil.

Nynäs markets asphalt products through an extensive marketing network in several European countries. Nynäs markets its naphthenic specialty oils throughout Europe, Africa, the Middle East and Australia, and the distillates that it produces are either sold as fuel or further processed into naphthenic specialty oils. Nynäs distributes its refined products primarily by a terminal network, specialized bitumen ships, rail tanks and trucks.

Marketing in Latin America and the Caribbean. We have been pursuing a commercial strategy based on integration of the oil and gas industries in Latin America and the Caribbean that entails the completion of several projects in countries located in the region within the scope of the PetroAmerica initiative. This initiative proposes the establishment of cooperation and integration agreements and the utilization of the resources and potential of Latin American and Caribbean nations, in order to support the socio-economic development of the Latin American and Caribbean population.

In 2005, we created PDVSA-Cuba in order to promote refining and marketing businesses in the Caribbean area. During 2006, we supplied, under special terms, crude oil and refined products to Caribbean and Central American nations through the Petrocaribe Energy Corporation Agreement and the Caracas Energy Cooperation Agreement.

Marketing in Venezuela. The following table shows our sales of refined petroleum products and natural gas to the Venezuelan domestic market.

	For the year ended December 31,		
	2006	**2005**	**2004**
	(In thousand barrels per day, unless otherwise indicated)		
Refined Products:			
Liquefied petroleum gas	83	78	69
Motor gasoline	257	240	232
Diesel	133	121	115
Other	75	67	69
Total refined products	**548**	**506**	**485**
Natural gas (MMCF)	2,632	2,394	2,055
Natural gas in boe	431	392	354
Total hydrocarbons in boe	**979**	**898**	**839**

Since December 1993, the Venezuelan government has allowed private sector participants to market lubricants in Venezuela.

Through our subsidiary, DELTAVEN, we market and distribute retail gasoline and other refined petroleum products under the PDV brand name in the Venezuelan local market. DELTAVEN is also promoting the development of commercial infrastructure and services for retail clients with the participation of the private sector.

The retail price for vehicle gasoline is set by the Venezuelan government and represents approximately 11% of the export price for vehicle gasoline in 2005.

Since the end of 2001, six private domestic participants, Grupo Trebol, Llanopetrol, Corporación Petrolera, Petrocanarias, BetaPetrol and Corporación Combustible Monagas, and three private international participants, Chevron, ExxonMobil and BP, have been marketing their products in Venezuela. These companies market their brands through 1,016 retail outlets owned or operated by them and have a 56% market share in the gasoline and diesel sector compared to DELTAVEN's 44% market share.

Gas

According to a comparative study published by Petroleum Intelligence Weekly on December 18, 2006, Venezuela is the sixth largest owner of proved gas reserves in the world and the largest owner of proved gas reserves in Latin America. These reserves were estimated at 232,949 bcf at the end of 2004, of which 152,264 bcf are proved reserves. Our total sales of methane gas in the Venezuelan market amounted to 2,174 mmcfd for the year ended December 31, 2005.

Extra-heavy Crude

Our subsidiary BITOR has been responsible for developing reserves of extra-heavy crude oil, principally through a process of emulsifying natural extra-heavy crude oil in water to create a liquid fuel used to generate electricity that we refer to as Orimulsion®. However, in the first quarter of 2006, BITOR decided to apply most of its extra-heavy crude oil reserves towards the production of commercial crude oil, suspending the production of Orimulsion®.

In December 2001, BITOR, China National Oil and Gas Exploration and Development Corporation and Petrochina Fuel Oil Company Limited formed a joint venture called Orifuels Sinoven, S.A. to build and operate a production facility capable of producing up to 7.25 million metric tons of Orimulsion® by 2007. Orifuels Sinoven, S.A. is developing production facilities in two locations in Venezuela: the Morichal facilities and the Jose plant. In April 2006, we completed the Orifuels Sinoven complex. On December 31, 2006, Orifuels Sinoven suspended the production of Orimulsion® in its complex.

BITOR has initiated negotiations with its existing clients to renegotiate its obligations for the supply of Orimulsion®. As part of the negotiations, some of BITOR's existing clients have agreed to receive fuel oil instead of Orimulsion®. Other clients have agreed to terminate their supply agreements.

Under Decree-Law No. 5,200, Orifuels Sinoven is required to be converted into an Empresas Mixta by June 2007. See "Management's Discussion and Analysis of Financial Condition and Results of Operations–Recent Developments–Decree-Law No. 5,200."

Overview of Main Projects Wholly-Owned by PDVSA

Complejo Industrial Gran Mariscal de Ayacucho (CIGMA) Project. The gas produced offshore in Plataforma Deltana, Mariscal Sucre and other gas projects in the northeastern region will be gathered and processed onshore in the hub and industrial complex, CIGMA, to be located near the city of Guiria, in Sucre state in the northeast of Venezuela. The first stage includes the establishment of basic services, dock services, port services, general services, corridors services, roads and security and housing areas. The total cost of the project is estimated at $344 million, and the income to complete the project will come from the sale of land lots for industrial use. At December 31, 2005, total investments in this project amounted to approximately $18 million.

The Anaco Gas Project. The objective of the Anaco Gas Project is to satisfy the internal demand for gas. The project includes designing and building the facilities anticipated to yield a production of approximately 2,400 mmcfd of gas and approximately 35 mbpd of associated light crude oil when completed. The project is being developed in two phases, with start up operations capable of producing 2,016 mmcfd of gas, anticipated to commence in 2007 (Phase I). We expect the production capacity of this project to reach 2,400 mmcfd of gas by 2008 (Phase II). The total estimated capital investment for the project is $732 million.

The ICO Project. The objective of the ICO project is to connect Venezuela's central and eastern (Anaco-Barquisimeto) and western (Ule-Amuay) natural gas transmission systems in order to:

- facilitate the supply of gas to the western region of Venezuela;
- expand the delivery of gas to other regions and cities within Venezuela; and

- promote industrial and commercial development in the areas along the gas transmission pipeline to be built in connection with this project.

We expect to construct 300 km of 36-inch and 30-inch gas pipeline, running from Morón to Río Seco and three compression stations. The ICO project has two phases. Phase I includes construction of 70 km of a 36-inch diameter gas pipeline running from Quero to Río Seco and five automatic valve stations; and Phase II includes construction of 230 km of a 30-inch diameter gas pipeline running from Quero to El Manglar and three compression stations located at Altagracia, Los Morros and Morón. Phase I construction was completed by the end of the first quarter of 2005. With respect to Phase II, the construction of 12 km of the 30-inch diameter pipeline was completed by the last quarter of 2005. The construction of the compression stations will begin during the fourth quarter of 2007. This infrastructure allows a gas supply ranging between 450 and 520 mmcfd, with an installed capacity of 155,000 Horse Power ISO at different levels of discharge pressure between 1,000 and 1,200 psi.

We expect to invest approximately $413 million in the ICO project and anticipate its completion by December 2007. At December 31, 2005, total investment in this project amounted to $128 million.

The Jose 250 Project. The main purpose of the Jose 250 project is to provide all the required infrastructure for gas conditioning and processing of the associated gas produced from the operational Eastern Areas of Anaco (San Joaquín) and north of Monagas (Jusepín and Pirital) in order to satisfy domestic market demand and supply injection gas for secondary oil recovery processes of North Monagas oil fields.

We expect to build three new Liquid Extraction Plants with a total capacity to process 2,350 mmscfd, one fractionation unit with capacity to fraction 50,000 bpd of LNG, expansion of the marine terminal of the Jose Condominium and construction and expansion of LNG pipelines. We estimate that Phase I of the project will be completed in the fourth quarter of 2007 and Phase II in 2008. We expect to have an additional capacity of 32 mbpd of LNG in 2007 and a total of 75 mbpd of LNG in 2008.

The Complejo Criogénico de Occidente-Project. The development of the Complejo Criogénico de Occidente--project is aimed at optimizing the natural gas scheme processing in the Western region of Venezuela by increasing the ethane and LNG production. The project is expected to reduce significantly the operation and maintenance costs of current plants, allowing a better expansion of the gas business in the area.

The proposed scheme is expected to yield a production capacity of 35 mbpd of Ethane for Pequiven–El Tablazo and 70 mbpd of LNG, decreasing substantially the country's western processing cost and promoting the LNG business growth.

The estimated capital investment for the project is approximately $600 million. Main facilities include two extraction trains, each with a capacity of 475 mmscfd of gas, one gas fractionating train with installed capacity of 35 mbpd and offsite facilities. The investment for the year 2004 amounted to $15 million and $11 million for the year 2003. At December 31, 2005, total investment in the project amounted to approximately $45 million.

The Integral Ceuta-Tomoporo Project. The main purpose of the Integral Ceuta–Tomoporo project is to maximize the recoverable crude oil reserves value of Ceuta–Tomoporo, through exploiting the B-superior Eocene formation, which has estimated reserves of approximately 1,000 mmbls of 23.6° API crude oil. The reservoir was discovered in 1988.

We expect to drill 6 vertical and 47 inclined producing wells, together with 21 injector wells. Total investment costs throughout the project life (2004–2021) are expected to be approximately $1,200 million, with an average crude oil production of 90 to 277 mbpd. At December 31, 2005, total investment in this project amounted to approximately $294 million.

The Mariscal Sucre for Liquefied Natural Gas Project. The Mariscal Sucre for Liquefied Natural Gas project is aimed at developing and exploiting reserves of non-associated offshore gas and condensate in the North Paria Fields (the five fields of Rio Caribe, Mejillones, Mejillones South, Patao and Dragon) in the north coast of Venezuela. In addition, the project includes the construction of a LNG plant for projected gas production capacity of 1,200 mmcfd and for the processing of 4.7 million metric tons per year (mmt/y) of LNG and 300 mmcd of methane gas. The investment required for the development of the offshore fields, the LNG plant and the associated infrastructure is estimated at $2.7 billion. At December 31, 2005, total investment in this project amounted to approximately $17 million.

Deep Conversion Project at Puerto La Cruz Refinery. The Deep Conversion project at Puerto La Cruz Refinery involves the revamping of distillation units DA-1 and DA-2 in order to process 80 and 90 mbpd of Merey heavy crude oil, respectively. The project also involves the construction of a 130 mbpd vacuum distillation unit and a 50 mbpd deep conversion plant based on Venezuelan technology: HDHPLUS®. The refinery is expected to lead to minimum production of residuals, as well as increased production of gasoline, jet A-1, diesel, in compliance with international environmental quality standards. Basic engineering efforts are currently under way. Refining operations are expected to commence in 2010.

Deep Conversion Project at the El Palito Refinery. The Deep Conversion project at the El Palito Refinery involves the development of all engineering phases to install new distillate hydrotreater and reforming units and a deep conversion unit, taking into account the impact in industrial services, storage, docking capacity, tankage, and auxiliary plants, all of which will entail a major refinery expansion. The primary objectives of the project is to increase refinery processing capacity of 22° API gravity crude oil, minimize residual production and increase high quality product yields by 2010.

New Refinery Projects: Cabruta, Batalla de Santa Ines and Caripito. The Cabruta refinery is being designed to process 400 mbpd of 8.5° API gravity crude oil from the Orinoco Oil Belt. The refinery is also designed to produce high quality refined products such as gasoline, distillates and jet fuel for export and to have a deep conversion unit, based on HDHPLUS® technology. The refinery will be located in Cabruta in the south of Guarico State. Operations are expected to commence in 2011. The Batalla de Santa Ines refinery is being designed to process 50 mbpd of 28° API gravity Guafita Blend. Its process scheme configuration does not involve deep conversion processing. Operations are expected to begin by 2010. The Caripito refinery is designed to process 50 mbpd of crude oil produced in Eastern Venezuela crude to satisfy regional demand for asphalt and refined petroleum products. Operations are expected to begin by 2009.

Antonio Ricaurte Trans-Caribbean Gas Pipeline. The Antonio Ricaurte Trans-Caribbean gas pipeline will be operated by us and the state oil corporation of Colombia, Empresa Colombiana de Petróleo S.A. The gas pipeline is intended to connect the Caribbean with the Pacific region, through Panama and Central America. On July 8, 2006, construction began on the first section of the gas pipeline, which will extend from Puerto de Ballena in Colombia to the eastern coast of Lake Maracaibo in Venezuela. The first phase of this gas interchange program is due to commence in 2008. The gas pipeline will have an approximate cost of approximately $335 million and an approximate length of approximately 225 kilometers, which includes 90 kilometers in Colombia and 135 kilometers in Venezuela.

Transportation and Infrastructure

Pipelines and Storage. We have an extensive transportation network in Venezuela consisting of approximately 3,113 km of crude oil pipelines (over 28 pipelines), with a throughput capacity of approximately 6,340 mbpd of crude oil. These pipelines connect production areas to terminal facilities and refineries. We have a network of gas pipelines in Venezuela totaling approximately 3,781 km, with a throughput capacity of approximately 2,748 thousand cubic meters per day. Our network is comprised of the Western and East Central systems, stretching from Lake Maracaibo, Zulia to Punto Fijo, Falcón and from Puerto Ordaz, Bolívar to Barquisimeto, Lara. We also have a network of 1,179 km of products pipelines with a total flow capacity of approximately 831 mbpd.

The main purpose of the Mariscal Sucre Project is the development of the North Paria fields, in the northeast of Venezuela, to produce non-associated natural gas and condensate from five fields (Rio Caribe, Mejillones, Mejillones South, Patao and Dragon).

We maintain total crude oil and refined petroleum products storage capacity of approximately 30 mmbls and 74 mmbls, respectively, in Venezuela including tank farms, refineries and shipping terminals, of which approximately 16.3 mmbls are available at our refineries. Our terminal facilities are comprised of nine maritime ports as well as two river ports. A new terminal facility was completed at the Jose Complex in 2003.

In addition to the storage and terminal facilities in Venezuela, we maintain storage and terminal facilities in the Caribbean, located in Bonaire, the Bahamas, and Curaçao, with an aggregate storage capacity of 50 mmbls as of December 31, 2005. The Curaçao oil terminal, which is leased from the Netherlands Antilles government, had a storage capacity of approximately 15 mmbls at December 31, 2005.

United States. CITGO owns and operates a crude oil pipeline and three products pipeline systems, one of which it plans to sell in 2007. CITGO also has equity interests in two crude oil pipeline companies and four refined product pipeline companies. CITGO sold its interest in two of the refined product pipelines in January and February 2007 and has plans to sell its interest in another refined product pipeline in 2007.

Europe. Through equity interests in five European pipeline companies, we have interests in four crude oil terminals and four crude oil pipelines in northwestern Europe, including two pipelines from the Mediterranean coast to Germany. We also own three port facilities in the Rhine-Herne Canal providing barge access to Rhine and North Sea coastal ports.

Shipping. At December 31, 2005, PDV Marina, our wholly owned subsidiary, owned and operated 21 tankers with a total capacity of approximately 1,348 mdwt with an average age at December 31, 2005 of approximately 16 years.

Research and Development

INTEVEP is our wholly owned subsidiary responsible for research and technology support. INTEVEP focuses on generating integral technological solutions, particularly relating to exploration and production activities, refining and industrialization. INTEVEP also develops new technologies and promotes cooperation and integration with the Venezuelan scientific community.

INTEVEP develops products and technologies such as DISOL® (Gas-to-Liquid technology). INTEVEP has made new improvements to the DISOL® catalyst and commenced the construction of a GTL (Gas-to-Liquid) pilot plant. In addition, INTEVEP made further progress in the development of AQUACONVERSION®, a catalytic process used to produce synthetic crude from Morichal heavy oil and MISINT® (solvent injection to upgrade oil quality).

During 2005, INTEVEP continued working on a pilot test for MISINT® in Morichal on four wells. The results of the test will be used to design a new module for production of 20,000 bpd. In addition, INTEVEP's technology for deep conversion (HDHPLUS®) will be installed at the El Palito and Puerto La Cruz refineries. Basic engineering has already begun for both projects and production is expected to start in 2010.

Environmental and Safety Matters

Environment and Occupational Health. We and our subsidiaries are subject to a complex environmental and occupational health regulation framework. Under this framework, we and our subsidiaries may be required to make significant expenditures to modify our facilities and to prevent or remedy the effects of waste disposal, pollutant spills, and accidents on the environment and the population's health.

We are taking important steps to prevent risks to the environment, the population's health, and the integrity of our installations. During 2005 and 2006, we continued the implementation of our company-wide Integral Risk Management System (SIR-PDVSA®), which is expected to be fully deployed by 2009. The system is based on international practices and standards, such as ISO 14001 for Environmental Management, ISO 18000 and British Standard BUSINESS 8800 for health, and the Occupational Safety and Health Administration (OSHA)'s and American Petroleum Institute (API) for process safety. We have invested $36 million to complete the total implementation of the system. In addition, we have an investment plan to comply with the applicable environmental and occupational health regulations. Under this investment plan, in 2005 and 2006, we spent approximately $42.32

million in capital expenditure, including the following: $8.43 million for product quality; $28.22 million for environmental compliance projects; and $5.67 million for oil pit recovery and hazardous waste management and disposal. CITGO estimates expenditures of approximately $1.0 billion for environmental and regulatory capital expenditures from 2006 through 2010.

As part of our environmental responsibility initiative, we have also instituted a plan to recover oil pits that were left behind from oil exploration and production activities over the past 100 years. Oil pits are excavations made on the soil surface to store oil sludge and drilling cuts. The plan includes the recovery, recycling and transformation of the disposed waste, including abandoned installations, in order to convert them into financial and environmental assets. The plan was first implemented in 2001 and has an expected duration of twelve years. Since 2005, a total of 2,391 oil pits have been closed and restored. In 2005, 135,000 oil barrels were recovered from the Bachaquero oil macro pit (Zulia state) and dispatched to China. The budget for the plan totals $558 million and is expected to cover the costs associated with remedying and restoring 11,069 oil pits, among other environmental obligations. In 2007, we began a pilot test for oil recovery from the macro oil pits in eastern Venezuela to estimate the economic value of oil waste disposed in those drilling pits. As of the date of this Prospectus, we have successfully concluded a test of 1,000 barrels in the Orocual macro pit.

Safety. In 2006, we and our subsidiaries invested $32 million to comply with safety regulations. As part of our operational plan, we have also taken the following steps to assure the integrity of people's health and installations:

- Update seven technical safety standards to meet the terms of new regulations, technologies and best practices;
- Development and implementation of a safety training program for contractors, employees and neighboring communities;
- Guidance and supervision of our maintenance personnel in reliability studies of safety equipment;
- Evaluation of risk analysis software;
- Visualization and analysis of new trends and technologies in safety matters;
- Alliances with universities such as "Universidad Bolivariana de Venezuela" and "Universidad Nacional Experimental de la Fuerza Armada"–UNEFA;
- Institutional synergy with different public and private organizations such as: FUNVISIS, INEA, FONDONORMA, ASOQUIM, Protección Civil, INTTT, and Ministries (Science and Technology, Environment, Infrastructure, Basic Industries and Mining and Labor, among others);
- Investment on safety equipment in various of our subsidiaries; and
- Implementation of an educational program on safety, environment and occupational hygiene for 11,000 people belonging to cooperatives, Social Production Enterprises (EPS), medium and small companies and communities of Monagas and Azoátegui states in the eastern part of the country, with a capital investment of $1 million.

Legal Proceedings

On November 30, 2006, Fast Break Foods LLC and others filed a class action complaint against PDVSA, PDV America, PDV Holding and PDV Midwest Refining, LLC among others alleging violations of the Sherman Act (antitrust regulations). The procedure, which was brought in the U.S. District Court for the Northern District of Illinois, Eastern Division, has been stayed while plaintiffs amend the complaint.

On August 9, 2006, a federal grand jury indicted CITGO and the former environmental manager at the Corpus Christi refinery for ten violations of the Clean Air Act for having uncovered water equalization tanks and incorrectly computing benzene emission amounts and for killing migratory birds. On November 22, 2006, CITGO filed several motions to dismiss. The prosecutor responded to CITGO's motion to dismiss in early January 2007. CITGO intends to continue to vigorously defend this case and does not believe that the resolution of this matter will have a material adverse effect on its financial condition or results of operations.

On February 16, 2006, the Political Administrative Division of the Supreme Court of Justice of Venezuela declared the appeal filed by PDVSA Petróleo against a resolution of the SENIAT dated November 17, 1999 to be without merit. The judgment is for $839 million and relates to tax obligations corresponding to 1994, 1995 and 1996. Management and its legal advisors believe that the above-mentioned judgment violates fundamental constitutional rights. Accordingly, on February 13, 2007, we filed an appeal with the Constitutional Division of the Supreme Court of Justice seeking to reverse the SENIAT decision. Our appeal also requested a preventive measure in order to suspend the SENIAT decision's immediate enforcement. See note 23(g) to our consolidated financial statements.

On September 7, 2005, New Brunswick Power Holding Corporation, a Canadian corporation, or NB Power, brought an action in a Canadian court against us, BITOR, and Venezuela for breach of an Orimulsion® supply contract that was never signed. NB Power claims damages for $1,800 million. NB Power also commenced an arbitration proceeding in New York. We and BITOR moved for declaratory judgment on the issue of the existence and the validity of the alleged 20-year, multi-billion dollar, fuel supply agreement. Both the suit and the arbitration procedure were stayed until the New York courts reach a decision with respect to the motion for declaratory judgment. On January 31, 2007, the U.S. District Court for the Southern District of New York denied our and BITOR's motion for summary judgment. See note 20 to our consolidated financial statements. On July 25, 2007, we came to a settlement agreement with NB Power and paid them $110 million.

In May 2003, an arbitration proceeding was commenced in the International Court of Arbitration against PDVSA Petróleo in connection with a dispute arising under an alleged contract for the sale and purchase of 50,000 MMT of unleaded gasoline from February 19, 2003. The plaintiffs are claiming damages of $14 million. In February 2006, PDVSA Petróleo was notified of the arbitration court's decision overruling all the plaintiffs' demands and instructing the plaintiffs to pay PDVSA Petróleo all arbitration costs relating to the dispute of the alleged contract violation for the sale and purchase of low octane gasoline. See note 20 and 23(g) to our consolidated financial statements.

During December 2002 and the first months of 2003, there was a work stoppage by a significant number of workers and employees of ours and our subsidiaries in Venezuela. The work stoppage resulted in the termination of employment, effective January 1, 2003, of approximately 18,000 employees of our then total labor force of 45,000. Based on the opinion of our management and legal counsel, the terminations were in accordance with Venezuelan labor law. All significant outstanding employee benefits in accordance with our employment benefits and Venezuelan labor law were accrued as of December 31, 2003 and 2002. The above-mentioned former PDVSA employees have filed a petition for reinstatement with the labor courts.

We are involved in various other claims and legal actions in the ordinary course of business totaling $4,160 million. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Based on an analysis of available information, a reserve as of December 31, 2006, 2005, 2004 and 2003, amounting to $499 million, $910 million, $448 million and $380 million, respectively, is included in accrued and other liabilities related to all the contingencies described above. See note 20 to our consolidated financial statements. If known lawsuits and claims were to be determined in a manner adverse to us or our subsidiaries, and in amounts greater than our reserve accruals, then such determinations could have a material adverse effect on our financial position or results of operations.

MANAGEMENT AND EMPLOYEES

Directors and senior management

In accordance with our charter, we are primarily managed by our Board of Directors and secondly by our president. Our Board of Directors is responsible for convening our shareholders' meetings, preparing our year-end accounts, presenting our year-end accounts at our shareholders' meetings and reviewing and monitoring our economic, financial and technical strategies and procedures.

Our Board of Directors consists of eleven members: a president, two vice presidents, five internal directors and three external directors. Our Board of Directors is directly appointed by the President of the Bolivarian Republic of Venezuela for an initial term of two years, which may be extended indefinitely until a new board of directors is appointed. Our board of directors meets weekly and, from time to time, when summoned by our president.

Pursuant to our charter, our president has broad powers to act on our behalf and to represent us in our dealings with third parties, subject only to the authority expressly reserved to our Board of Directors or to our general shareholders' meeting. Our president determines and is responsible for the implementation of our goals, strategies and budgets (which must be approved at our general shareholders' meeting) for our different businesses. Such goals, strategies and budgets are monitored by our Board of Directors.

Our current Board of Directors was appointed in January 2005 and will serve until 2007 or until a new board of directors is appointed. Our current directors and executive officers are set forth below.

Name	Position with PDVSA
Rafael Ramírez Carreño	President
Luis Vierma	Vice President
Asdrúbal Chávez	Vice President
Eudomario Carruyo	Internal Director
Eulogio del Pino	Internal Director
Déster Rodríguez	Internal Director
Jesús Villanueva	Internal Director
Iván Orellana	External Director
Carlos Martínez Mendoza	External Director
Bernard Mommer	External Director

Information on our current directors and executive officers is set forth below.

Mr. Rafael Ramírez Carreño, Minister of People's Power for Energy and Petroleum of Venezuela and our President

Mr. Rafael Ramírez is a mechanical engineer who graduated from Universidad de los Andes in 1989. He also holds a Master's degree in Energy Studies from the Universidad Central de Venezuela. He began his career in the oil industry at INTEVEP, where he was initially assigned to work on the handling of Orinoco Oil Belt extra-heavy crude oil. Further assignments and appointments to positions of our other subsidiaries provided him with wide experience in the development, coordination and management of engineering and construction projects. His work abroad includes the development of the Cardón refinery's upgrading and expansion project in the United States and Nigeria's LNG project in France. Mr. Ramírez was the founding president of Enagas, the national gas entity charged with the responsibility of structuring the National Gas Plan and the design, development and promotion of the state policies for the gas sector.

In February 2002, he was appointed our external director and in July of that year was sworn in as Minister of People's Power for Energy and Petroleum by President Hugo Chávez. On November 20, 2004, under

Presidential Decree No. 3264, Mr. Ramírez was named our president, which position he concurrently holds together with that of Minister of People's Power for Energy and Petroleum.

Mr. Luis Vierma, our Vice President

Mr. Luis Vierma has a Bachelor's degree in Chemistry, from the Universidad Central de Venezuela in 1979. He obtained his Master's degree in Geology (Petroleum Geochemistry) in 1984 from Indiana University at Bloomington. Between 1975 and 1978, he taught chemistry at the Universidad Central de Venezuela. From 1978 to 1981, he held the position of exploration geochemist at INTEVEP. He was later appointed head of the organic geochemistry laboratory, in which he became leader of hydrocarbons exploration projects and, later, head of the inorganic chemistry unit. In 1993, Mr. Vierma was appointed manager of Annex XIII (Enhanced Crude Recovery) of the Ministry of People's Power for Energy and Petroleum–US Department of Energy (DOE) Agreement. In 1995, he was appointed head of the organic geochemistry section and, in 1997, head of the geology section. In 1998, he became leader of the Bosque-Bucare Project to implement the shared productivity effort strategy. In 1999, he became exploration business manager, and in 2000, he was appointed director of the policies and plans office of the Vice-Ministry of Hydrocarbons at the Ministry of Energy and Mines (now Ministry of People's Power for Energy and Petroleum). During the first quarter of 2003, he was sworn in as Deputy Minister of Hydrocarbons and named our external director and later president of the CVP, Vice President of our gas division, and member of the CITGO Board. In January 2005, he was appointed vice president of our Exploration and Production division.

Mr. Alejandro Granado, our Vice President

Mr. Alejandro Granado is a Refining Processes Engineer who graduated in 1981 from the University Petrol-Gaze in Ploesti, Romania. He later obtained his Master's degree in Refining and Petrochemicals from the same university. Mr. Granado joined the Venezuelan oil industry in 1981 as a process engineer in the Process Development department of INTEVEP. In 1985, he was assigned to UOP L.L.C. in Chicago as resident engineer for the BTX project. In 1987, he was appointed member of the team assigned to Germany's Veba Oel for the development of the HDHPLUS® process, a heavy residue conversion technology. In 1990, he was assigned to British Petroleum in London to lead the process engineering group charged with the design of several mixed ether units for the Venezuelan refinery system. From 1991 to 1997, he held several managerial positions in process engineering at INTEVEP, and in 1997 he was posted to CITGO as technology manager of that subsidiary's refinery at Lemont, Illinois. Mr. Granado returned to INTEVEP in 2000, as manager of the process engineering department. Later, he became head of the conceptual and basic engineering department until December 2002, when he was named deputy general manager of the Puerto La Cruz refinery. In July 2003, he was appointed refining director of our Eastern Division. In July 2004, he was appointed our international and national refining director and that same year was appointed vice president of PDV Marina. In January 2005, Mr. Granado was appointed our vice president, responsible for the refining area both at the domestic and international levels.

Mr. Eudomario Carruyo, our Director

Mr. Eudomario Carruyo received a Bachelor's degree in Public Accounting from the Universidad del Zulia in 1972. He has completed several specialization and graduate courses in the areas of Finance and Management at Columbia University in New York and the University of Michigan at Ann Arbor. Mr. Carruyo has 38 years of experience in the domestic oil and petrochemical industry. He started his career in the CVP and upon the nationalization of the Venezuelan Oil Industry in 1976 continued in the newly created subsidiary that absorbed CVP, where he worked until 1997, holding the positions of corporate treasurer, corporate controller, corporate budget and economic evaluations manager, corporate cost manager, finance manager for the Western Division, finance manager for the San Tomé Area, finance manager for the El Palito refinery and president of the bidding committee. In 1991, he was transferred to Palmaven, one of our subsidiaries, where he worked for six years (1992-1997), acting as finance manager and later as director of the subsidiary. Simultaneously, he sat on the boards of directors of several of its joint ventures. In 1997, he retired from the oil industry. In April 2002, he returned as our statutory auditor until December 2002 (first as assistant and then as principal). In January 2003, Mr. Carruyo was appointed our executive director of finance and was also appointed as director of the following subsidiaries: CITGO, PDVSA Finance, PDVSA Insurance and PDV Holding. In July 2003, he was appointed Director of Pequiven, coordinating our year-end closure and that of our subsidiaries for the fiscal year 2002 and the preparation of operational financial reports both for internal use and for the SEC. Simultaneously with his responsibilities at Pequiven, he acted as

Director of the following businesses and affiliates: Fertinitro, Monómeros Colombo-Venezolanos, Metor International, Produven, Super Octanos, Supermetanol, Tripoliven, Clorozulia, Coramer, Olefinas del Zulia, Polinter, Propilven, Pralca, Produsal, Servifertil, International Petrochemical Holding LTD (IPHL), International Petrochemical Sales Limited (IPSL), Copequim, Grupo Zuliano and Sofilago. Mr. Carruyo was appointed our director in January 2005, serving concurrently as director of CITGO, director of PDVSA Petróleo S.A., director of DELTAVEN, vice president PDV Marina, president PDVSA Finance and president PDVSA Insurance.

Mr. Asdrúbal Chávez, our Director

Mr. Asdrúbal Chávez graduated as a Chemical Engineer from the Universidad de los Andes in 1979. Mr. Chavez joined the Venezuelan oil industry in 1979 at our El Palito refinery, as a startup engineer for PAEX, the refinery's major expansion project. Mr. Chávez held various positions in areas such as industrial services, distillation and specialties, conversion and treatment, crude and products movement, programming and economics, and process engineering. In 1989, he was assigned to UOP L.L.C. in the USA. In 1990, he was appointed project leader of the project to expand El Palito's crude and vacuum distillation units. From 1995 to 1999, Mr. Chávez held various supervisory and managerial positions, and in 2000, we assigned him, on a temporary basis, to the Ministry of People's Power for Production and Commerce to assist in the restructuring of the Ministry and in the Economic Constituent Process. In 2001, he was assigned to BITOR, one of our subsidiaries, as the human resources manager, and led the team that worked on the restructuring of the company's expansion project. In 2002, Mr. Chávez was named assistant to our Board of Directors, and in January 2003, he was appointed manager of the El Palito refinery. In August 2003, he was appointed executive director for human resources and served as leader of the team that negotiated the 2004-2006 collective labor contract. In March 2004, he was appointed executive director for trade and supply. In January 2005, Mr. Chávez was appointed as our director responsible for trade and supply, president of PDV Marina and BITOR, our subsidiaries, and director of CITGO, our affiliate based in Houston, USA.

Mr. Eulogio Del Pino, our Director

Mr. Eulogio Del Pino is a Geophysical Engineer who graduated from the Universidad Central de Venezuela in 1979 and holds a Master's degree in Oil Exploration from Stanford University in 1985. In 1979, Mr. Del Pino began his career in the Venezuelan oil industry at INTEVEP, where he held different technical and supervisory positions until 1990. In 1990, he was appointed Latin America technical manager for Western Atlas Company. In 1991, he returned to work with us, holding several managerial positions at Corpoven (our affiliate which ceased to exist in 1997 as a result of corporate restructuring). In 1997, he was appointed Exploration and Delineation Manager of PDVSA Exploration and Production. As Exploration and Delineation manager, he coordinated our offshore exploration campaign in the Plataforma Deltana in 2001. In 2003, he was appointed General Manager of the Orinoco Oil Belt Associations at the CVP, our affiliate in charge of representing the Orinoco Oil Belt Associations. In January 2005, he was appointed our director and president of PDVSA CVP. Mr. Del Pino has been elected president and vice president of the Venezuelan Society of Geophysical Engineers (1990-1994), vice president of the US Society of Exploration Geophysicists (1996-1997), and founder and coordinator of the Latin American Geophysical Union. Mr. Del Pino was a professor at both the undergraduate and graduate levels at the Universidad Central de Venezuela and the Universidad Simón Bolívar, in Caracas.

Mr. Déster Rodríguez, our Director

Mr. Dester Rodríguez is a colonel in the Venezuelan Army with a Bachelor's degree in Military Science and Arts from the Academia Militar de Venezuela. Mr. Rodríguez completed systems engineering studies at the Universidad Experimental de las Fuerzas Armadas. In 1997, he was appointed head of personnel of the Military Engineering School of the Army. In 1998, he was appointed head of the Army Personnel Registry and Control Division. In 1999, he was appointed general director of the Information Technology Ministerial Office at the Ministry of People's Power for Education, Culture and Sports, a position held simultaneously with that of president of the Fundación Bolivariana de Informática y Telemática since 2001. In December 2002, he was appointed as a member of our restructuring committee. In March 2003, Mr. Rodríguez was appointed our director, serving concurrently as director of CITGO, vice president of Isla Refinery, a member of the board of PDV Holding and president of CIED and COMMERCHAMP.

Mr. Jesús Villanueva, our Director

Mr. Jesús Villanueva received a Bachelor's degree in Public Accounting and received a Master's degree in Hydrocarbon Economy and Management from the Universidad Central de Venezuela in 1988. Mr. Villanueva started his professional activities in 1974 as an assistant in the Auditing Division of Espiñeira, Sheldon y Asociados (PricewaterhouseCoopers) where he worked until 1982. Mr. Villaneuva joined the Venezuelan oil industry in 1982 at Meneven, then one of our subsidiaries. During his professional career, he has held different supervisory and managerial positions in auditing and finance in San Tomé, Anaco, Puerto La Cruz and Caracas for Meneven and Corpoven. In February 2002, he became our principal director and later returned to his former position as general auditor. Mr. Villaneuva was appointed our director in January 2005. He has been internationally certified as an internal auditor by the Institute of Internal Auditors (1999) and as a certified fraud examiner (2004).

Mr. Iván Orellana, our Director

Mr. Iván Orellana is a Chemical Engineer who graduated from Universidad Simón Bolívar (1975). He completed graduate studies in Strategic Planning at Brunel University, London in 1994 and courses in oil and natural gas supply and trade at Oxford, in 1994, administrative law at the Universidad de Salamanca, Spain, in 2003 and private international law in Universidad de Salamanca in 2004. Mr. Orellana started his career in the hydrocarbon sector in 1975, holding different supervisory and engineering positions. In 1988, he worked as consultant for the gas sector in the Exploration and Production Coordinating Department of PDVSA Gas. In 1994, he was appointed planning manager for PDVSA Gas and, between 1997 and 2001, he worked as senior planning consultant for energy and regulation of energy markets in our Corporate Planning department. Between 2002 and 2003, he acted as trade environment analysis manager in our Planning Executive Committee. He has been the Venezuelan national representative for the Economic Commission since 2003 and is currently the Venezuelan governor for OPEC and chairman of OPEC's Governors Board, as well as the general director for hydrocarbons at the Ministry of People's Power for Energy and Petroleum. Mr. Orellana was appointed external director in the area of international business to our Board of Directors in January 2005. He has also been coordinator of studies to establish our and Venezuela's strategic positioning in the LNG markets in the Atlantic Basin, consultant to the President of the National Gas Entity and our President in the process of energy services regulation for Venezuela, and consultant to the Ministry of People's Power for Energy and Petroleum and to us in the bidding process for the Mariscal Sucre LNG Project.

Mr. Carlos Martínez Mendoza, our Director

Mr. Carlos Martínez Mendoza received a Bachelor's degree in Military Sciences and Arts from the Academia Militar de Venezuela in 1975 as a member of the "Simón Bolívar II" group. He belongs to the infantry branch of the Venezuelan Army. Mr. Martínez studied Command and Staff in the "Escuela Superior de Guerra del Ejército" in Argentina in 1990 and also holds a Master's degree in Security and National Defense. He took a graduate course in strategic planning and management, as well as a course on defense resource management in the Center for Hemispheric Defense Studies in the United States. Mr. Martínez has held positions complementary to his military rank, such as secretary of the Nation's Defense Council and director of the Presidential Office of Venezuela. Mr. Martínez is currently president of the Zulia Region Development Corporation (Corpozulia) and Carbozulia and vice president of the "Sofioccidente" Investment Bank of Venezuela. In January 2005, Mr. Martínez was appointed as our external director.

Mr. Bernard Mommer, our Director

Mr. Bernard Mommer holds a Master's degree in Mathematics and a Doctorate in Social Science from the Universität Tübingen, Germany. Mr. Mommer has been a university professor and researcher for many years at different Venezuelan universities. From 1991 to 1995, he was our senior advisor to the Strategic Planning Coordinator. From 1995 to 2001, he was a senior research fellow at the Oxford Institute for Energy Studies at St. Antony's College, Oxford. Mr. Mommer also acted as advisor to the Venezuelan Minister of People's Power for Energy and Petroleum from 1999 to 2000 and a consultant to the Secretary General of OPEC in Vienna in 2002. Prior to his appointment to PDV UK, he was advisor to our President. Mr. Mommer's published articles include: Die Ölfrage (The Petroleum Question) (1983: Institut für Internationale Angelegenheiten der Universität Hamburg, Nomos Verlagsgesellschaft Baden-Baden), El Petróleo en el Pensamiento Económico Venezolano–Un ensayo (Oil in the Economic Thought of Venezuela–An Essay) (Co-author Asdrúbal Baptista; Prologue by Arturo Uslar Pietri. Ediciones IESA, Caracas, 1987); and The New Governance of Venezuelan Oil (1998: Oxford Institute for Energy Studies), Global Oil and the Nation State (published by Oxford University Press, on behalf of the Oxford Institute for Energy Studies, in 2002). In 2004, the Ministry of People's Power for Energy and Petroleum published his book "El mito de la Orimulsión"® (The Myth of Orimulsion®). In January 2005, he was appointed our director and Deputy Minister of Hydrocarbons.

Compensation

For the year ending December 31, 2004, the aggregate amount paid by us as compensation to our directors and executive officers for services in all capacities was approximately $1.47 million (based on the 2004 average exchange rate of Bs.1,885.93 to $1). For the year ended December 31, 2005, the aggregate amount paid by us as compensation to our directors and executive officers for services in all capacities was approximately $1.76 million (based on the 2005 average exchange rate of Bs. 2,110.00 to $1).

Board practices

Our directors are appointed for an initial term of two years, which may be extended until a new board of directors is appointed. We have not entered into any service contracts with any of our directors or executive officers.

Audit Committee Structure and Objectives

Basic Function

Our Audit Committee assists our Board of Directors in the monitoring of the quality and adequacy of the internal control system. The committee monitors the internal control system through the evaluation of the following matters:

- Risk analysis of the different businesses.
- Follow up of the elements of the internal control system, in the Venezuelan and international operations.
- The performance of our corporate control units.
- Compliance with requirements of existing laws and regulations, in Venezuela and with our norms and procedures.
- The results of the internal and external audits.
- The quality and adequacy of corporate financial information.

Authority

Our Board of Directors has granted full authority to the Audit Committee so that it can carry out its responsibilities. The Audit Committee may employ the services of the corporate control units, the external auditors, independent consultants, or any other group or internal or external resource to carry out studies or investigations necessary to better comply with its responsibilities.

Organization

The Audit Committee consists of six members who are appointed by our Board of Directors. The chairman of the committee is our president. Our general internal auditor deputy is the secretary of the committee and two members are external directors of our board.

The president of the Audit Committee is responsible for directing and prioritizing the issues overseen by the Audit Committee. Our internal controller and prevention and loss control manager assist the Audit Committee on a regular basis. Other corporate officials, including the CFO, attend these meetings whenever it is required.

Main Functions

- To assure the adequacy of our internal control system and to monitor information processes.
- To recommend to our Board of Directors any course of action regarding the main issues of the internal control system, including actions required to improve corporate information systems.
- To set guidelines and support the activities of our corporate control units.
- To review and approve the internal audit policy and norms, including the relationship between the corporate internal audit organization and the audit units within subsidiaries or joint ventures.
- To ensure the application of general auditing standards issued by the Venezuelan government.
- To ensure the independence and objectivity of the internal audit function.
- To review the external auditors' opinion of our financial statements, the quality of the internal control system, the main risk areas and the adequacy of the financial reports.
- To evaluate on an annual basis the performance of the external auditors.
- To review its annual performance and to submit its activity report to our Board of Directors.

Employees

The following table shows our number of employees for the three years ended December 31, 2006.

	At December 31,		
	2006	**2005**	**2004**
In Venezuela	47,433	43,807	33,281
Abroad	5,382	5,373	5,238
Total number of employees	52,815	49,180	38,519
Contractors (*)	15,290	10,498	25,930

(*) We decided to hire approximately 5,300 workers who worked formerly for contractor companies in 2005. Our management determined that the net effect of the contractual rights and benefits resulting from this decision does not have a material effect on our financial position.

As of December 2005, approximately 30% of our workers were affiliated with one of the following unions: Federation of Oil, Chemical, and Similar Workers of Venezuela (FEDEPETROL), which represented 54.23% of total affiliated workers; Federation of Workers of the Industry of Hydrocarbons and its Derivatives of Venezuela (FETRAHIDROCARBUROS), which represented 18.17% of total affiliated workers; National Unitary Oil Workers union and its chapters (SINUTRAPETROL), which represented 16.53% of total affiliated workers affiliated with the unions; National Bolivarian Federation of Oil, Petrochemical, Gas, workers and similar of Venezuela (FENAPETROL), which represented 7.78% of total affiliated workers; National Association Union of Supervisors and Oil Operators and their Similar (ASINSUOPET), which represented 0.42% of total affiliated workers. Our directors, corporate staff, professional employees and the security personnel in general are not affiliated to any union organization.

Share ownership

Our common stock is not publicly traded and, as of April 4, 2007, we had 51,204 shares outstanding. All of our issued and outstanding shares of common stock are owned by the Bolivarian Republic of Venezuela.

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

We are the holding company of a group of oil and gas companies in Venezuela. We were formed by the Venezuelan government in 1975 pursuant to the Nationalization Law. The Nationalization Law reserves for the Venezuelan government the industry and trade of hydrocarbons, and our operations are supervised by Venezuela's Minister of People's Power for Energy and Petroleum, who now also serves as our president. The Ministry of People's Power for Energy and Petroleum establishes our general policies and approves our production levels, capital expenditures and operating budgets annually, while our Board of Directors is responsible for implementing these policies.

Since our formation, we have been operated as a commercial entity, vested with commercial and financial autonomy. The Bolivarian Republic of Venezuela is not legally liable for our obligations, including our guarantees of indebtedness, or for the debt or obligations of our subsidiaries. Under the Venezuelan National Constitution, Venezuela must retain exclusive ownership of our shares. However, the Venezuelan National Constitution does not require Venezuela to retain ownership of our subsidiaries' shares or of our interests in various exploration and joint venture arrangements. Through our subsidiaries, we supervise, control and develop the crude oil, petroleum products and gas industries in Venezuela. These activities are complemented by our operating companies abroad, which are responsible for refining and marketing activities in North America, Europe and the Caribbean. See note 1(a) to our consolidated financial statements.

Our oil-related activities are governed by the Organic Hydrocarbons Law, which came into effect in January 2002. We are subject to regulations adopted by the executive branch of the Venezuelan government and other laws of general application, such as the Commercial Code of Venezuela. We and our Venezuelan subsidiaries are organized under the Commercial Code, which regulates the rights and obligations of Venezuelan commercial companies. Under the Commercial Code, we and our subsidiaries are permitted to develop and execute shareholders' objectives as a corporate entity.

Our gas-related activities are regulated by the Organic Law of Gaseous Hydrocarbons of September 1999 and its regulations dated June 2000.

On January 31, 2007, the National Assembly passed the Enabling Law granting the President of Venezuela the power to issue decrees regarding the energy sector during the 18 month period commencing in January 2007.

We and our Venezuelan subsidiaries engage in activities reserved to Venezuela pursuant to the Nationalization Law. Our foreign subsidiaries are not subject to the authorization process set forth in the Finance Administration for the Public Sector Law enacted on September 5, 2000 that regulates borrowing and other forms of financing.

Ownership of Reserves. All oil and hydrocarbon reserves within Venezuela are owned by Venezuela and not by us. Under the Nationalization Law, every activity related to the exploration, exploitation, manufacture, refining, transportation by special means, and domestic and foreign sales of hydrocarbons and their derivatives is reserved to Venezuela. We were formed as an entity to coordinate, monitor and control all operations related to hydrocarbons.

Empresas Mixtas. On February 26, 2007, President Chávez issued Decree-Law No. 5,200 pursuant to which existing Orinoco Oil Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, must be converted into Empresas Mixtas in which CVP, our wholly owned subsidiary, or any other of our subsidiaries, holds an equity interest of at least 60%, in accordance with the Organic Hydrocarbons Law.

Decree-Law No. 5,200 also provides that existing profit-sharing agreements for the exploration of the Golfo de Paria Oeste, Golfo de Paria Este and the blocks known as La Ceiba, as well as Orifuels Sinoven, S.A., must be converted into Empresas Mixtas in which CVP, our wholly owned subsidiary, or any other of our subsidiaries, holds an equity interest of at least 60%, in accordance with the Organic Hydrocarbons Law.

The conversion of the Orinoco Oil Belt projects and profit-sharing agreements into Empresas Mixtas must be completed no later than April 30, 2007 and the transfer of activities by the relevant operating entity to the Empresas Mixtas by no later than June 26, 2007.

TAX CONSIDERATIONS

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchases of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Venezuela of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Venezuelan Taxation

As used herein, the term "Resident of Venezuela" generally refers to an individual who is physically present in Venezuela for at least 183 days during the calendar year or the previous calendar and a legal entity that either is organized under Venezuelan law or maintains a registered branch or a permanent establishment according to the definition contained in Venezuela's tax law and/or the tax treaties entered by Venezuela with other countries.

Generally, if a non-Venezuelan legal entity maintains a permanent office in Venezuela, that office should be subject to Venezuelan taxation. The term "Non-Resident of Venezuela" generally refers to a natural person who is not physically present in Venezuela for a period or periods aggregating more than 183 days during the calendar year or the previous calendar year and a legal entity that neither is organized under Venezuelan law nor maintains a registered branch or a permanent establishment in Venezuela.

Payment of interest by us on the Notes to holders who are natural persons will not be subject to Venezuelan income tax. Capital gains realized by natural persons from the sale of the Notes will not be subject to income tax in Venezuela.

Payment of interest by us on the Notes to holders who are legal entities who are Non-Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela. Payment of interest will be subject to withholding at source at a progressive rate equivalent to 32.3%. Withheld amounts are creditable towards final income tax liability. Capital gains realized by legal entities who are Non-Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%, unless a lower rate is applicable under a relevant tax treaty with Venezuela.

Payment of interest by us on the Notes to holders who are legal entities who are Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%. Payment of interest will be subject to withholding at source at a rate equivalent to 5%. Withheld amounts are creditable towards final income tax liability. Capital gains realized by legal entities who are Residents of Venezuela will be subject to income tax in Venezuela at a rate of up to 34%.

Payment of interest by us on the Notes to holders who are offshore non-domiciled qualified financial institutions will be subject to Venezuelan income tax at a rate of 4.95% payable through withholding. Capital gains realized by offshore non-domiciled qualified financial institutions will be subject to Venezuelan income tax at a flat rate of 4.95%.

As the Common Depositary, an offshore non-domiciled qualified financial institution, will be the holder of record of the Notes issued in global form, we will make interest payments after withholding 4.95%. Under the Indenture we have agreed to pay Additional Amounts such that you receive the full amount of interest under the Notes as if the Venezuelan income tax was not applicable.

Generally, capital gains realized from the sale of the Notes by holders who are entitled to the benefits of tax treaties in effect between Venezuela and the United States, the United Kingdom, Italy, France, Germany, Portugal, the Czech Republic, Belgium, Sweden, the Netherlands, Switzerland, Norway, Barbados, Indonesia, Denmark, Spain, Canada, Iran, Korea, Cuba, China and Kuwait will not be subject to income tax in Venezuela.

We have requested the National Executive to make the regulatory adjustments necessary to exempt payments of interest under the Notes and capital gains realized from the sale of the Notes from the Venezuelan income tax. There can be no assurance that the aforesaid regulatory adjustments will be made.

Inheritance and Gift Tax

Transfer of the Notes through inheritance or gift to Residents of Venezuela or Non-residents of Venezuela will be subject to Venezuelan inheritance tax.

Stamp Tax

The issuance of the Notes will not be subject to stamp tax in Venezuela.

DESCRIPTION OF THE NOTES

The Issuer will issue the notes (the "Notes") under a trust indenture, dated as of April 12, 2007 (the "Indenture"), among the Issuer, and PDVSA Petróleo S.A. (the "Guarantor"), and The Bank of New York, as Trustee and principal paying agent (the "Principal Paying Agent"). The following is a summary of the material provisions of the Indenture. It does not include all of the provisions of the Indenture. You are urged to read the Indenture and these listing particulars. The terms of the Notes include those stated in the Indenture. You can obtain a copy of the Indenture at the offices of the Trustee located at 101 Barclay Street, New York, NY 10286 and, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange, at the office of the listing agent in Luxembourg.

You can find definitions of certain capitalized terms used in this description under "Certain Definitions."

The Principal Paying Agent will initially act as paying agent and the Trustee will act as registrar for the Notes. You may present Notes for registration of transfer and exchange at the offices of the registrar, which initially will be the Trustee's corporate office. No service fee will be charged for any registration of transfer or exchange or redemption of Notes, but the Issuer may require payment in certain circumstances of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith. The Issuer may change any paying agent and registrar without notice to Holders of the Notes. The Issuer will pay principal (and premium, if any) on the Notes at the Principal Paying Agent's corporate office in New York. At the Issuer's option, it may pay interest and Additional Amounts, if any, at the Principal Paying Agent's corporate trust office or by check mailed to the registered address of each holder of the Notes.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of such exchange.

Brief Description of the Notes and the Guaranty

The Notes. The Notes will:

- be senior unsecured Obligations of the Issuer;
- rank equally in right of payment with all existing and future senior unsecured Obligations of the Issuer (other than Obligations preferred by statute or operation of law);
- rank senior in right of payment to all existing and future Obligations of the Issuer that by their terms are subordinated to the Notes; and
- be effectively subordinated to all existing and future secured Indebtedness of the Issuer to the extent of the value of the assets securing such Indebtedness.

As of December 31, 2006, the Issuer had consolidated total indebtedness of US$2,964 million

The Guaranty. The full and prompt payment of all Obligations of the Issuer under the Indenture and the Notes will be unconditionally guaranteed by the Guarantor (the "Guaranty"). The Guaranty will:

- be a senior unsecured Obligation of the Guarantor;
- rank equally in right of payment with all existing and future senior unsecured Obligations of the Guarantor (other than Obligations preferred by statute or by operation of law);
- rank senior in right of payment to all existing and future secured Indebtedness of the Guarantor to the extent of the value of the assets securing Indebtedness.

As of December 31, 2006, the Guarantor had total indebtedness of US$840 million.

Additional Notes

The Issuer may, without your consent, incur additional Indebtedness. At the Issuer's option, this additional Indebtedness may consist of additional Notes ("Additional Notes") issued in one or more transactions, which have substantially identical terms (other than issue price, issue date and date from which the interest will accrue) as Notes issued on the Issue Date. Any Additional Notes will be consolidated and form a single class with the Notes issued on the Issue Date, so that, among other things, Holders of any Additional Notes will have the right to vote together with Holders of Notes issued on the Issue Date as one class.

Principal, Maturity and Interest

The Issuer will issue the Notes in fully registered form without coupons. The Notes maturing on 2017 and 2027 will have minimum denominations of US$400 and integral multiples of US$100 in excess thereof. The Notes maturing on 2037 will have minimum denominations $200 and integral multiples of $100 in excess thereof. The Notes will be issued for an initial aggregate principal amount of $7,500,000,000, but the Issuer may issue an unlimited principal amount of Notes under the Indenture, subject to the limitations set forth therein.

The 2017 Notes will mature on April 12, 2017, the 2027 Notes will mature on April 12, 2027 and the 2037 Notes will mature on April 12, 2037, unless earlier redeemed in accordance with the terms of the Notes. See "Redemption" below. The final payment of the principal, interest and Additional Amounts (if any) is expected to be made on the Notes on the Maturity Date.

Interest on the 2017 Notes will accrue at the rate of 5.25% per annum and will be due and payable in cash semi-annually in arrears on each April 12 and October 12, commencing on October 12, 2007 to the Persons who are registered Holders of the Notes at the close of business on each March 28 and September 27 immediately preceding the applicable interest payment date. Interest on the 2027 Notes will accrue at the rate of 5.375% per annum and will be due and payable in cash semi-annually in arrears on each April 12 and October 12, commencing on October 12, 2007 to the Persons who are registered Holders of the Notes at the close of business on each March 28 and September 27 immediately preceding the applicable interest payment date. Interest on the 2037 Notes will accrue at the rate of 5.50% per annum and will be due and payable in cash semi-annually in arrears on each April 12 and October 12, commencing on October 12, 2007 to the Persons who are registered Holders of the Notes at the close of business on each March 28 and September 27 immediately preceding the applicable interest payment date. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Redemption

The Notes are redeemable at par at their respective maturity dates.

Optional Redemption. The Issuer may redeem the Notes in whole or in part at any time or from time to time, at its option, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal, interest (exclusive of interest accrued to the date of redemption) and Additional Amounts, if any, on the Notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus the basis points, applicable to each series of Notes, in each case plus accrued and unpaid interest on the principal amount being redeemed to the date of redemption.

Series	Applicable Basis Points
2017 Notes	10
2027 Notes	10
2037 Notes	10

The Issuer and its Subsidiaries may acquire Notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws.

Selection and Notice of Redemption. Notice of redemption will be mailed by first-class mail at least 30 days but not more than 60 days before the redemption date to each holder of the Notes to be redeemed at its registered address. Notices of redemption shall be irrevocable and unconditional. Notice of redemption shall identify the Notes to be redeemed and shall state the redemption date (and that interest thereon will cease to accrue on and after such date), the redemption price, and the place of payment of the redemption price. If Notes are to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Note. For so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will cause notices of redemption to also be published as provided under "Notices."

In the event that the Issuer elects to redeem less than all of the Notes at any time, selection of the Notes for redemption will be made by the Trustee either:

(1) if the Notes are listed, in compliance with the requirements of the principal securities exchange on which the Notes are listed, which is expected to be the Luxembourg Stock Exchange; or

(2) if such securities exchange has no requirement governing redemptions of the principal securities exchange or if the Notes are not so listed on a securities exchange, on a pro rata basis, by lot or by such method as the Trustee may reasonably determine is fair and appropriate.

No Notes of a principal amount of US$400 shall be redeemed in part, and Notes of a principal amount in excess of US$400 may be redeemed in part in multiples of US$100 only. No Notes of a principal amount of US$200 shall be redeemed in part, and Notes of a principal amount in excess of US$200 may be redeemed in part in multiples of US$100 only.

Notes called for redemption become due on the date fixed for redemption. The Issuer will pay the redemption price for any Note together with accrued and unpaid interest, and Additional Amounts, if any, thereon, through the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Issuer has deposited with the paying agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any Notes by the Issuer, such redeemed Notes will be cancelled.

Redemption for Tax Reasons. The Issuer may, at its option, at any time redeem, in whole but not in part, upon not less than 30 days, nor more than 60 days' notice, the Notes at a redemption price equal to 100% of the Outstanding principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and Additional Amounts, if any, to the redemption date, if as a result of:

(1) any amendment to, or change in, the laws (or rules or regulations promulgated thereunder) of a Relevant Taxing Jurisdiction, or

(2) any amendment to or change in an official interpretation or application regarding such laws, rules or regulations (including a holding, judgment or order by a court or administrative body of competent jurisdiction),

which amendment, change, interpretation or application is proposed and becomes effective on or after the Issue Date, the Issuer has become or would become obligated to pay, on or before the next date on which any amount would be payable with respect to such Notes, any Additional Amounts in excess of those attributable to Taxes that are imposed, deducted or withheld at a rate of 4.95% (or such lower rate as may be contemplated by any regulation issued by the National Executive or new law enacted by the Venezuelan National Assembly exempting payments of interest under the Notes from Venezuelan income tax or reducing the current 4.95% income tax withholding rate) on or from any payments of interest under the Notes (See "Tax Considerations—Venezuelan Taxation") and such obligations cannot be avoided by taking commercially reasonable measures available to the Issuer (which, for the avoidance of doubt, do not include changing the jurisdiction of incorporation of the Issuer); provided that:

(a) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due and payable, and

(b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect.

No such redemption shall be effective unless and until the Trustee receives the amount payable upon redemption as set forth above.

Immediately prior to the publication of any notice of redemption pursuant to this provision, the Issuer will deliver to the Trustee:

(i) an Officer's Certificate (A) stating that (i) the amendment, change, interpretation or application as a result of which the Issuer has or will become obligated to pay such Additional Amounts is effective with respect to all companies in the Relevant Taxing Jurisdiction and (ii) the Issuer is entitled to effect such redemption and (B) setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and

(ii) an Opinion of Counsel (which may be Issuer's counsel) to the effect that (i) the Issuer has or will become obligated to pay such Additional Amounts as a result of such amendment, change, interpretation or application and (ii) the amendment, change, interpretation or application as a result of which the Issuer has or will become obligated to pay such Additional Amounts is effective with respect to all companies in the Relevant Taxing Jurisdiction.

No Mandatory Redemption; Open Market Purchases. The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. The Issuer and its Subsidiaries may acquire Notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws.

Additional Amounts

All payments made by the Issuer under, or with respect to, the Notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, "*Taxes*") imposed or levied by or on behalf of Venezuela or any other jurisdiction in which the Issuer is organized or any political subdivision or taxing authority or governmental agency thereof or therein having the power to tax (each, a "*Relevant Taxing Jurisdiction*"), unless the Issuer is required to withhold or deduct Taxes by law or by the official interpretation or administration thereof.

If the Issuer is so required to withhold or deduct any amount for, or on account of, such Taxes of any Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes, the Issuer will pay such additional amounts ("*Additional Amounts*") as may be necessary so that the net amount received by each holder (including Additional Amounts) after such withholding or deduction will not be less than the amount such holder would have received if such Taxes had not been required to be withheld or deducted; *provided*, *however*, that the foregoing obligation to pay Additional Amounts does not apply to:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant holder (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction (other than the receipt of such payment or the ownership or holding of or the execution, delivery, registration or enforcement of such Note);

(2) any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar Tax, assessment or governmental charge;

(3) any Taxes that would not have been so imposed but for the presentation of such Notes (where presentation is required) for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficiary or holder thereof would have been entitled to Additional Amounts had the Notes been presented for payment on any date during such 30 day period;

(4) any Taxes that would not have been so imposed or would have been imposed at a lower rate if the holder of the Note had provided to the Issuer any information, certification, documentation or evidence required under applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction for such Taxes not to be imposed or to be imposed at a lower rate (provided that (a) such information, certification, documentation or evidence is required by the applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from the requirement to deduct or withhold all or part of such Taxes and (b) at least 30 days prior to the first payment date with respect to which such information, certification, documentation or evidence is required under the applicable law, rules, regulations or generally published administrative practice of the Relevant Taxing Jurisdiction, the relevant holder at that time has been notified in writing by the Issuer or any other Person through whom payment may be made, that such information, certification, documentation or evidence is required to be provided to the Issuer);

(5) any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to the European Union Directive on the taxation of savings income (the “Directive”) implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting on June 3, 2003, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(6) any Tax imposed other than by way of withholding or deduction; or

(7) any Tax imposed on overall net income (or any branch profits tax imposed in lieu thereof).

Such Additional Amounts will also not be payable where, had the beneficial owner of the Note been the Holder of the Note it would not have been entitled to payment of Additional Amounts by reason of clauses (1) to (5) inclusive above.

Notwithstanding the foregoing, the limitations on the Issuer’s obligation to pay Additional Amounts set forth in clause (4) above shall not apply if the provision of information, certification, documentation or other evidence described in such clause (4) would be substantially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a Note (taking into account any relevant differences between U.S. law, rules, regulations or administrative practice and those of the Relevant Taxing Jurisdiction) than comparable information or other reporting requirements imposed under U.S. tax law, regulations and administrative practice (such as IRS Forms W-8 IMY, W-8BEN and W-9).

The foregoing provisions will survive any termination or discharge of the Indenture and shall apply *mutatis mutandis* to any taxing jurisdiction with respect to any successor Person to the Issuer. The Issuer will (i) make such withholding or deduction of Taxes as is required under applicable law and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Issuer will use reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, and will furnish such certified copies to the Trustee promptly after the date the payment of any Taxes so deducted or so withheld is due pursuant to applicable law or, if such tax receipts are not reasonably available, furnish such other documentation that provides reasonable evidence of such payment.

In the event that Additional Amounts actually paid with respect to the Notes as described above are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such Notes, and, as a result such holder is entitled to make a claim for a refund or credit in respect of such excess from the authority imposing such withholding tax, then by accepting such Notes such holder shall be deemed to have assigned and transferred all right, title, and interest to any such claim for a refund or credit in respect of such excess to the Issuer.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Issuer will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the Trustee an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to Holders of Notes on the payment date. Each such Officer's Certificate shall be relied upon until receipt of a new Officer's Certificate addressing such matters.

The Issuer will pay any present or future stamp, transfer, court or documentary taxes, or any other excise or property taxes, charges or similar levies or Taxes which arise in any Relevant Taxing Jurisdiction from the initial execution, delivery or registration of the Notes, the Indenture or any other document or instrument in relation thereto and the enforcement of the Notes following the occurrence and during the continuance of any Default, excluding all such Taxes, charges or similar levies imposed by any Relevant Taxing Jurisdiction outside of Venezuela other than those resulting from, or required to be paid in connection with, the enforcement of the Notes or any other document or instrument in relation thereto following the occurrence and during the continuance of any Default with respect to the Notes, and the Issuer will agree to indemnify the Holders of the Notes for any such Taxes paid by such Holders.

Whenever this Prospectus, the Indenture or the Notes mention, in any context, the payment of principal, premium or interest, if any, or any other amount payable under or with respect to the Notes by the Issuer, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Liens. The Issuer will not, and will not cause or permit any of its Subsidiaries to, incur, permit or suffer to exist any Liens (the "*Initial Lien*"), other than Permitted Liens, of any kind against or upon any Property or assets of the Issuer or any of its Subsidiaries whether owned on the Issue Date or acquired after the Issue Date, secure any Indebtedness, unless it has made or will make effective provision whereby (a) the Notes will be secured by such Lien equally and ratably with (or prior to, in the event such Indebtedness is subordinated in right of payment to the Notes) all other Indebtedness of the Issuer or any of its Subsidiaries secured by such Lien and (b) if such Lien secures Obligations subordinated to the Notes in right of payment, such Lien shall be subordinated to a Lien securing the Notes in the same Property as that securing such Lien to the same extent as such subordinated Obligations are subordinated to the Notes.

Any Lien created for the benefit of the Holders of the Notes pursuant to the preceding sentence shall provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the Initial Lien.

Limitation on Consolidation, Merger, Sale or Conveyance. The Issuer will not, in one or a series of transactions, consolidate or amalgamate with or merge into any corporation or convey, lease or transfer substantially all of its properties, assets or revenues to any Person or entity (other than a direct or indirect subsidiary of the Issuer) or permit any person (other than a direct or indirect subsidiary of the Issuer) to merge with or into it unless:

- either the Issuer is the continuing entity or the Person (the "successor company") formed by the consolidation or into which the Issuer is merged or that acquired or leased the property or assets of the Issuer will assume (jointly and severally with the Issuer unless the Issuer will have ceased to exist as a result of that merger, consolidation or amalgamation), by a supplemental indenture (the form and substance of which will be previously approved by the Trustee), all of the Issuer's obligations under the Indenture and the Notes;

- the successor company (jointly and severally with the Issuer unless the Issuer will have ceased to exist as part of the merger, consolidation or amalgamation) agrees to indemnify each Holders of Notes against any tax, assessment or governmental charge thereafter imposed on the Holders of Notes solely as a consequence of the consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest, the Notes;

- immediately after giving effect to the transaction, no Default or Event of Default has occurred and is continuing; and
- the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the transaction and the Indenture, comply with the terms of the Indenture and that all conditions precedent provided for in the Indenture and relating to the transaction have been complied with.

Notwithstanding anything to the contrary in the foregoing, so long as no Default or Event of Default under the Indenture or the Notes will have occurred and be continuing at the time of the proposed transaction or would result from the transaction:

- the Issuer may merge, amalgamate or consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its properties, assets or revenues to a direct or indirect Subsidiary of the Issuer in cases when the Issuer is the surviving entity in the transaction and the transaction would not have a material adverse effect on the Issuer and its Subsidiaries taken as a whole, it being understood that if the Issuer is not the surviving entity, the Issuer will be required to comply with the requirements set forth in the previous paragraph; or

- any direct or indirect Subsidiary of the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any Person (other than the Issuer or any of its Subsidiaries or affiliates) in cases when the transaction would not have a material adverse effect on the Issuer and its Subsidiaries taken as a whole; or

- any direct or indirect Subsidiary of the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any other direct or indirect Subsidiary of the Issuer; or

- any direct or indirect Subsidiary of the Issuer may liquidate or dissolve if the Issuer determines in good faith that the liquidation or dissolution is in the best interests of the Issuer, and would not result in a material adverse effect on the Issuer and its Subsidiaries taken as a whole and if the liquidation or dissolution is part of a corporate reorganization of the Issuer;

- the Issuer may omit to comply with any term, provision or condition set forth in certain covenants or any term, provision or condition of the indenture, if before the time for the compliance the Holders of at least a majority in principal amount of the outstanding Notes waive the compliance, but no waiver can operate except to the extent expressly waived, and, until a waiver becomes effective, the Issuer's obligations and the duties of the Trustee in respect of any such term, provision or condition will remain in full force and effect.

Reports to Holders. The Issuer shall provide the Trustee and the Holders of the Notes

(1) within 180 days following the end of each fiscal year of the Issuer after the Issue Date, the annual consolidated financial statements (including the notes thereto) of the Issuer, prepared in accordance with IFRS and presented in the English language, and a report thereon by the Issuer's certified independent accountants; and

(2) within 180 days following the end of the second fiscal quarter in each fiscal year of the Issuer beginning with the second fiscal quarter ending after the Issue Date, the semi-annual consolidated financial statements of the Issuer, prepared in accordance with IFRS and presented in the English language; provided that each annual and semi-annual financial statement shall include a "management discussion

and analysis" or other report of management providing an overview in reasonable detail of the results of operations and financial condition of the Issuer and its Subsidiaries;

Concurrently with providing the Trustee and the Holders of the Notes with the information described above, the Issuer will post copies of such information on a web site maintained by the Issuer or provide substantially comparable public availability of such information.

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the above information will also be made available through the offices of the paying agent in Luxembourg. See "—Listing."

Ratings. The Issuer will maintain international foreign currency global ratings by at least two of the three Rating Agencies for as long as the Notes remain outstanding.

U.S. Dollar Equivalent. For purposes of determining compliance with any covenant in the Indenture that is limited or otherwise refers to a specified amount of U.S. dollars, the amount of any item denominated in a currency other than U.S. dollars shall be the U.S. Dollar Equivalent of such item.

Additional Covenants. The Indenture will also contain customary covenants with respect to, among other things, the following matters: (1) payment of principal and interest; (2) maintenance of corporate existence; (3) maintenance of insurance; (4) compliance with laws, (5) maintenance of books and records and (6) obtaining and maintaining of all necessary governmental approvals to comply with the Issuer's obligations under the Notes.

Events of Default

The following events are defined in the Indenture as "*Events of Default*":

(1) the failure to pay the principal of, or premium, if any, on any Notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise;

(2) the failure to pay interest and Additional Amounts, if any, on any Notes when the same becomes due and payable and the default continues for a period of 30 days;

(3) a default in the observance or performance of any other covenant or agreement contained in the Indenture (other than the payment of the principal of, or premium, if any, or interest and Additional Amounts, if any, on any Note) which default continues for a period of 60 days after the Issuer receives written notice specifying the default (and demanding that such default be remedied) from Holders of at least 25% of the Outstanding principal amount of the Notes;

(4) the failure to pay at final stated maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Issuer or any of its Significant Subsidiaries, or the acceleration of the final stated maturity of any such Indebtedness (which acceleration is not rescinded, annulled or otherwise cured within 30 days from the date of acceleration) if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final stated maturity or which has been accelerated (in each case with respect to which the 30-day period described above has elapsed), aggregates US$100 million or more at any time;

(5) one or more judgments in an aggregate amount in excess of US$100 million shall have been rendered against the Issuer or any of its Significant Subsidiaries and such judgments remain undischarged, unpaid or, unstayed, unbonded or not suspended by agreement for a period of 60 days after such judgment or judgments become final and non-appealable;

(6) the Issuer or any Significant Subsidiary shall (a) apply for or consent to the appointment of a receiver, conciliador, trustee, fiscal agent liquidator or similar official for all or any substantial part of the Property of the Issuer or such Significant Subsidiary, (b) make a general assignment for the benefit of the creditors

of the Issuer or such Significant Subsidiary, (c) be adjudicated bankrupt (declaración de quiebra), in reorganization (concurso mercantil) or insolvent, or (d) file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization (concurso mercantil) or seeking to take advantage of any applicable insolvency law;

(7) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Issuer or any Significant Subsidiary, in an involuntary case or proceeding under any applicable bankruptcy, insolvency, suspension of payments, concurso mercantil, quiebra, reorganization or other similar law, or (B) a decree or order adjudging the Issuer or any Significant Subsidiary bankrupt or insolvent, or suspending payments, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer or any Significant Subsidiary under any applicable law, or appointing a custodian, receiver, liquidator, assignee, fiscal agent, trustee, síndico, conciliador, sequestrator or other similar official of the Issuer or any Significant Subsidiary or of any substantial part of the property of the Issuer or any Significant Subsidiary, or ordering the winding up or liquidation of the affairs of the Issuer or any Significant Subsidiary, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; and

(8) any of the Notes, the Indenture or any part thereof, shall cease to be in full force and effect (except as contemplated by the terms thereof) or is declared to be null and void and unenforceable in a judicial proceeding or inadmissible in evidence in the courts of Venezuela, or the Issuer shall contest the enforceability of, deny or disaffirm its material obligations under the Notes.

If an Event of Default (other than an Event of Default specified in clauses (6) or (7) above) shall occur and be continuing and has not been waived, Holders of at least 25% in principal amount of Outstanding Notes may declare the principal of, and premium, if any, accrued interest and Additional Amounts, if any, on all the Notes to be due and payable by notice in writing to the Issuer and the Trustee specifying the Event of Default and that it is a "notice of acceleration" (the "*Acceleration Notice*"), and the same shall become immediately due and payable.

If an Event of Default specified in clauses (6) or (7) above occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest and Additional Amounts, if any, on all of the Outstanding Notes shall *ipso facto* become and be immediately due and payable without any declaration or other act on the part of Trustee any Holder.

The Indenture will provide that, at any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraphs, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

(a) if the rescission would not conflict with any judgment or decree;

(b) if all existing Events of Default have been cured or waived except nonpayment of principal, premium, if any, interest or Additional Amounts, if any, that has become due solely because of the acceleration;

(c) if the Issuer has paid or deposited with the Trustee (to the extent the payment of such interest is lawful) interest on overdue installments of interest and overdue principal and premium, if any, and Additional Amounts, if any, which has become due otherwise than by such declaration of acceleration; and

(d) if the Issuer has paid or deposited with the Trustee the reasonable compensation of the Trustee and reimbursed the reasonable expenses, disbursements and advances of the Trustee, its agents, and counsel under the Indenture.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of or premium, if any, interest or Additional Amounts, if any, on any Notes.

Subject to certain limitations, Holders of a majority in aggregate principal amount of the then Outstanding Notes voting as a single class may direct the Trustee in its exercise of any trust or power. Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense.

Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the then Outstanding Notes voting as a single class have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

(5) Holders of a majority in aggregate principal amount of the then Outstanding Notes voting as a single class have not given the Trustee a direction inconsistent with such request within such 60-day period.

Under the Indenture, the Issuer will be required to provide an Officer's Certificate to the Trustee promptly upon any Officer obtaining knowledge of any Event of Default that has occurred and is continuing (provided that such Officer's Certificate shall be provided at least annually whether or not such Officer knows of any such Event of Default) and, if applicable, describe such Event of Default and the status thereof.

If a Default or an Event of Default occurs and is continuing, and is known to a responsible officer of the Trustee, the Trustee will notify each Holder as provided herein under "—Notices" of the Default or Event of Default within thirty (30) days after obtaining knowledge thereof; provided that except in the case of a Default or an Event of Default in payment of principal of, premium, if any, or interest on any Notes, the Trustee may withhold the notice to the Holders if a committee of its trust officers in good faith determines that withholding the notice is in the interest of the Holders.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all Outstanding Notes when:

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) all Notes not theretofore delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their stated maturity within one year or (iii) are to be called for redemption within one year under arrangements reasonably satisfactory to the Trustee, and the Issuer has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, interest and Additional Amounts, if any, on the Notes to the date of deposit together with irrevocable instructions from the Issuer directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Issuer has paid all other sums payable by it under the Indenture; and

(3) the Trustee shall have received an Officer's Certificate of the Issuer and an Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Issuer and the Trustee, without the consent of the Holders adversely affected thereby, may amend, modify or supplement the Indenture and the Notes:

(1) to cure any ambiguity, defect or inconsistency contained therein;

(2) to provide for uncertificated Notes in addition to or in place of certificated Notes;

(3) to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect in any material respect the legal rights of the Holders under the Indenture or the Notes;

(4) to allow any Subsidiary or any other Person to guarantee the Notes;

(5) to provide for the issuance of additional Notes in accordance with the Indenture Notes;

(6) to evidence the replacement of the Trustee as provided for under the Indenture;

(7) if necessary, in connection with any addition or release of any security permitted under the Notes; or

(8) to conform the text of the Indenture or the Notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture or the Notes.

The Trustee will be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an Opinion of Counsel. Other amendments of, modifications to and supplements to the Indenture and the Notes may be made with the consent of the Holders of a majority in principal amount of the then Outstanding Notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

(a) reduce the percentage of the principal amount of the Notes whose Holders must consent to an amendment, supplement or waiver of any provision of the Indenture or the Notes;

(b) reduce the stated rate of or extend the stated time for payment of interest, including defaulted interest, or Additional Amounts on any Notes;

(c) reduce the principal of or change the fixed final maturity of any Notes, or change the date on which any Notes may be subject to redemption or reduce the redemption price therefor;

(d) make any Note payable in money other than that stated in the Notes;

(e) impair the right of each Holder to receive payment of principal of, premium, if any, interest and Additional Amounts, if any, on such Note on or after the due date thereof or to institute suit to enforce such payment;

(f) subordinate the Notes in right of payment to any other Indebtedness of the Issuer; or

(g) make any change in the preceding amendment and waiver provisions which require each Holder's consent.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. After an amendment under the Indenture becomes effective, the Issuer will be required to give notice to the Luxembourg Stock Exchange and the Holders as provided under "—Notices," briefly describing such amendment. The failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of such amendment.

In addition, under certain circumstances the Holders of a majority in principal amount of the Notes Outstanding may waive compliance with certain restrictive covenants and provisions of the Indenture. See "—Events of Default".

Currency Indemnity

U.S. Dollars are the sole currency of account and payment for all sums payable by the Issuer under the Notes and the Indenture. Any amount received or recovered in a currency other than U.S. Dollars in respect of the Notes (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary of the Issuer or otherwise) by the Holder in respect of any sum expressed to be due to it from the Issuer shall constitute a discharge of the Issuer only to the extent of the U.S. Dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to the recipient under any Note, the Issuer shall indemnify the recipient against the cost of making any such purchase. If that U.S. Dollar amount is more than the U.S. Dollar amount expressed to be due to the recipient under any Note, such recipient will promptly remit the excess to the Trustee who, in turn, will remit such amount to the Issuer. For purposes of this indemnity, it will be sufficient for the Holder to certify (indicating the sources of information used) that it would have suffered a loss had the actual purchase of U.S. Dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. Dollars on such date had not been practicable, on the first date on which it would have been practicable).

The above indemnity, to the extent permitted by law:

- constitutes a separate and independent obligation from the other obligations of the Issuer;
- shall give rise to a separate and independent cause of action;
- shall apply irrespective of any waiver or indulgence granted by any Holder; and
- shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment.

Consent to Jurisdiction and Service of Process; Sovereign Immunity

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, New York City, New York, United States, and any appellate court from any thereof, and has waived any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought in connection with the Indenture and the Notes. The Issuer has appointed CT Corporation System as its agent to receive and forward any writs, process and summonses in any suit, action or proceeding brought in connection with the Indenture or the Notes against the Issuer in any court of the State of New York or any United States federal court sitting in the Borough of Manhattan, New York City and has agreed that such appointment shall be so long as the Notes remain Outstanding or until the appointment by the Issuer of a successor in The City of New York as its agent for such purpose and the acceptance of such appointment by such successor.

To the extent that the Issuer has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process, the Issuer will waive such immunity and will agree not to assert, by way of motion, as a defense or otherwise, in any suit, action or proceeding the defense of sovereign immunity or any claim that it is not personally subject to the jurisdiction of the above-named courts by reason of sovereign immunity or otherwise, or that it is immune from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property or from attachment either prior to judgment or in aid of execution by reason of sovereign immunity.

Governing Law

The Indenture will provide that the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Prescription

Claims against the Issuer for the payment of principal or interest and Additional Amounts in respect of the Notes will be prescribed unless made within six years of the due date for payment of such principal or interest and Additional Amounts.

The Trustee

The Bank of New York is the Trustee under the Indenture. Its address is 101 Barclay Street, Floor 21W, New York, NY 10286.

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Trustee may resign at any time by so notifying the Issuer. In addition, the Holders of a majority in aggregate principal amount of the Notes then Outstanding and the Issuer may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee satisfactory to the Issuer.

If the Trustee resigns, is removed by the Issuer or by the Holders of a majority in aggregate principal amount of the Notes then Outstanding and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of the Trustee for any reason, the Issuer shall promptly appoint a successor Trustee. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the successor Trustee shall mail a notice of its succession to Holders of the Notes and give notice as described under "—Notices."

Listing

Application has been made to list the Notes on the Euro MTF market of the Luxembourg Stock Exchange. Following the issuance of the Notes, the Issuer will use its best efforts to obtain and maintain listing of the Notes on the Luxembourg Stock Exchange. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a listing agent and a paying agent will be maintained in Luxembourg. The address of the listing agent and paying agent are set forth on the last page of this Prospectus.

Notices

All notices shall be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to Holders at their registered addresses as recorded in the Notes register not later than the latest date, and not earlier than the earliest date, prescribed in the Notes for the giving of such notice. Any requirement of notice hereunder may be waived by the Person entitled to such notice before or after such notice is required to be given, and such waivers shall be filed with the Trustee.

As long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, the Issuer will also give notices to Holders by publication in a daily newspaper of general circulation in Luxembourg (which is expected to be the *d'Wort*) or on the website of the Luxembourg Stock Exchange at www.bourse.lu. If publication in Luxembourg is impracticable, the Issuer will make the publication in a widely circulated newspaper in Western Europe. By "daily newspaper" the Issuer means a newspaper that is published on each day, other than a Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. If the Issuer is unable to give notice as described in this paragraph because the publication of any newspaper is suspended or it is otherwise impractical for the Issuer to publish the notice, then the Issuer, or the Trustee acting on the Issuer's instructions, will give Holders notice in another form. That alternate form of notice will be sufficient notice to you.

Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

Certain Definitions

Set forth below is a summary of certain of the defined terms to be used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

"*Additional Amounts*" has the meaning set forth under "Additional Amounts" above.

"*Additional Notes*" has the meaning set forth under "Additional Notes" above.

"*Affiliate*" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. Solely for purposes of this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms "controlling" and "controlled" have meanings correlative of the foregoing.

"*Board of Directors*" means, as to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

"*Board Resolution*" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and, when required pursuant to the Indenture, delivered to the Trustee.

"*Bolívar*" or "*Bolívares*" means the lawful currency of Venezuela.

"*Business Day*" means a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in The City of New York, New York or in Venezuela.

"*Comparable Treasury Issue*" means the United States Treasury security selected by an Independent Financial Advisor as having a maturity comparable to the remaining term ("Remaining Life") of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

"*Comparable Treasury Price*" means, with respect to the redemption date, (1) the average of five Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations or (2) if the Independent Financial Advisor obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Default*" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*Guarantor*" means PDVSA Petróleo, S.A.

"*Holder*" means the Person in whose name a Note is registered on the registrar's books.

"*IFRS*" means the International Financial Reporting Standards promulgated from time to time by the International Accounting Standards Board or any successor institution ("IASB") (which includes standards and interpretations approved by the IASB and International Accounting Standards issued under its previous constitutions), together with its pronouncements thereon from time to time.

"*Indebtedness*" means any obligation (whether present or future, actual or contingent and including, without limitation, any Guarantee) for the payment or repayment of money which has been borrowed or raised.

"*Independent Financial Advisor*" means a nationally recognized accounting, appraisal or, investment banking firm or consultant in the United States: (1) which does not, and whose directors, officers and employees or Affiliates do not, have a direct or indirect financial interest in the Issuer or any of its Subsidiaries; and (2) which, in the judgment of the Issuer's Board of Directors, is otherwise independent and qualified to perform the task for which such firm is being engaged.

"*Issue Date*" means April 12, 2007, the date of original issuance of the Notes.

"*Lien*" means any lien, mortgage, pledge, security interest, charge or similar encumbrance.

"*Obligations*" means all payment obligations, whether or not contingent, for principal, premium, interest, Additional Amounts, penalties, fees, indemnification, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Offering*" means the offering of the Notes hereunder.

"*Officer*" means the Chief Executive Officer, the Chairman of the Board of Directors, the Chief Financial Officer, the Secretary of the Board of Directors, the Treasurer or the Controller of the Issuer (or any equivalent officer of the Issuer).

"*Officer's Certificate*" means a certificate signed by two Officers of the Issuer, at least one of whom shall be the principal financial officer of the Issuer, and delivered to the Trustee.

"*Opinion of Counsel*" means a written opinion of counsel, who may be an employee of or counsel for the Issuer and who is reasonably acceptable to the Trustee.

"*Outstanding*" when used with respect to the Notes, means, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

(1) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Notes, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any paying agent (other than the Issuer) in trust or set aside and segregated in trust by the Issuer (if the Issuer shall act as their own paying agent) for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made; and

(3) Notes which have been paid pursuant to the provisions for "Mutilated Notes" under the Indenture or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee

proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands such Notes are valid obligations of the Issuer;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Issuer or its Subsidiaries shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the reasonable satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not either of the Issuer or its Subsidiaries.

"*Permitted Liens*" means the following types of Liens:

(1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent (taking into account all available extensions) or (b) contested in good faith by appropriate proceedings and as to which the Issuer or its Subsidiaries shall have set aside on its books such reserves to the extent required pursuant to IFRS;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law or pursuant to customary reservations or retentions of title Incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, to the extent required by IFRS shall have been made in respect thereof;

(3) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure public or statutory obligations, the performance of tenders, statutory obligations, surety and/or appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money), including any Lien securing letters of credit issued in the ordinary course of business in connection therewith;

(4) any judgment Lien not giving rise to an Event of Default;

(5) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real Property not interfering in any material respect with the ordinary conduct of the business of the Issuer or any of its Subsidiaries;

(6) any interest or title of a lessor under any Capitalized Lease Obligation provided that such Liens do not extend to any Property or assets which are not leased Property subject to such Capitalized Lease Obligation;

(7) Liens granted upon or with respect to any assets hereafter acquired by the Issuer or any Subsidiary to secure the acquisition costs of such assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such assets, including any Lien existing at the time of the acquisition of such assets as long as the maximum amount so secured shall not exceed the aggregate acquisition costs of all such assets or the aggregate Indebtedness incurred solely for the acquisition of such assets, as the case may be;

(8) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(9) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other Property relating to such letters of credit and products and proceeds thereof;

(10) Liens arising in the ordinary course of business in connection with Indebtedness maturing not more than one year after the date on which such Indebtedness was originally incurred and which are related to the financing of export, import or other trade transactions;

(11) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any of its Subsidiaries, including rights of offset and set-off;

(12) Liens securing Hedging Obligations otherwise permitted under the Indenture;

(13) Liens existing on any asset or on any stock of any Subsidiary prior to the acquisition therof by the Issuer or any Subsidiary as long as such Lien is not created in anticipation of such acquisition;

(14) Liens existing as of the Issue Date;

(15) Liens securing the Notes and all other monetary obligations under the Indenture;

(16) Liens in favor of the Issuer or any Subsidiary of the Issuer;

(17) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Issuer or any Subsidiary of the Issuer or becomes a Subsidiary of the Issuer; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any other assets owned by the Issuer or the Subsidiary of the Issuer;

(18) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods or other Liens on inventory and goods to facilitate the purchase, shipment, or storage of such inventory or goods;

(18) Liens on assets that are the subject of a Sale and Lease-Back;

(19) Liens arising by operation of law;

(20) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary institution;

(21) Liens on the receivables or inventory of the Issuer or any Subsidiary of the Issuer securing obligations under or in connection with any lines of credit or working capital facilities;

(22) leases, licenses, subleases or sublicenses granted to others in the ordinary course of business that do not interfere in any material respect with the business of the Issuer and its Subsidiaries;

(23) Liens in favor of the Venezuelan government or any agency or instrumentality thereof to secure payments under any agreement entered into between such entity and the Issuer or a Subsidiary of the Issuer;

(24) Liens to secure obligations of the Issuer or a Subsidiary of the Issuer under agreements that provide for indemnification, adjustment of purchase price or similar obligations, in each case, incurred in connection with the disposition of any business, assets or Subsidiary; provided that the maximum aggregate liability in respect of all such Liens will at no time exceed the gross proceeds actually received by the Issuer and the Subsidiary of the Issuer in connection with such disposition;

(25) Lien over any Qualifying Asset relating to a project financed by, and securing Indebtedness incurred in connection with, the Project Financing of such project by the Issuer, any of the Issuer's Subsidiaries or any consortium or other venture in which the Issuer has any ownership or similar interest; and

(26) Lien in respect of Indebtedness the principal amount of which in the aggregate, together with all Liens not otherwise qualifying as the Issuer's Permitted Liens pursuant to this definition, does not exceed 15% of the Issuer's consolidated total assets (as determined in accordance with IFRS) at any date as at which the Issuer's balance sheet is prepared and published as provided herein.

"*Person*" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"*Project Financing*" of any project means the incurrence of Indebtedness relating to the exploration, development, expansion, renovation, upgrade or other modification or construction of such project pursuant to which the providers of such Indebtedness or any trustee or other intermediary on their behalf or beneficiaries designated by any such provider, trustee or other intermediary are granted security over one or more Qualifying Assets relating to such project for repayment of principal, premium and interest or any other amount in respect of such Indebtedness.

"*Qualifying Asset*" in relating to any Project Financing means:

- any concession, authorization or other legal right granted by any governmental authority to the Issuer or any of the Issuer's subsidiaries, or any consortium or other venture in which the Issuer or any subsidiary has any ownership or other similar interest;

- any drilling or other rig, any drilling or production platform, pipeline, marine vessel, vehicle or other equipment or any refinery, oil or gas field, processing plant, real property (whether leased or owned), right of way or plant or other fixtures or equipment;

- any revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale, loss or damage to, such concession, authorization or other legal right or such drilling or other rig, drilling or production platform, pipeline, marine vessel, vehicle or other equipment or refinery, oil or gas field, processing plant, real property, right of way, plant or other fixtures or equipment or any contract or agreement relating to any of the foregoing or the project financing of any of the foregoing (including insurance policies, credit support arrangements and other similar contracts) or any rights under any performance bond, letter of credit or similar instrument issued in connection therewith;

- any oil, gas, petrochemical or other hydrocarbon-based products produced or processed by such project, including any receivables or contract rights arising therefrom or relating thereto and any such product (and such receivables or contract rights) produced or processed by other projects, fields or assets to which the lenders providing the project financing required, as a condition therefore, recourse as security in addition to that produced or processed by such project; and

- shares, rights or other ownership interest in, and any subordinated debt rights owing to the Issuer by, a special purpose company or vehicle formed solely for the development of a project, and whose principal assets and business are constituted by such project and whose liabilities solely relate to such project.

"*Reference Treasury Dealer*" means a primary U.S. government securities dealer in New York City, New York designated by the Issuer.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Financial Advisor, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Financial Advisor at 5:00 p.m., New York City, New York time, on the third Business Day preceding such redemption date.

"*Refinance*" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part.

"*Refinanced*" and "*Refinancing*" shall have correlative meanings.

"*Relevant Taxing Jurisdiction*" has the meaning set forth under "*—Additional Amounts.*"

"*Responsible Officer*" means, with respect to the Trustee, any officer within the corporate trust office of the Trustee with direct responsibility for the administration of this Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"*Sale and Lease-Back Transaction*" means any direct or indirect arrangement relating to Property now owned or hereafter acquired whereby the Issuer or a Subsidiary of the Issuer transfers such Property to another Person and the Issuer or a Subsidiary of the Issuer leases it from such Person.

"*Securities Act*" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*Significant Subsidiary*" means any Subsidiary of the Issuer that would be a "Significant Subsidiary" of the Issuer within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"*Subsidiary*" with respect to any Person, means:

(1) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be Beneficially Owned by such Person; or

(2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time Beneficially Owned by such Person.

Notwithstanding anything to the contrary, none of the following Persons shall be deemed a Subsidiary of the Issuer for purposes of the Indenture and the Notes for so long as the Issuer is not the Beneficial Owner of at least a majority of the votes entitled to be cast in the election of directors of any such Person under ordinary circumstances or a majority of the voting interest of any such Person under ordinary circumstances: Petrolera Zuata, C.A., Sincrudos de Oriente, S.A., Petrolera Cerro Negra, S.A. and Hamaca S.A.

"*Taxes*" has the meaning set forth under "—Additional Amounts."

"*Treasury Rate*" means, with respect to the redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the redemption date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price of the redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

"*U.S. Dollar Equivalent*" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time of determination thereof, the amount of U.S. dollars obtained by translating such other currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable other currency as published in U.S. dollars on the date that is two Business Days prior to the date of such determination; provided that the exchange rate published by the Banco Central de Venezuela in the Venezuelan Federal Official Gazette, as the exchange rate for satisfaction of foreign currency denominated obligations in effect on the relevant date, will be used for any such translation of Venezuelan Bolívares into U.S. dollars. Notwithstanding any other provision of the Indenture, no specified amount of U.S. dollars shall be deemed to be exceeded due solely to the result of fluctuations in the exchange rates of currencies.

"Venezuela" means the Bolivarian Republic of Venezuela.

Book-Entry; Delivery and Form

The Notes are being offered and sold in offshore transactions in reliance on Regulation S under the Securities Act ("*Regulation S Notes*").

The Notes maturing on 2017 and 2027 will be issued without coupons in minimum denominations of US$400 and integral multiples of US$100 in excess thereof. The Notes maturing on 2037 will be issued without coupons in minimum denominations of US$200 and integral multiples of US$100 in excess thereof. Notes will be issued on the Issue Date only against payment in immediately available funds.

The Regulation S Notes initially will be represented by one or more permanent global certificates in definitive, fully registered form without interest coupons (the "*Regulation S Global Note*").

The Regulation S Global Note will be registered in the name of the Common Depositary. The Regulation S Global Note will be deposited upon issuance with the Common Depositary for the Euroclear System ("*Euroclear*") and Clearstream Banking, société anonyme (*"Clearstream").*

Investors will hold their interests in the Regulation S Global Notes through Euroclear or Clearstream, if they are participants in either such system, or directly through organizations that are participants therein. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through clients' securities accounts in their respective names in the books of their respective depositaries.

As long as the Common Depositary is the registered holder of the Regulation S Global Notes, the Common Depositary or a representative, as the case may be, will be regarded as the only holder and owner of the notes represented by those Regulation S Global Notes for all purposes under the Indenture and the notes. Holders of a beneficial interest in global notes will not be entitled to have any portion of those Regulation S Global Notes registered in their names, and will not receive and will not be entitled to receive delivery of certificated notes in exchange for their interests in the Regulation S Global Notes, and will not be regarded as the owners or holders of the Regulation S Global Notes (or any securities represented thereby) under the Indenture or the Notes. Additionally, no beneficial owner of an interest in the Regulation S Global Notes will transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream.

Payments of principal, premium, interest and other amounts on or in respect of the Regulation S Global Notes will be made to the Common Depositary. None of the Issuer, the Trustee or the Paying Agents will be responsible for any aspect of registration with respect to payments made for the account of beneficial interests in the Regulation S Global Notes, or for keeping, supervising or reviewing any record associated with such beneficial interests.

The Issuer expects Euroclear and Clearstream, upon receipt of any payment in respect of the Regulation S Global Notes held by the Common Depositary or a representative thereof, to credit promptly the accounts of the beneficial holders with the amount proportional to their respective beneficial interests in the principal amount of the Regulation S Global Notes, as evidenced by the records of Euroclear or Clearstream, as the case may be. The Issuer further expects that payments by participants to the holders of beneficial interests in the Regulation S Global Notes held through any such participant will be governed by the standing instructions and standard practices as is currently the case of securities held for the account of clients registered in the name of representatives for such clients. All such payments will be the responsibility of the relevant participant.

The Clearing Systems

The following description of the operations and procedures of Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Dealer Manager take responsibility for these operations and procedures and urge holders to contact the system or their participants directly to discuss these matters.

Euroclear and Clearstream have advised the Issuer as follows:

Euroclear. Euroclear Bank holds securities for its participants and clears and settles transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear Bank provides various other services, including safekeeping, administration, clearance and settlement and securities lending and borrowing, and interfaces with domestic markets in several countries. Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable law (collectively, the "Euroclear Terms and Conditions"). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear.

Clearstream. Clearstream is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depositary. Clearstream holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries.

Subject to the transfer restrictions set forth under "Transfer Restrictions," transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Issuance of Definitive Notes

So long as the Common Depositary, or any successor depositary, holds the Regulation S Global Notes , such Regulation S Global Notes will not be exchangeable for definitive securities unless:

- The Common Depositary notifies the Issuer that it is unwilling or unable to continue to act as depositary for the notes or ceases to be a clearing agency registered under the Exchange Act and a successor depositary is not appointed within 120 days;
- the Common Depositary is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business;
- the non-payment when due of amounts payable on the Notes (whether, in each case, on account of interest, redemption amounts or otherwise) shall have occurred and be continuing for 30 days.

If the Issuer issues definitive notes in exchange for the Regulation S Global Notes, the Common Depositary, as holder of that note, will surrender it against receipt of the definitive notes, cancel the book-entry notes, and distribute the definitive notes to the persons and in the amounts that the Common Depositary specifies.

Definitive notes will be issued in registered form only. To the extent permitted by law, the Issuer and any paying agent shall be entitled to treat the person in whose name any definitive security is registered as its absolute owner.

Exchange of Definitive Notes for Regulation S Global Notes

Definitive notes may not be exchanged for beneficial interests in any Regulation S Global Notes unless the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See “Transfer Restrictions.”

Payments on the Notes

Payments on the Notes will be made in U.S. Dollars.

Payments of any amounts in respect of the Regulation S Global Notes will be made by the Issuer to the Common Depositary. Payments will be made to beneficial owners of the Regulation S Global Notes in accordance with the rules and procedures of the Common Depositary or its direct and indirect participants, as applicable. Neither the Issuer, nor the Trustee nor any of our agents will have any responsibility or liability for any aspect of the records of any securities intermediary in the chain of intermediaries between the Common Depositary and any beneficial owner of an interest in a Regulation S Global Note, or the failure of the Common Depositary or any intermediary to pass through to any beneficial owner any payments that we make to the Common Depositary.

Payments in respect of definitive securities will be made to the person in whose name the definitive securities are registered as it appears in the register for that note. Payments will be made in respect of the Notes by check drawn on a bank in New York or by wire transfer to the holder’s account. Definitive securities should be presented to the Paying Agent for redemption.

DEALER MANAGERS

We have entered into a dealer manager agreement dated April 4, 2007, or the Dealer Manager Agreement, among us and the Dealer Managers, pursuant to which we have retained the Dealer Managers to act on our behalf as dealer managers in connection with the offering of the Notes. The Notes are new securities for which there currently is no market.

We will agree to indemnify the Dealer Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Dealer Managers may be required to make in respect of those liabilities.

The Notes have not been registered under the U.S. Securities Act and may not be offered or sold in the United States or to U.S. persons (other than distributors) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Dealer Managers propose to solicit offers of the Notes in transactions not requiring registration under the U.S. Securities Act or applicable state securities laws pursuant to Regulation S. The Dealer Managers will not solicit offers and we will not sell the Notes except pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S. Each of the Dealer Managers agreed that neither it nor any of its affiliates nor any person acting on its or their behalf would make any directed selling efforts in the United States.

Investors in the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price of the Notes so purchased.

The Dealer Managers are not obligated to facilitate trading in the Notes and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Dealer Managers do not facilitate trading in the Notes for any reason, there can be no assurance that another firm or person will do so.

TRANSFER RESTRICTIONS

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, each investor will be deemed to have made the following acknowledgements and representations to and agreements with the Issuer and the Dealer Managers:

(1) Each investor acknowledges that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws, and

- unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in clause (4) below.

(2) Each investor represents that such investor is not a U.S. person (as defined in Regulation S) or purchasing for the account or benefit of a U.S. person, other than a distributor, and such investor is purchasing the Notes in an offshore transaction in accordance with Regulation S.

(3) Each investor acknowledges that neither the Issuer nor the Dealer Managers nor any person representing the Issuer or the Dealer Managers has made any representation to such investor with respect to the Issuer or the offering of the Notes, other than the information contained in this Prospectus. The investor represents that it is relying only on this Prospectus in making its investment decision with respect to the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions and request information from the Issuer.

(4) Each investor represents that it is purchasing the Notes for its own account, or for one or more other investor's accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of the investor's property or the property of that other investor's account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to any available exemption from registration under the U.S. Securities Act. The investor agrees, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that the Notes may be offered, sold or otherwise transferred only:

(a) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S,

(b) pursuant to any other exemption from the registration requirements under the Securities Act, or

(c) pursuant to an effective registration statement under the U.S. Securities Act, out to margin *provided* that as a condition to registration of transfer of the Regulation S Notes as set forth above, the Issuer or the Trustee may require delivery of any documents or other evidence that it, in its absolute discretion, deems necessary or appropriate to evidence compliance with such exemption, and, in each case, in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Each investor also acknowledges that:

- the above restrictions on resale will apply from the issue date until the date that is forty (40) days after the later of the Closing Date and the last date that the Issuer or any of its affiliates was the owner of the Notes or any predecessor of the Notes (the ''Resale Restriction Period''), and will not apply after the Resale Restriction Period ends, and

- each Regulation S Note will contain a legend substantially to the following effect:

> THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS NOTE MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, ANY "U.S. PERSON" WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS.

(5) Each investor also acknowledges that the Issuer, the Dealer Managers and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements. The investor agrees that if any of the acknowledgements, representations and agreements the investor is deemed to have made by its purchase of the Notes is no longer accurate, the investor will promptly notify the Issuer and the Dealer Managers. If the investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, the investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

LEGAL MATTERS

Certain legal aspects of U.S. law and New York law and the issuance of the Notes offered hereby will be passed upon for us by Shearman & Sterling LLP as our U.S. legal counsel. Certain legal matters with respect to U.S. law and New York law and the issuance of the Notes offered hereby will be passed upon for the Dealer Managers by Skadden, Arps, Slate, Meagher & Flom LLP as their U.S. legal counsel. Certain legal matters with respect to Venezuelan law will be passed upon for the Dealer Managers by D'Empaire Reyna Abogados as their Venezuelan counsel.

INDEPENDENT AUDITORS

Our consolidated financial statements as of December 31, 2006, 2005 and 2004 and for the years then ended included in this Prospectus have been audited by Alcaraz Cabrera Vázquez, a member firm of KPMG International, an independent auditor in accordance with International Standards on Auditing, as stated in their audit report appearing on page F-1 herein.

GENERAL INFORMATION

1. The Issuer is a corporation (*sociedad anónima*) organized under the laws of the Bolivarian Republic of Venezuela. The authorized share capital of the Issuer is Bs. 1,280,100,000, comprising 51,204 shares of a nominal or par value of Bs. 25,000,000 each. All of the issued and outstanding shares of common stock are owned, and have been fully paid up, by the Bolivarian Republic of Venezuela. Neither the Issuer nor any of its subsidiaries owns shares of the Issuer.

2. The Guarantor represents approximately 50% of the Issuer and has its registered office at Av. Libertador, Edificio Petróleos de Venezuela, Torre Este, Caracas 1050, Venezuela. The Guarantor is involved in the exploration, exploitation, manufacture, refining, marketing and transportation of petroleum and other hydrocarbons. The Guarantor has 1,464,310 shares in issued capital with Bs.1,000,000 par value, all of which are owned and have been fully paid by the Issuer. Total assets for the years ended December 31, 2006 and 2005 were approximately US$46,629 million and $45,063 million, respectively. Indebtedness for the years ended December 31, 2006 and 2005 were approximately US$840 million and $942 million, respectively. Net turnover for the years ended December 31, 2006 and 2005 were approximately US$53,162 million and US$43,503 million, respectively. Net income for the years ended December 31, 2006 and 2005 were approximately US$909 million and US$4,084 million, respectively.

3. CITGO, described herein, represents approximately 50% of the Issuer and has its registered office at 1293 Eldridge Parkway, Houston, TX 77077. CITGO is involved in the refining, marketing and transportation of refined products. CITGO has 1,000 shares in issued capital with $1 par value, all of which are owned and have been fully paid up by PDV America. Profit or loss arising out of ordinary activities, after tax, for 2006 amounted to $1,776.2 million. Dividends paid in 2006 amounted to $2,075.0 billion.

4. For the years ended December 31, 2006 and 2005, the guarantor and CITGO combined had approximately US$54,802 million and US$53,467 million in total assets, respectively, US$2,093 million and US$2,195 million in indebtedness, respectively, US$101,155 million and US$84,961 million in net turnover, respectively, and US$2,685 million and US$4,184 million in net income, respectively.

5. The creation and issuance of the Notes has been authorized by the resolutions of the Board of Directors of the Issuer dated January 23, 2007 and approved at the General Shareholders' Meeting on January 26, 2007 and January 27, 2006.

6. Except as disclosed in the listing particulars, there are no litigation or arbitration proceedings against or affecting the Issuer or any of its assets, nor is the Issuer aware of any pending or threatened proceedings, which are or might reasonably be expected to be material in the context of the issuance of the Notes.

7. Except as disclosed in the listing particulars, there has been no adverse change or any development reasonably likely to involve an adverse change in the condition (financial or otherwise) or general affairs of the Issuer since December 30, 2006 that is material in the context of the issuance of the Notes.

8. For so long as any Notes remain outstanding, copies of the following documents will be obtainable and available during normal business hours free of charge at the offices of the Luxembourg Listing Agent and Paying Agent at the address listed on the page before the back cover page of these listing particulars:

- Indenture, which includes guaranty provisions, and the by-laws of the Issuer and the Guarantor.

- Annual audited consolidated financial statements of the Issuer for the years ended December 31, 2006, 2005 and 2004. The semi-annual unaudited consolidated financial statements of the Issuer for six month period ended June 30, 2007.

- Annual audited financial statements of the Guarantor for the years ended December 31, 2006, 2005 and 2004. The semi-annual unaudited financial statements of the Guarantor for the six month period ended June 30, 2005.

- All future annual audited and semi-annual unaudited consolidated financial statements of the Issuer and financial statements of the Guarantor. The issuer does not produce stand-alone financial statements.

9. The Notes have been accepted for clearance and settlement through Euroclear and Clearstream. The 2017 Notes have been assigned ISIN no. XS0294364103 and Common Code no. 029436410. The 2027 Notes have been assigned ISIN no. XS0294364954 and Common Code no. 029436495. The 2037 Notes have been assigned ISIN no. XS0294367205 and Common Code no. 029436720.

10. For the management's dicussion and analysis for 2006, see Annex A.

TECHNICAL AND REGULATORY TERMS

A unit conversion table and a glossary of certain oil and gas terms, including abbreviations for certain units, used in this Prospectus are contained below. When used in this Prospectus, the following terms mean:

"m" means thousand;
"mm" means million;
"b" means billion;
"t" means trillion;
"one billion" means one thousand million;
"bls" means barrels;
"bpd" means barrel per day;
"mbpd" means thousand barrels per day;
"mmbpd" means million barrels per day;
"boe" means barrel-of-oil equivalent;
"cf" means cubic feet;
"cfd" means cubic feet per day;
"scm" means standard cubic meter;
"m3d" means cubic meters per day;
"dwt" means deadweight tons, a designation for the size or displacement of a ship;
"km" means kilometer; and
"psi" means pounds per square inch.

Equivalent measures are based upon:

1 barrel equals 42 U.S. gallons;
1 barrel of oil equivalent equals 1 barrel of crude oil;
1 barrel of oil equivalent equals 5,800 cubic feet of natural gas;
1 barrel of crude oil per day equals 50 tons of crude oil per year (33º degrees API);
1 cubic meter equals 33.315 cubic feet;
1 metric ton equals 1,000 kilograms; and
1 metric ton crude oil equals 7.3 barrels of crude oil (33º degrees API).

Terms:

"gas" means natural gas.

"2D" means two dimensional seismic lines (km).

"3D" means three dimensional seismic lines (square kilometers).

"4D" means three dimensional seismic lines (square kilometers) taken at different periods of time.

"API gravity" means an indication of density of crude oil or other liquid hydrocarbon as measured by a system recommended by the American Petroleum Institute (API), measured in degrees. The lower the API gravity, the heavier the compound. For example, asphalt has an API gravity of 8º and gasoline has a gravity of 50º.

"AQUACONVERSION®" means a proprietary technology for thermal/catalytic conversion of heavy crude oil and residuals by treatment with steam and additives, to reduce the viscosity of heavy crude oil fractions and residuals.

"barrels" means barrel of crude oil, including condensates and natural gas liquids.

"condensate" means light carbon substance produced from natural gas that condenses into liquid at normal temperatures and pressures associated with surface production equipment.

"crude slate" means a listing of the various crudes that are processed in a refinery during a given period in a given configuration.

"DISOL®" is a new system developed by INTEVEP and is basically a substantial improvement of the known Fischer Tropsch Gas to Liquid process to produce high quality clean fuels and products (naphtha, aviation gasoline, waxes, diesel and other products) in accordance with the new environmental requirements. In this case, the new catalyst is more active and selective than in other traditional methods, using a reactor that increases the reaction productivity.

"Distillate" means liquid hydrocarbons distilled from crude or condensates.

"Empresas Mixtas" means joint stock contractual structure between us and third party companies.

"feedstock" means partially refined products that are added to the crude slate and converted into refined petroleum products.

"fractionation" means a processing unit that breaks down feedstock into desired fractions (specific boiling ranges).

"HDHPLUS®" is a high conversion process for heavy and extra heavy oils and refinery residuals via hydro conversion that produces a very good performance in output liquids (115%) to high quality products. It is a flexible technology that allows for processing different crude streams with high sulfur and metals content. At the same time, it reduces the handling of solids and refinery byproducts and is environmentally friendly.

"hydro treating" means the process of removing sulfur from hydrocarbon stream in the presence of a catalyst.

"light crude oil" means, unless the context otherwise requires, crude oil with average API gravity of 30º or more.

"LNG" means liquefied natural gas.

"LPG" means liquefied petroleum gas.

"medium crude oil" means, unless the context otherwise requires, crude oil with an average API gravity between 21º, inclusive, and 30º.

"MISINT®" is a new process developed by INTEVEP to upgrade heavy and extra heavy oil at the reservoir level ("in situ") through the injection of chemical solvents. The process allows for the production and upgrading of the light components leaving the heavier components at the reservoir and recovering the solvent for reuse.

"MTBE" means methyl tertiary butyl ether.

"NGL" means natural gas liquids.

"olefins" means a class of unsaturated hydrocarbons.

"pitch" means black or dark viscose substance obtained as a residual in the distillation of oil (bituminous-resin).

"proved developed reserves" are the reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms of primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operating of an installed program has confirmed through production response that increased recovery will be achieved.

"proved undeveloped reserves" are the reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively minor expenditure is required for completion, but does not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such technique has been proven to be effective by actual testing to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from existing productive field.

"proved reserves" are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrates with reasonable certainty to be recoverable in future years from known reserves under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not escalations based upon future conditions.

"Ratio Res/Prod" means remaining reserves life in years of proved crude oil reserves at the end of the period divided by production from the top of the wells.

"spud" means to begin to drill a well.

Company Abbreviations:

"BCV" means Banco Central de Venezuela.

"BITOR" means Bitumenes Orinoco, S.A.

"BP RP" means British Petroleum Refining & Petrochemical GmbH.

"BP" means BP Plc.

"BTX" means Benzene, Toluene and Xylene.

"Cerro Negro" means Petrolera Cerro Negro, S.A.

"CGC" means Compania General de Combustibles.

"Chalmette Refining" means Chalmette Refining L.L.C.

"Chevron" means Chevron Corporation.

"CIED" means Centro Internacional de Educación y Desarrollo.

"CILA" means CITGO International Latin America, Inc.

"CITGO" means CITGO Petroleum Corporation.

"CNPC" means China National Petroleum Corporation.

"ConocoPhillips" means ConocoPhillips.

"CVP" means Corporación Venezolana del Petróleo, S.A.

"DELTAVEN" means DELTAVEN, S.A.

"Deutsche BP" means Deutsche BP AG.

"Enarsa" means Energía Argentina S.A.

"ENI" means Eni B.V.

"ExxonMobil" means ExxonMobil Corporation.

"FEM" means Fondo para la Estabilización Macroeconómica (Macroeconomic Stabilization Fund).

"FONDESPA" means Fondo para el Desarrollo Económico y Social del País.

"Hamaca" means Petrolera Hamaca, C.A.

"Hess" means Hess Corporation.

"Hovensa" means HOVENSA, L.L.C.

"INTEVEP" means INTEVEP, S.A.

"Isla Refinery" means Refinería Isla (Curazao), S.A.

"Lyondell" means Lyondell Chemical Company.

"Lyondell-CITGO" or "LCR" means Lyondell-CITGO Refining, L.P.

"Merey Sweeny" means Merey Sweeny, L.P.

"Neste Oil" means Neste Oil Corporation.

"Nynas" means AB Nynäs Petroleum.

"OPEC" means Organization of Petroleum Exporting Countries.

"OPIC" means OPIC Karimun Corporation.

"Orifuels Sinoven" means Orifules Sinoven, S.A.

"Orinoco Oil Belt" means natural bitumen and extra-heavy crude reserves located in eastern Venezuela.

"PDV America" means PDV America, Inc.

"PDV Caribe" means PDV Caribe S.A.

"PDV Chalmette" means PDV Chalmette, Inc.

"PDV Europa" means PDV Europa B.V.

"PDV Holding" means PDV Holding, Inc.

"PDV Marina" means PDV Marina, S.A.

"PDV MR" means PDV Midwest Refining, L.L.C.

"PDV Sweeny" means Sweeny Coker LLC.

"PDV VI" means PDVSA Virgin Islands, Inc.

"PDVSA Cerro Negro" means PDVSA Cerro Negro, S.A.

“PDVSA Cuba” means PDVSA Cuba S.A.

“PDVSA Finance” means PDVSA Finance Ltd.

“PDVSA Gas” means PDVSA Gas, S.A.

“PDVSA P&G” means PDVSA Petroleo y Gas, S.A.

“PDVSA Petróleo” means PDVSA Petróleo, S.A.

“PDVSA Sincor” means PDVSA Sincor, S.A.

“Pequiven” means Petroquimica de Venezuela, S.A.

“Petrobras Venezuela” means Petrobras Energía de Venezuela S.A.

“PetroCanada” means Petro-Canada La Ceiba, GmbH (formerly Veba Oel & Gas La Ceiba, GmbH).

“Petrozuata” means Petrolera Zuata, C.A.

“Phillips” means Phillips Petroleum Corporation.

“CRP” means Centro Refinador Paraguaná (Paraguaná Refining Complex).

“Ruhr” means Ruhr oel GmbH.

“SEC” means United States Securities and Exchange Commission.

“Sincor” means Sincrudos de Oriente, S.A.

“Sinoven” means Orifuels Sinoven, S.A.

“Statoil” means Statoil Sincor AS.

“TotalFina” means Total Fina Venezuela, S.A.

“Venezuela” means República Bolivariana de Venezuela (The Bolivarian Republic of Venezuela).

“Veba Oel” means Veba Oel AG.

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Independent Auditors' Report

To the Stockholder and Board of Directors of
Petróleos de Venezuela, S.A. (PDVSA):

We have audited the accompanying consolidated balance sheets of Petróleos de Venezuela, S.A. (PDVSA) (wholly-owned by the Bolivarian Republic of Venezuela) as of December 31, 2005 and 2004, and the related statements of income, stockholder's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleos de Venezuela, S.A. (PDVSA) as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to notes 1-u and 22 to the accompanying consolidated financial statements: during 2005 the Company adopted the modifications required by International Accounting Standard N° 2 "Inventories" (IAS 2), in effect since January 1, 2005. As a result of the adoption of this standard, the 2004 financial statements and stockholder's equity at December 31, 2003 have been restated.

ALCARAZ CABRERA VÁZQUEZ

Dimas Castro Bustillos
Public Accountant
C.P.C. N° 5326
Caracas, Venezuela

August 25, 2006

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)

(Wholly-owned by the Bolivarian Republic of Venezuela)

Consolidated Balance Sheets

(In millions of U.S. dollars)

	December 31	
Assets	**2005**	**2004**
Current assets:		
Cash and cash equivalents (note 1-r)	1,800	1,748
Restricted cash (note 4)	2,023	709
Recoverable value added tax (notes 12-d and 23-j)	647	86
Notes and accounts receivable (note 5)	8,313	5,595
Inventories (note 6)	5,621	4,537
Prepaid expenses and other assets	894	602
Total current assets	19,298	13,277
Restricted cash (note 4)	2,856	3,039
Recoverable value added tax (notes 12-d and 23-j)	3,364	2,970
Investments in non-consolidated investees (note 7)	3,442	3,419
Property, plant and equipment, net (note 8)	35,959	35,375
Deferred income taxes (note 12-a)	2,672	2,069
Long-term accounts receivable and other assets (note 9)	2,774	1,698
	70,365	61,847
Memorandum accounts (note 10-c)	9,788	9,639
Liabilities and Stockholder's Equity		
Current liabilities:		
Accounts payable to suppliers (note 11)	4,993	4,313
Current portion of long-term debt (note 14)	729	1,004
Income taxes payable (note 12-a)	4,305	3,367
Employee termination, pension and other postretirement benefits (note 16)	313	289
Accrued and other liabilities (note 17)	4,779	2,860
Total current liabilities	15,119	11,833
Long-term debt, net of current portion (notes 14 and 23-h)	2,704	2,716
Employee termination, pension and other postretirement benefits (note 16)	1,584	1,413
Deferred income taxes (note 12-a)	2,042	2,317
Accrued and other liabilities (note 17)	1,821	1,639
Total liabilities	23,270	19,918
Stockholder's equity	47,095	41,929
	70,365	61,847
Memorandum accounts per-contra (note 10-c)	9,788	9,639

The accompanying notes form an integral part of the consolidated financial statements.

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)
(Wholly-owned by the Bolivarian Republic of Venezuela)

Consolidated Statements of Income

(In millions of U.S. dollars)

	Years ended December 31 2005	Years ended December 31 2004
Sales of crude oil and products (note 18):		
Exports and international markets	81,105	60,972
In Venezuela	1,408	1,227
Petrochemical and other sales (note 23-b)	2,040	1,517
Equity in earnings of non-consolidated investees (notes 7 and 18)	1,177	1,041
	85,730	64,757
Costs and expenses (notes 10 and 18):		
Purchases of crude oil and products	32,979	24,649
Operating expenses	14,645	13,432
Exploration expenses	118	60
Depreciation and depletion (note 8)	3,334	3,082
Asset impairment (note 8)	20	6
Selling, administrative and general expenses	1,376	1,195
Production and other taxes (notes 12-b, 12-c and 12-f)	13,318	9,247
Financing expenses	190	456
Other expenses, net	541	563
	66,521	52,690
Income before social development expenses, income taxes and minority interests	19,209	12,067
Social development expenses (notes 18 and 23-a)	6,909	1,242
Income before income taxes	12,300	10,825
Income taxes (note 12-a)	5,817	5,419
Net income	6,483	5,406
Net income:		
Attributable to the Company's stockholder	6,469	5,432
Minority interests	14	(26)
	6,483	5,406

The accompanying notes form an integral part of the consolidated financial statements.

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)
(Wholly-owned by the Bolivarian Republic of Venezuela

Consolidated Statements of Stockholder's Equity

Years ended December 31, 2005 and 2004

(In millions of U.S. dollars)

	Attributable to the Company's Stockholder						
		Retained Earnings					
	Capital stock	**Legal reserves and other**	**Accumulated losses**	**Total**	**Total attributable to the Company's stockholder**	**Minority interests**	**Total stockholder's equity**
Balances at December 31, 2003, previously reported	39,094	8,706	(9,798)	(1,092)	38,002	93	38,095
Effect of adoption of the modifications to International Accounting Standard N° 2 "Inventories" - IAS 2 (see notes 1-u and 22)	-	-	496	496	496	-	496
Balances at December 31, 2003, restated	39,094	8,706	(9,302)	(596)	38,498	93	38,591
Net income	-	-	5,432	5,432	5,432	(26)	5,406
Transfer from reserves	-	(44)	44	-	-	-	-
Spin-off of subsidiary (note 1-d)	-	-	(116)	(116)	(116)	-	(116)
Dividends declared (note 15)	-	-	(650)	(650)	(650)	-	(650)
Advances of dividends (note 15)	-	-	(1,302)	(1,302)	(1,302)	-	(1,302)
Balances at December 31, 2004, restated	39,094	8,662	(5,894)	2,768	41,862	67	41,929
Net income	-	-	6,469	6,469	6,469	14	6,483
Transfer to reserves	-	163	(163)	-	-	-	-
Advances of dividends (notes 15 and 23-l)	-	-	(1,317)	(1,317)	(1,317)	-	(1,317)
Balances at December 31, 2005	39,094	8,825	(905)	7,920	47,014	81	47,095

The accompanying notes form an integral part of the consolidated financial statements.

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)

(Wholly-owned by the Bolivarian Republic of Venezuela)

Consolidated Statements of Cash Flows

(In millions of U.S. dollars)

	Years ended December 31	
	2005	**2004**
Cash flows from operating activities:		
Net income	6,483	5,406
Adjustment to reconcile net income to net cash provided by operating activities -		
Depreciation and depletion	3,334	3,082
Asset impairment	20	6
Cost of asset retirement obligations	32	116
Deferred income taxes	(878)	(50)
Foreign exchange (gain) loss	34	223
Provision for employee termination, pension and other postretirement benefits	976	683
Equity in earnings of non-consolidated investees	(1,177)	(1,041)
Dividends received from non-consolidated investees	1,123	605
Change in operating assets -		
Notes and accounts receivable	(3,668)	(1,646)
Inventories	(1,084)	(1,242)
Prepaid expenses and other assets	(292)	40
Recoverable value added tax	(1,282)	(1,264)
Change in operating liabilities -		
Accounts payable to suppliers	680	948
Income taxes payable, accrued and other liabilities and minority interests	2,881	3,535
Payments of employee termination, pension and other postretirement benefits	(488)	(493)
Total adjustments	211	3,502
Net cash provided by operating activities	6,694	8,908
Cash flows from investing activities:		
Capital expenditures, net	(3,938)	(3,385)
Increase in restricted cash, net of contributions to trust funds of US$2,000 in 2005 and US$3,100 in 2004	(1,131)	(2,089)
Investments	31	89
Net cash used in investing activities	(5,038)	(5,385)
Cash flows from financing activities:		
Proceeds from issuance of debt	879	616
Debt payments	(1,166)	(3,911)
Spin-off of subsidiary	-	(116)
Dividends paid in advance	(1,317)	(1,302)
Net cash used in financing activities	(1,604)	(4,713)
Net increase (decrease) in cash and cash equivalents	52	(1,190)
Cash and cash equivalents at beginning of year	1,748	2,938
Cash and cash equivalents at end of year	1,800	1,748
Supplemental disclosure:		
Cash paid during the year for -		
Interest, net of capitalized amounts	442	528
Income taxes	5,518	2,388
Non-cash activities:		
Offset of accounts	951	398
Payment of dividends using trade notes receivable	126	441

The accompanying notes form an integral part of the consolidated financial statements.

(1) Operations and Summary of Significant Accounting Policies

(a) Operations

Petróleos de Venezuela, S.A. and its subsidiaries (PDVSA or the Company) are wholly-owned by the Bolivarian Republic of Venezuela, which controls PDVSA through the Ministry of Energy and Petroleum (MENPET) (formerly Ministry of Energy and Mines - MEM). PDVSA is responsible for developing the national petroleum, petrochemical, coal and Orimulsión® industries, and planning, coordinating, supervising and controlling the activities of its subsidiaries, both in Venezuela and abroad (see notes 1-d, 23-b, 23-e, 23-i and 23-k). Most of the foreign companies are responsible for refining and marketing activities in North America, Europe and the Caribbean.

The main activities of PDVSA are governed by the Organic Hydrocarbons Law, which came into effect in January 2002 (see note 23-o). Gas activities are regulated by the Organic Law of Gas Hydrocarbons of September 1999 and its Regulation dated June 2000.

The main changes in the new Organic Hydrocarbons Law which affect the Company are as follows:

- Production tax or royalty increased from 16 2/3% to 30% of the volume of extracted hydrocarbons. For mature reservoirs or extra-heavy crude oil from the Orinoco Belt, the percentage ranges from 20% to 30%, and from 16 2/3% to 30% for Bitumen, based on the profitability of those reservoirs.

- Other taxes:

  – Surface tax: equal to 100 tax units for each square kilometer or fraction thereof for each year, determined based on the concession area not under production; with an annual increase of 2% for five years and 5% in subsequent years.

  – General consumption tax: applicable to each liter of hydrocarbon-derived product sold in the domestic market, the rate for which shall be fixed annually in the Budget Law at between 30% and 50% of the price paid by the final consumer. For the years 2004 and 2003 the applicable tax rate was 30%.

  – Tax on the Company's own consumption: equivalent to 10% of the value of each cubic meter of hydrocarbon-derived product, produced and consumed as fuel oil in the organization's operations, calculated based on the final sale price.

Pursuant to PDVSA's new corporate guidelines, as established in article N° 302 of the Constitution of the Bolivarian Republic of Venezuela and article N° 5 of the Organic Hydrocarbons Law, regarding PDVSA's participation in the country's social development and in order to support the development of infrastructure, highways and roads, agricultural, health and educational programs and other investments in Venezuela, PDVSA participates in diverse programs established by the National Government. PDVSA's participation provides for the contribution of cash to finance social programs and projects, including those denominated "Missions" (see notes 4, 9, 18 and 23-a).

(b) Basis of Presentation

Financial Statements Presentation

The main economic environment of PDVSA's corporate operations is the international market for crude oil and products. The US dollar (dollar or $) is the currency used by PDVSA for presentation of the consolidated financial statements, due to the fact that a significant portion of revenues and long-term debt as well as most costs, expenses and investments are denominated in dollars.

The consolidated financial statements are presented in millions of dollars and have been prepared in accordance with International Financial Reporting Standards (IFRSs), adopted by the International Accounting Standards Board (IASB) and its interpretations issued by the International Financial Reporting Interpretations Committee - IFRIC. Accounting policies have been applied on a consistent basis.

Assets and liabilities of subsidiaries outside of Venezuela and the United States of America are generally translated into dollars at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted average exchange rate prevailing during each year presented. The accumulated translation effect has not been significant in recent years and is included in stockholder's equity as part of accumulated losses.

Transactions in Currencies Other than the Dollar

Transactions in foreign currencies other than the dollar are converted at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies other than the dollar are converted to dollars at the exchange rate in effect at the balance sheet date and the resulting exchange gains or losses are recognized in the statement of income (see note 3).

The local currency in Venezuela is the Bolivar (Bs).

(c) Estimates, Risks and Uncertainties

In order to prepare the consolidated financial statements management is required to make estimates that have an effect on the reported amounts of assets and liabilities and the reported amounts of income and expenses during the corresponding period, as well as the disclosures of contingent assets and liabilities at the financial statements dates. The Company uses its best estimates and judgments; however, the final results could vary in relation to the original estimates due to the occurrence of future events.

PDVSA's operations can be influenced by domestic and international political, legislative, regulatory and legal environments. In addition, significant changes in the prices or availability of crude oil and refined products could have a significant impact on the results of operations for any particular year.

(Continued)

(d) Consolidation

Subsidiaries

Subsidiary companies are those controlled by PDVSA. Control exists when PDVSA has the power, directly or indirectly, to control the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Significant wholly-owned subsidiaries are: PDVSA Petróleo, S.A. (PDVSA Petróleo); Petroquímica de Venezuela, S.A. (Pequiven) (see note 23-b); PDVSA Gas, S.A. (PDVSA Gas); Deltaven, S.A. (Deltaven) and Corporación Venezolana del Petróleo, S.A. (CVP) in Venezuela; PDV Holding, Inc. (PDV Holding) and its main subsidiary PDV America, Inc. (PDV America), which operate in the United States of America and PDVSA Finance Ltd. (PDVSA Finance), a company incorporated in The Cayman Islands and that acts as PDVSA's corporate financing vehicle (see notes 14 and 23-h). The main activity of PDVSA in the United States of America is represented by CITGO Petroleum Corporation and its subsidiaries (CITGO), which is wholly-owned by PDV America.

On December 1, 2005, the Law to stimulate the development of Petrochemical, Carbochemical and similar activities was published, which establishes that within 60 days of publication, PDVSA will transfer the shares of Pequiven, free of charge, to the Bolivarian Republic of Venezuela (see note 23-b).

During 2005, PDVSA incorporated new subsidiaries in order to manage the operations established in the different Energy Cooperation Agreements between the Bolivarian Republic of Venezuela and other countries, including the following: PDV Caribe, S. A.; PDVSA Cuba, S. A.; PDVSA China, S. A.; PDVSA Uruguay, S. A.; and Interven Venezuela, S. A. – Argentina Branch (see notes 10-f and 23-k).

In a Decree dated January 30, 2004, issued by the Presidency of the Bolivarian Republic of Venezuela and published in Official Gazette on February 2, 2004, the National Government approved the transfer of PDVSA's ownership rights in the stock of Carbozulia to the Corporación de Desarrollo de la Región Zuliana (Corpozulia) (Corporation for the Development of Zulia Region) The net effect of the spin-off of this subsidiary was $116 million and it is presented in the consolidated statement of stockholder's equity corresponding to the year ended December 31, 2004.

Non-Consolidated Investees

Non-consolidated investees are those entities where PDVSA has directly or indirectly significant influence, but not control, over the financial and operating policies. The consolidated financial statements also include the participation in income or losses in the non-consolidated investees recognized on an equity basis, from the date when influence commences until the date when control ceases. When the participation in losses exceeds the investment, the investment is reduced to zero and recognition of further losses ceases, except when PDVSA is jointly and severally liable for obligations incurred by such non-consolidated investees.

Transactions Eliminated on Consolidation

Intercompany balances and transactions, and any unrealized gains from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Jointly Controlled Entities

Entities controlled jointly are those where PDVSA has common control, established through a contractual agreement. PDVSA Petróleo participates through its consolidated subsidiaries PDVSA Cerro Negro, S. A. (PDVSA Cerro Negro), PDVSA Sincor, S. A. (PDVSA Sincor) and Corpoguanipa, S. A. (Corpoguanipa), in associations for the development of extra-heavy crude oil reserves in the Orinoco Belt (see note 10-a). These subsidiaries of PDVSA Petróleo account for these investments using the proportional consolidation method, recognizing their percentage share in the assets, liabilities, income and costs, in accordance with their percentage participation in the joint businesses from the date that joint control commences until the date that joint control ceases.

Investments at Cost

Investments in shares where PDVSA does not have significant control or influence are accounted for at cost and dividends from those companies are included in income when declared.

(e) Revenue Recognition

Income from the sale of crude oil, natural gas, refined and petrochemical products, mineral carbon, Orimulsión® and others from the Venezuelan subsidiaries and abroad are recognized in the statement of income when the significant risks and benefits derived from ownership have been transferred to the buyer. This transfer is determined by the delivery terms established in the contract with the client. No income is recognized if there is a significant uncertainty as to the recovery of the obligation acquired by the customer.

(f) Trade Accounts Receivable

Trade accounts receivable are accounted for using the amounts billed and are presented net of an estimated allowance for doubtful accounts, which represents the amount of probable losses. The Company estimates such allowance based on the aging of accounts receivable and the results of assessment of the client portfolio.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories of crude oil and its products, fertilizers and industrial products are determined using the average cost method (see notes 1-u and 22, referring to the adoption of the modifications to International Accounting Standard Nº 2 “Inventories” - IAS 2). Materials and supplies are stated principally at average cost, less an allowance for possible losses, and are classified into two groups: current assets and non-current assets.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and losses due to impairment (see note 1-i). The successful efforts method of accounting is used for oil and gas exploration and production activities. Costs of development wells, related to plant and equipment and oil and gas properties are capitalized. Costs of exploratory wells are capitalized pending determination of whether the wells find proved reserves and on the contrary, are expensed as operating cost. Other exploratory expenditures, including the geological and geophysical costs, are expensed as incurred. Maintenance costs greater than a general repair are capitalized in the cases where these are identified as a separate component of the asset to which such maintenance or repair corresponds and are depreciated over the period between one maintenance and another. The disbursements for minor maintenance, repairs and renewals incurred to maintain the facilities in normal operating condition are expensed. Income or losses resulting from the withdrawal or disposal of assets are included as operating expenses in the consolidated statement of income.

The costs of property, plant and equipment also include, when relevant, the amounts associated with obligations for asset disposals (see note 1-n).

Financing costs of projects requiring major investments in long-term construction and those incurred from financing of specific projects are capitalized and amortized over the estimated useful lives of the related assets.

Depreciation and amortization of capitalized costs related to the production of crude oil, gas and bitumen, are determined using the units of production method by field, based on the proved developed reserves. The rates used are reviewed annually, based on an analysis of reserves and are applied retroactively at the beginning of the year. Capitalized costs of other plants and equipment are depreciated during their estimated useful life, using mainly the straight–line method, which for refining assets and other plants ranges between 17 and 25 years; for administrative buildings 20 years; for extra heavy oil upgrading assets 21 years; and for the remaining assets between 3 and 10 years. In addition, the assets acquired under financial leases are depreciated using the straight-line method over approximately 10 years, which approximates the average useful life, as ownership of these assets is transferred at the end of the lease term.

(i) Impairment of Long-Lived Assets

PDVSA evaluates for impairment the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the related assets to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset (see note 8). The cost of the relevant asset is presented net of this impairment charge. Impairment is determined by the Company based on the cash generating units, in accordance with its business segments, geographical locations and the final use of the production generated by each unit.

(j) Accounting for Income Taxes

Income taxes comprise current tax and deferred tax. Current tax is the estimated amount that must be paid based on the taxable income for the year, using the tax rates and methodology established by current legislation. Deferred income tax is recognized using the balance sheet method, and results from temporary differences between the tax basis of an asset or liability and the amount presented in the financial statements. A deferred tax asset is recognized for tax benefits to the extent that it is probable that such benefits will be realized in the future.

Income tax arising from the distribution of dividends, determined on the basis of the laws of each tax jurisdiction, is recognized as a liability when the liability to pay the related dividend in recognized.

(k) Employee Termination, Pension and Other Postretirement Benefits

PDVSA accrues its liability for Venezuelan employee termination benefits, in accordance with Venezuelan labor legislation and the collective labor contracts. A significant portion of the termination benefits has been deposited in trust accounts on behalf of the employees.

In December 2004, PDVSA signed a new collective labor contract, effective until 2006, whereby salary improvements and social benefits for the workers of the contractual payroll were introduced.

Both in the Venezuelan subsidiaries and those abroad, there are retirement plans and other benefits that cover eligible workers and ex-workers. These plans, among other conditions, are based on the length of service, age and salary.

Defined Benefit Plans

The obligations resulting from the contractual commitment to make contributions for retirement plans are expensed in the consolidated statement of income when incurred. The obligations for retirement plans are determined based on actuarial calculations. Progressively, the Company accumulates funds for the cost of this program (see note 16-b).

PDVSA's net obligation for retirement benefits as defined by contract is calculated for each participant in the plan, estimating the amount of future benefits that employees have acquired for their services during the current and prior periods; this benefit is discounted in order to determine its present value which is reduced by the fair market value of plan assets. The discount rate must reflect the yield which, at the date of the consolidated financial statements, is reflected by financial instruments issued by institutions with high credit ratings and having maturities similar to those of the obligations. The calculation is made by an actuary using the projected unit credit method.

Improvements to benefits of a plan are recognized as an expense in the consolidated statement of income over the estimated period, until the benefits become vested. To the extent such benefits are vested, the expense is recognized immediately in the consolidated statement of income.

The Company recognizes as either income or expense a portion corresponding to the amount of its unrecognized actuarial gains or losses, exceeding 10% of the greater of the following amounts: a) the present value of defined benefit obligations; and b) the fair value of the plan's assets. The resulting amount is divided between the average remaining service period of the employees participating in the plan.

When the calculation indicates that a benefit results for PDVSA, the asset recognized is limited to the total net amount of any unrecognized actuarial loss and the cost of past service and the present value of any future disbursements under the plan or reductions in future contributions to the plan.

Other Benefits for Long-Term Services

The net obligation for other benefits for long-term services, other than retirement plans, is the amount of future benefits that employees have earned for their services during the current and prior periods. These benefits include mainly health plans, life insurance, payments due to incapacity and payments substituting salaries. The obligation is calculated using the projected per unit credit method, and is discounted to reflect its present value and is reduced by the fair value of related assets. The discount rate must reflect the yield of financial instruments issued by institutions of high credit rating at the date of the consolidated financial statements and having maturities similar to those of the obligations.

(l) Environmental Expenditures

Pursuant to the environmental policy established by PDVSA and the applicable legal standards a liability is recognized when the costs are probable and may be reasonably estimated. Disbursements relating to environmental preservation, linked to income due to current or future operations are recorded as expenses or assets, as required. The outlays relating to past operations and that do not contribute to the generation of current or future income are charged to expenses. The creation of these allowances coincides with the identification of an environmental remedial obligation for which PDVSA has adequate information available to determine a reasonable estimate of the cost of remediation. Subsequent adjustments to estimates, when necessary, may be recorded upon obtaining additional information.

(m) Commodity and Interest Rate Derivatives

PDVSA uses derivative financial instruments to reduce its exposure to commodity price risk and interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, PDVSA does not use derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are recognized initially at cost and subsequently are adjusted to their fair value recognizing any effect in the consolidated statement of income. The effects of changes in the fair value of derivatives during 2005 and 2004 are not significant and are included in other expenses, net.

The fair value of future purchase-sale contracts of petroleum is their quoted market price at the balance sheet date, which is the present value of the quoted future price.

The fair value of interest rate swaps, to manage fluctuations in cash flows resulting from interest rate risk, is the estimated amount that would be obtained or paid by PDVSA in order to make the operation effective at the financial statements date, considering current interest rates and the current solvency of the counterparties.

(n) Costs Related to Asset Retirement Obligations

PDVSA capitalizes the estimated costs associated with obligations for the retirement of assets for oil and gas exploration and production areas and other industrial facilities, based on the future retirement plan for such assets. The cost is capitalized as part of the long-lived assets and is amortized with charge to operating costs over their useful lives.

The obligations associated with the retirement of long-lived assets are recognized at fair value at the date when the obligation is incurred, based on discounted future cash flows. The determination of fair values is based on existing regulations and technologies.

(o) Research and Development Costs

Research and development costs are expensed when incurred. In 2005 and 2004, the amounts expensed for this concept amounted to $98 million and $85 million, respectively.

(p) Operating Agreements

The balances corresponding to operating agreements are controlled through memorandum accounts, considering that the respective payments are subject to compliance with certain variables and conditions established in the contracts. Recorded in such memo accounts are property, plant and equipment, depreciation and the costs and expenses related to such agreements. These operating agreements provide for periodic payments for operating and capital fees or stipends based on crude oil production, subject to certain restrictions. The amounts recognized for fees and stipends are accounted for in operating expenses.

During 2005, the MENPET began the necessary steps for the migration of operating agreements to Empresas Mixtas (Empresas Mixtas means a joint stock contractual structure between PDVSA and third party companies) which is expected to be completed during 2006 (see notes 10-c and 23-e).

(q) Segment Information

A segment is an identifiable component of PDVSA that is engaged in supplying products or services (operating segment), or that engages into providing products or services within a particular economic environment (geographical segment), that is subject to specific and diverse risks and benefits of other segments.

PDVSA has determined that its reportable segments are those that are based on the Company's method of internal reporting. PDVSA identifies such segments based on its business units and geographically. PDVSA's reportable operating segments include exploration and production of crude oil (upstream); refining, supply and marketing (downstream); gas and petrochemicals.

(r) Cash and Cash Equivalents

PDVSA considers as cash equivalents all deposits and other cash placements with original maturities of less than three months and available on a current basis which at December 31, 2005 and 2004 amounted to approximately $746 million and $1,095 million, respectively.

(s) Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the classifications used in 2005.

(t) Recently Issued Accounting Standards

In December 2004, the IASB issued an amendment to IAS 19 revised, Employee Benefits, which introduces an additional recognition of actuarial gains and losses relating to postretirement benefit plans. Other characteristics of the amendment include: i) clarification in connection with a contractual agreement between a multi-employer plan and the participating employees how to determine when a surplus is to be distributed or how a deficit is to be financed, and whether it gives rise to an asset or liability; ii) accounting requirements for defined benefit plans in the individual financial statements of entities within a group; and iii) requirements for additional disclosures. The amendment is effective for periods beginning on or after January 1, 2006.

During 2005, the IASB issued International Financial Reporting Standard N° 6 (IFRS 6) Exploration for and Evaluation of Mineral Resources; and N° 7 (IFRS 7) Financial Instruments: Disclosures and complementary amendment to International Accounting Standard Nº 1 (IAS 1): Presentation of Financial Statements. These standards will be effective for periods beginning on or after January 1, 2006 and 2007, respectively.

Also, during 2004 Interpretation Nº 4 (IFRIC 4), Determining Whether an Arrangement Contains a Lease and N° 5 (IFRIC 5), Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds were issued and are effective for periods beginning on or after January 1, 2006.

PDVSA is assessing these new standards and based on its analysis to date, it considers that they will not have a significant effect on the consolidated financial statements.

(u) Recently Adopted Accounting Standards

In December 2003 the IASB, as part of the Improvement Project of the existing IFRS, approved and issued the modification of several standards, of which the following apply to PDVSA:

- *IAS 2, Inventories*: the most important change is that the use of the last-in, first-out (LIFO) method is not permitted, and the average cost method is recommended for the valuation of inventory. This standard became effective on January 1, 2005. As a result of adopting the changes to this standard, PDVSA restated its financial statements for 2004 and stockholder's equity at December 31, 2003 (see note 22).

- *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*: prescribes the criteria to select and change accounting policies, as well as the treatment and disclosure of the changes in such accounting policies, estimates and correction of errors. The changes include: additional requirements for the selection and application of accounting policies; elimination of the option to include in the income statement for the current period the accumulative effect of a voluntary change in accounting policies or the correction of an error in a prior period; and elimination of the concept of a fundamental error. This standard became effective on January 1, 2005.
- *IAS 24, Related Parties and Disclosure*: clarifies that financial statements must disclose the necessary information to inform the possibility that the financial position, as well as the results for the period may be affected by the existence of related parties, and as a result the transactions undertaken and balances outstanding with such related parties. Among the most relevant changes included in this standard is the obligation to disclose information about the benefits given to key management personnel. This standard became effective on January 1, 2005.
- *IAS 27, Consolidated and Separate Financial Statements*: reinforces aspects relating to the preparation and presentation of the consolidated financial statements of a group of companies under the control of a parent company; also, it elaborates on the accounting of investments in subsidiaries, entities controlled jointly and associated companies in the separate financial statements of a parent company, consortium or investor entity. This standard became effective on January 1, 2005.

The Company's accounting policies have been reviewed and modified as necessary, in order to adopt the requirements established in these new standards or interpretations. Except for the adoption of the changes to IAS 2, relating to inventories, adoption of these standards and interpretations did not have any significant effects on PDVSA's consolidated financial statements.

(2) Foreign Exchange Agreement with the Central Bank of Venezuela (BCV)

Under Venezuelan law the BCV is required to provide, as a priority and at the rate agreed and effective at the transaction date the foreign currency that PDVSA requests to cover its needs, based on the annual foreign currency budget. In accordance with the exchange agreement between the National Government and the BCV, the foreign currency generated by PDVSA, including its Venezuelan subsidiaries must be sold to the BCV at the agreed exchange rate. The foreign exchange agreement establishes that PDVSA may pay its debts, investments and operating expenses with such foreign currency, and maintain a revolving fund for working capital which shall not exceed $600 million (see notes 4 and 23-d).

The Amendment of the Central Bank Law came into effect on July 20, 2005, which established a new regime for PVDSA's foreign currency transactions. According to this new regime, PDVSA will only be obligated to sell the BCV foreign currency revenues necessary to meet its local currency obligations. The remaining foreign currency amounts can be held by PDVSA in order to meet its foreign currency obligations and investments. Any amount in excess of the above shall be transferred by PDVSA to the Fondo de Desarrollo Nacional Fonden (FONDEN), created by the National Government on September 8, 2005 with the purpose of financing productive investment projects, education, health improvement and the balance of the external public debt and special situations (see note 18).

On November 21, 2005, the National Government and the BCV subscribed Exchange Agreement Nº 9, which establishes the destination of funds derived from the exportation of hydrocarbons, including gaseous hydrocarbons and others, which must be sold to the BCV, except for those resulting from PDVSA's activities as mentioned in the New Central Bank Law above. Such agreement states that PDVSA and its subsidiaries are not allowed to maintain funds in foreign currency within the National Territory for more than 48 hours and establishes conditions for the use of funds by PDVSA, the monthly information to be filed with the BCV relating to the flow of funds generated by its activities, its asset and liability positions in foreign currency and detailed information of the payments made by PDVSA abroad.

On March 1, 2005, the National Government and the BCV superseded exchange agreement Nº 2 of February 6, 2004, fixing the exchange rates for the sale and purchase of foreign currency at Bs2,150.00 and Bs2,144.60 to $1, respectively.

(3) Transactions and Balances in Currencies Other Than the Dollar

PDVSA has the following monetary assets and liabilities denominated in currencies other than the dollar which are converted to dollars at the exchange rate prevailing at the balance sheet date (in millions of dollars):

	December 31	
	2005	**2004**
Monetary assets:		
Bolivars	9,762	7,094
Euros	48	78
Other currencies	10	143
	9,820	7,315
Monetary liabilities:		
Bolivars	13,140	8,706
Euros	3	5
Other currencies	338	571
	13,481	9,282
Net monetary liability position (see note 2)	(3,661)	(1,967)

The year-end exchange rate, the average exchange rate for the year and the interannual increases in the exchange rate and Consumer Price Index (CPI), published by the BCV, were as follows:

	December 31	
	2005	**2004**
Exchange rates at year-end (Bs/$1)	2,150.00	1,920.00
Average annual exchange rates (Bs/$1)	2,110.00	1,885.93
Interannual increase in the exchange rate (%)	11.98	20.00
Interannual increase in the CPI (%)	14.36	19.18

Net effects from transactions in currencies other than the dollar during 2005 and 2004 amounted to $34 million and $223 million of losses, respectively, which is comprised of: $165 million and $350 million of losses, respectively, that are included in other expenses, net; and $131 million and $127 million of gains, respectively, that are included in deferred income tax expense.

(4) Restricted Cash

Restricted cash includes (in millions of dollars):

	December 31	
	2005	**2004**
Trusts in the Bank for Social Economic Development in Venezuela (know by its Spanish Acronym as BANDES), for social programs and projects (see notes 18 and 23-a):		
Programs and Projects for Housing and Infrastructure Development	-	613
Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Investment	-	174
Fund for the Economic and Social Development of the Country (FONDESPA)	2,046	1,547
Integral Agreement of Cooperation with the Republic of Argentina (see note 10-f)	158	-
	2,204	2,334
Macroeconomic Stabilization Fund (FEM) (see note 18)	727	705
Trust entered into with Banfoandes, Banco Universal, C.A. (BANFOANDES), for the construction and conditioning of medical assistance modules for "Barrio Adentro Mission" (see note 18)	23	-
Funds for the extra-heavy crude oil project in the Orinoco Belt	1,862	694
Caracas Energy Cooperation Agreement signed with the Republic of Uruguay (see note 10-f)	44	-
Liquidity account of PDVSA Finance	13	13
Other	6	2
	4,879	3,748
Less current portion	2,023	709
Long-term portion	2,856	3,039

Trusts in BANDES

As a result of the modifications to PDVSA's corporate guidelines, the following trusts have been established with BANDES:

a) Programs and Projects for Housing and Infrastructure Development, approved at the Stockholder's Meeting on August 25, 2003 and established in bolivars;

b) Programs and Projects as part of the Ezequiel Zamora Fund for Agricultural Investment, approved at the Stockholder's Meeting on January 15, 2004 and established in US dollars;

c) FONDESPA approved at the Stockholder's Meeting on January 23, 2004, established in US dollars and to be funded by extraordinary income from the export of crude oil and products exceeding the average price budgeted per barrel, net of royalties, taxes and other direct expenses, during 2005 and 2004.

d) Integral Agreement of Cooperation with the Republic of Argentina, subscribed by the Bolivarian Republic of Venezuela and the Republic of Argentina, and approved at PDVSA's Board of Directors' Meeting on July 15, 2004. This trust was incorporated in dollars and will comprise cash and securities received from the Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima (CAMMESA), Argentina's energy company, for the sales of crude oil and products by PDVSA under the agreement (see note 10-f). The funds will be limited to making payments to companies located in the Republic of Argentina for the imports in Venezuela of products from that country. At December 31, 2005, contributions to this trust were made for $158 million.

These funds will support basically social programs and projects, works, goods and services for the development of the country's infrastructure, agricultural activity, roads, health and education in Venezuela.

During 2005, PDVSA's Board of Directors decided to waive the rights, including those as the beneficiary, that it had over the trusts "Programs and Projects for Housing and Infrastructure Development" and "Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Investment". Thus, since 2005, PDVSA's contributions to the trusts are recognized directly as social development expenses, when the disbursements are made, the trustees and the new beneficiaries are responsible for administration of the fund. As a result of this decision these trust contracts were modified and the amounts registered as restricted cash, accounts receivable and long-term accounts receivable and other assets at December 31, 2004 were recognized as social development expenses during 2005 (see note 9).

The transactions relating to the FONDESPA are controlled and presented in the consolidated financial statements through the subsidiary CVP. The allocations to the executor entities of the projects are accounted for by CVP as long-term accounts receivable or expenses, as payments are made in accordance with the terms established in the relevant contracts. A summary of the financial information of the funds in FONDESPA follows (in millions of dollars):

	December 31	
	2005	**2004**
Assets:		
Cash in banks	2,046	1,547
Long-term accounts receivable (see notes 9 and 18)	692	202
Total assets	2,738	1,749
Contributions:		
Contributions received	4,000	2,000
Deficit at beginning of year	(251)	-
Results for the year	(1,011)	(251)
Deficit at year end	(1,262)	(251)
Total net contributions	2,738	1,749

	Years ended December 31	
	2005	**2004**
Results of operations:		
Interest income	63	13
Commissions and expenses, net	(7)	(2)
Social development expenses (see note 18)	(290)	(22)
Adjustment to the fair value of long-term accounts receivable (see note 9)	(701)	(240)
Transfer to other social programs and projects	(76)	-
Net results of operations	(1,011)	(251)

Macroeconomic Stabilization Fund (FEM)

During November 2003, the Venezuelan Government established the FEM upon termination of the FIEM's operations, which was created in June 1999, in order to achieve stabilization of the Nation's expenses, at state and municipal levels. It was constituted to manage the fluctuations of extraordinary income and to which contributions will be made on the basis of additional oil income, the net income corresponding to the Republic, as a consequence of the privatization of public companies or concessions or strategic associations, that have not been employed in transactions linked to the management of public liabilities, the extraordinary contributions made by the National Government, other than those stated above and the net returns obtained from transactions. PDVSA will contribute 50% of the difference in excess between the income from oil and byproducts exports in dollars and the average of such income collected during the last three calendar years, after deducting the taxes related to such income.

The deposits made in the FEM may be used in the event of a decrease in the fiscal income from petroleum or in the income from oil and products exports in relation to the average of such income collected during the last three calendar years or in the event of a national state of emergency. In these cases, PDVSA will be able to withdraw an amount that will not exceed 75% of the difference between the estimated income for this period and the average of such income collected during the last three calendar years, with prior approval of the Board of Directors of the FEM and the opinion of the Permanent Finance Commission of the National Assembly. Also, a maximum resources accrual level is established for PDVSA consisting of 30% of the average oil exports during the last three years. In the event of an excess, it will be transferred to the Fondo de Ahorro Intergeneracional. However, if PDVSA is required to execute special investment plans for the management and expansion of its operations, it may use part of such excess, with prior approval of the Stockholder's Assembly.

Since 2004 the Law established that no new contributions to the FEM would be made, in order to promote the application of new rules and institutional developments contemplated in the Law. During 2005 and 2004, this fund generated interest income of $22 million and $7 million, respectively, which is included in other expenses, net in the consolidated statement of income.

Trust with BANFOANDES, for the Construction and Conditioning of Medical Assistance Modules for Barrio Adentro Mission

On March 24, 2005, PDVSA's Board of Directors approved the creation of a trust between Palmaven, S.A. (subsidiary of PDVSA) and BANFOANDES. Such trust was established on June 20, 2005 for the construction of 1,000 medical assistance modules for Barrio Adentro Mission. This trust was incorporated with an initial contribution of $23 million for one year, automatically renewable for similar periods.

Funds for Extra-heavy Crude Oil Project in the Orinoco Belt

Corresponds to funds deposited in financial institutions abroad, which are restricted only for the compliance with the obligations for the funding received for the development of the projects relating to the production and improvement of extra-heavy crude oil of the Orinoco Belt.

Caracas Energy Cooperation Agreement with the Oriental Republic of Uruguay

As a result of this agreement, during 2005 an initial contribution of $44 million was made, which was deposited in an account of a financial institution located in the Oriental Republic of Uruguay. This account will receive the deposits made by the Administradora Nacional de Combustibles, Alcohol y Portland (ANCAP), Uruguay's oil company, resulting from the sales of crude oil, refined products and liquefied petroleum gas (LPG) or its energy equivalents made by PDVSA. These funds will be restricted to making payments to companies located in Uruguay for the imports in Venezuela of products from that country (see note 10-f).

Liquidity Account of PDVSA Finance

The restricted cash of the subsidiary PDVSA Finance corresponds to the "Liquidity Account", in accordance with the agreement signed with financial institutions for the issue of bonds, and which is comprised of cash and time deposits that are permitted investments, including interest earned on such amounts (see notes 14 and 23-h).

(5) Notes and Accounts Receivable

Notes and accounts receivable are summarized as follows (in millions of dollars):

	December 31	
	2005	**2004**
Trade	6,348	3,661
Related parties (see note 18)	1,762	1,532
Other	335	515
	8,445	5,708
Less allowance for doubtful trade accounts receivable	132	113
	8,313	5,595

(6) Inventories

Inventories are summarized as follows (in millions of dollars):

	December 31	
	2005	**2004**
Crude oil and products (see notes 1-u y 22)	4,995	3,942
Fertilizers, industrial products, Orimulsion® and other (see notes 1-u y 22)	118	111
Materials and supplies, net	622	560
	5,735	4,613
Less materials and supplies classified in non-current assets (see note 9)	114	76
	5,621	4,537

(7) Investments in Non-Consolidated Investees

Investments in non-consolidated investees accounted by the equity method are summarized as follows (in millions of dollars):

	December 31			
	Percentage of Capital stock		Share of equity	
	2005	2004	2005	2004
Foreign investees:				
United States of America:				
CITGO investees:				
LYONDELL-CITGO Refining, LP (LYONDELL-CITGO) (see note 23-i)	41	41	357	410
Other	-	-	168	171
Chalmette Refining, L.L.C. (Chalmette Refining)	50	50	357	339
Merey Sweeny, L.P. (Merey Sweeny)	50	50	43	30
Virgin Islands:				
Hovensa L.L.C. (Hovensa)	50	50	1,156	1,050
			2,081	2,000
Germany:				
Ruhr Oel GmbH (Ruhr)	50	50	162	187
Sweden:				
AB Nynäs Petroleum (Nynas)	50	50	135	135
Colombia:				
Monómeros Colombo Venezolanos, S.A. (Monómeros) (*)	47	47	39	38
Other:				
Bitúmenes Orinoco, S. A. (BITOR)	50	50	15	5
			2,432	2,365
Investees in Venezuela:				
Petrolera Zuata, C. A. (Petrozuata)	50	50	433	514
Fertilizantes Nitrogenados de Venezuela, C.E.C. (Fertinitro) (*)	35	35	193	178
Metanol de Oriente, S. A. (METOR) (*)	38	38	137	116
Supermetanol, C. A. (*)	35	35	66	81
Super Octanos, C. A. (*)	49	49	127	112
Ceras de Venezuela, C. A. (Ceraven)	49	49	10	10
Propilenos de Falcón, C. A. (Profalca)	35	35	25	21
Tripoliven, C. A. (*)	33	33	5	5
Aguas Industriales de Jose, C. A. (*)	25	25	13	12
Other	-	-	1	5
			1,010	1,054
			3,442	3,419

(*) Direct investees of Pequiven (see note 23-b)

Information on PDVSA's investments in non-consolidated investees follows (in millions of dollars):

	December 31	
	2005	**2004**
PDVSA's investments in non-consolidated investees (see note 18)	3,442	3,419
PDVSA's equity in net income of non-consolidated investees (see note 18)	1,177	1,041
Dividends and distributions received from non-consolidated investees	(1,123)	(605)
Investments, including exchange effects	(31)	(89)

Summarized gross combined financial information of the above non-consolidated investees abroad and in Venezuela follows (in millions of dollars):

	December 31					
	2005			**2004**		
	Venezuela	**Abroad**	**Total**	**Venezuela**	**Abroad**	**Total**
Financial position:						
Current assets	855	3,471	4,326	958	3,162	4,120
Non-current assets	4,614	7,044	11,658	4,775	7,222	11,997
Current liabilities	(876)	(2,923)	(3,799)	(642)	(2,515)	(3,157)
Long-term liabilities	(2,190)	(3,922)	(6,112)	(2,551)	(4,163)	(6,714)
Net equity	2,403	3,670	6,073	2,540	3,706	6,246
Operating results for the year:						
Revenues	2,191	25,999	28,190	2,317	21,599	23,916
Operating income	1,029	2,668	3,697	1,099	2,264	3,363
Net income	591	2,150	2,741	618	1,811	2,429

(8) Property, Plant and Equipment, Net

Property, plant and equipment, net are summarized as follows (in millions of dollars):

	Exploration and production	Refining, trade and supply	Gas	Petrochemical	Other	Land	Construction in progress	Total
Cost:								
Balances at December 31, 2003	42,880	19,963	6,084	3,353	1,386	350	3,818	77,834
Additions	267	305	-	-	71	-	2,830	3,473
Transfers and capitalizations	1,447	1,264	217	24	25	6	(2,983)	-
Sales and disposals	(61)	(59)	-	-	(3)	(5)	-	(128)
Reclassification of buildings used by governmental entities	-	-	-	(45)	(579)	-	-	(624)
Impairment loss	-	(6)	-	-	-	-	-	(6)
Asset retirement obligation	(17)	-	(1)	-	-	-	-	(18)
Other	10	(9)	-	5	(1)	-	(58)	(53)
Balances December 31, 2004	44,526	21,458	6,300	3,337	899	351	3,607	80,478
Additions	33	194	-	27	242	-	3,809	4,305
Transfers and capitalizations	913	342	104	1	11	3	(1,442)	(68)
Sales and disposals	(53)	(81)	(4)	-	-	-	-	(138)
Impairment loss	-	(20)	-	-	-	-	-	(20)
Asset retirement obligation	(1)	9	-	-	-	-	-	8
Other	(2)	11	-	4	(5)	-	(276)	(268)
Balances December 31, 2005	45,416	21,913	6,400	3,369	1,147	354	5,698	84,297
Depreciation and depletion:								
Balances at December 31, 2003	25,395	10,700	3,911	1,636	981	-	-	42,623
Depreciation and depletion	1,591	1,157	159	142	33	-	-	3,082
Sales and disposals	(36)	(31)	-	-	(2)	-	-	(69)
Reclassification of buildings used by governmental entities	-	-	-	(15)	(476)	-	-	(491)
Asset retirement obligation	(11)	-	(1)	-	-	-	-	(12)
Other	(19)	(6)	(3)	(9)	7	-	-	(30)
Balances at December 31, 2004	26,920	11,820	4,066	1,754	543	-	-	45,103
Depreciation and depletion	1,724	1,357	158	65	30	-	-	3,334
Sales and disposals	(32)	(72)	(4)	-	-	-	-	(108)
Asset retirement obligation	(1)	-	-	-	-	-	-	(1)
Other	(1)	12	-	-	(1)	-	-	10
Balances at December 31, 2005	28,610	13,117	4,220	1,819	572	-	-	48,338
Total net cost at December 31, 2005	16,806	8,796	2,180	1,550	575	354	5,698	35,959
Total net cost at December 31, 2004	17,606	9,638	2,234	1,583	356	351	3,607	35,375

During 2004, certain buildings used by entities attached to governmental entities were transferred to long-term accounts receivable and other assets. The net book value of these assets is $123 million and $133 million at December 31, 2005 and 2004, respectively (see notes 9 and 18).

During 2005 and 2004, interest of $27 million and $29 million, respectively, was capitalized.

The asset impairment loss relates to oil and gas wells that are planned to be abandoned and disposed of, as well as to certain refining assets. For purposes of segment information, these assets are reflected in exploration and production operations, refining, trade and supply. During 2005 and 2004, the Company recognized asset impairment losses of $20 million and $6 million, respectively.

At December 31, 2005 and 2004, accruals and other liabilities include $677 million and $642 million, respectively, of accruals for obligations for the retirement of exploration and production assets (see note 17). The cost and obligations for the retirement of assets associated with refining, trade and supply activities were not estimated, due to the fact that these assets are considered of undetermined use, as a result of major maintenance and repairs; in addition, there is no information available to determine, reasonably, the date when these assets will be disposed of.

At December 31, 2005 and 2004, PDVSA maintains several projects under execution included in construction in progress that will be capitalized as property, plant and equipment at the date of incorporation into operations. The most significant are:

(a) The Plataforma Deltana Gas project includes the participation of third parties to complete the exploration and future development of the area. PDVSA completed the project's initial phase, including 3D seismic analyses and the drilling of four exploratory wells that culminated in July, 2003. The estimated total capital investment for this project amounted to $3,810 million. At December 31, 2005 and 2004, total investment in this project amounted to $145 million and $140 million, respectively (see note 10-d).

(b) The purpose of the Anaco Gas project is to increase the production of gas to meet the domestic market's demand. Currently, the drilling process of exploratory wells located north of Anaco, Anzoátegui State is underway. This project includes the design and construction of facilities to increase the daily gas production to 2,400 million cubic feet per day (MMCFD) and 35 thousand barrels per day (MBPD) of light crude by 2007. The total estimated investment in this project is $732 million. At December 31, 2005 and 2004, total investment in this project amounted to $297 million and $118 million, respectively.

(c) The main purpose of the Integral Ceuta-Tomoporo project is to maximize the recoverable crude oil reserves value of Ceuta-Tomoporo, which has estimated reserves of 1,000 million barrels of 23.6° API crude oil. Total investment costs will be approximately $1,200 million, with an average crude oil production of 90 MBPD to 277 MBPD. At December 31, 2005 and 2004, total investment in this project amounted to $294 million and $174 million, respectively. It is estimated that the development project relating to these reserves will end in 2021.

(d) The Mariscal Sucre for Liquefied Natural Gas (LNG) project is intended to develop and exploit the reserves of non-associated offshore gas, as well as the construction of a liquefied natural gas plant, for projected gas production of 1,200 MMCFD and the processing of 4.7 million metric tons per year (MMT/Y) of LNG; 300 MMCFD of methane gas that will be used to meet the domestic market's demand, and the remainder of the production is expected to be exported. The investment required for the development of offshore fields, the LNG plant and the associated infrastructure is estimated to total $2,700 million. At December 31, 2005 and 2004, total investment in this project amounted to $17 million and $12 million, respectively.

(e) The purpose of the Interconexión Oriente-Occidente (ICO) project is to connect the natural gas transmission systems of the central and eastern region of Venezuela (Anaco, Anzóategui State, Barquisimeto, Lara State) with the transmission system located in the country's western region (Ulé-Amuay, Falcón State) in order to cover the gas demand of the country's western region, expand the gas service to other regions nationwide and to promote the industrial and commercial development in areas near the construction of this transmission system. The estimated total investment in this project is $413 million and it is expected to be completed by 2007. At December 31, 2005 and 2004, total investment in this project amounted to $128 million and $47 million, respectively.

(f) The Complejo Industrial Gran Mariscal de Ayacucho (CIGMA) project, involves the construction of infrastructure in Güiria, Sucre State, for the development and industrialization of natural gas in the oriental offshore. The total cost of the work is estimated at $334 million and the income from the project will be from the sale of land lots for industrial use, duly developed and endowed with all the relevant services. This complex will gather the diverse gas streams delivered by the offshore northern-eastern gas development projects, including the Plataforma Deltana, Mariscal Sucre, as well as further medium and long-term projects. These gas volumes will be primarily destined to supply the Venezuelan internal market's demand and the national industrialization plans. The excess gas volumes will be exported as Liquefied Natural Gas (LNG). The scope of the CIGMA also includes the installation of a LNG plant required for this purpose. At December 31, 2005 and 2004, total investment in this project amounted to $18 million and $4 million, respectively (see note 10-d).

(g) The purpose of the Complejo Criogénico de Occidente (CCO) project is to optimize the processing of natural gas in the country's western region. The estimated total investment in this project is $600 million. At December 31, 2005 and 2004, total investment in this project amounted to $45 million and $15 million, respectively.

At December 31, 2005 and 2004, the Company has charges for major maintenance and general repairs that are deemed a separate component of assets for $466 million and $663 million, respectively, included under property, plant and equipment, mainly, in refining, trade and supply (see note 1-h).

At December 31, 2005 and 2004, there are certain gas compression plants and related equipment acquired under capital lease agreements, recorded as property, plant and equipment for approximately $77 million and $86 million, net of accumulated depreciation of approximately $161 million and $152 million, respectively. Depreciation expense recorded in 2005 and 2004 for assets acquired under capital lease agreements amounted to $9 million for each year. At December 31, 2005, the future payments for operating and capital leases are summarized as follows (in millions of dollars):

	Leases	
Years	**Operating**	**Capital**
2006	293	11
2007	250	8
2008	250	8
2009	239	7
2010	256	8
Remaining years	195	25
Estimated future lease payments	1,483	67
Less interest		(22)
Present value, included in accrued and other liabilities (see note 17)		45

Rent expense incurred from operating leases during 2005, 2004 was $429 million and $522 million, respectively, which is included in operating expenses.

(9) Long-Term Accounts Receivable and Other Assets

Long-term accounts receivable and other assets are summarized as follows (in millions of dollars):

	December 31	
	2005	**2004**
Long-term accounts receivable from related parties (see note 18)	937	698
Long-term accounts receivable energy agreements (see note 10-f)	451	29
Materials and supplies (see note 6)	114	76
Goodwill	45	63
Building used by governmental entities (see notes 8 and 18)	123	133
Funding for social programs and projects (see notes 18 and 23-a)	692	399
Others	412	300
	2,774	1,698

The funding of social programs and projects corresponds to contributions made by PDVSA for the execution of infrastructure works and social activities approved by the National Government (see note 4). At December 31, 2005 and 2004, the Company determined and adjusted accounts receivable to their fair values for each entity executing these projects, recognizing a loss of $941 million and $588 million, respectively, which is included in other expenses, net in the consolidated statement of income. A summary of the fair values of balances receivable relating to these programs and projects at December 31, 2005 and 2004 follows (in millions of dollars):

	Contractual value	Fair value	Adjustment to fair value
December 31, 2005 -			
FONDESPA	1,633	692	941
	1,633	692	941
December 31, 2004 -			
Programs and Projects for Housing and Infrastructure Development	116	41	75
Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Investment	429	156	273
FONDESPA	442	202	240
	987	399	588

(10) Joint Development Activities

PDVSA has entered into association agreements and joint projects with third parties; as well as agreements for energy cooperation with other countries. The most important agreements follow:

(a) Development of the Orinoco Belt Extra-Heavy Crude Oil Reserves

The Venezuelan National Assembly (formerly National Congress) approved between 1993 and 1999 several association agreements for the exploitation and upgrading of extra-heavy crude oil and marketing of the upgraded crude oil, of the Orinoco Belt as follows:

Association	PDVSA'S percentage participation	Partners
Petrozuata	49,90	ConocoPhillips
Cerro Negro	41,67	ExxonMobil-BP
Sincor	38,00	Total Fina – Statoil
Hamaca	30,00	ChevronTexaco - ConocoPhillips

The disbursements required by these associations for the development and completion of the projects were funded by PDVSA, capital contributions from investors, debt financing and income from production during the development period (see note 14).

PDVSA Petróleo participates in these joint ventures through non-consolidated investees Petrozuata and its wholly-owned subsidiaries: PDVSA Cerro Negro, PDVSA Sincor and Corpoguanipa (see notes 1-d, 4, 7 and 8).

The objective of these joint ventures is to perform vertically integrated activities for the exploration, development, production, mixing and transport of extra-heavy crude oil, in the areas of Zuata, Cerro Negro, and Hamaca from the Orinoco Belt, for processing in the improvement plants to produce upgraded crude oil of high gravity for commercialization on the international markets.

During 2001 the projects Petrozuata and Cerro Negro were completed, and during 2002 and 2004, the Sincor and Hamaca projects were completed, respectively. The commercial production of upgraded crude oil in Petrozuata, Cerro Negro, Sincor and Hamaca began in February 2001, August 2001, March 2002 and October 2004, respectively.

A summary of the combined financial statements of the Cerro Negro, Sincor and Hamaca projects follows (in millions of dollars):

	December 31	
	2005	**2004**
Financial position:		
Current assets	2,414	1,056
Non-current assets	9,851	9,776
Current liabilities	(752)	(1,008)
Long-term liabilities	(2,289)	(2,439)
Net equity	9,224	7,385

	Years ended December 31	
	2005	**2004**
Operating results for the year:		
Revenues	5,864	2,911
Costs and expenses	(2,227)	(1,364)
Operating income	3,637	1,547
Net income	3,494	1,432

(b) Association Agreements in New Areas

CVP is the subsidiary that was designated in January 1996 by the MENPET, to contract risk and profit sharing agreements with private investor companies (association agreements) to coordinate, control and supervise the activities relating to the exploration and exploitation of hydrocarbon fields in new areas.

The association agreements provide for the creation of a Control Committee, as the ultimate body for approval and control, which makes the fundamental decisions in the national interest for the Venezuelan Government, in connection with the execution of these association agreements.

These areas were assigned by means of a competitive bid process to participate in association agreements with CVP. These agreements establish that investors will carry out exploration activities at risk, and in those cases where a field is declared commercially viable and a development plan is approved by the Control Committee, CVP will notify the investors of its participation in such development. The participation of CVP will not be less than 1% or greater than 35%. Considering the exploration, development and commercial production phases of the areas and their potential extension, the agreements, in general, will have a maximum duration of thirty-nine years.

In accordance with the terms of the association agreements, CVP and the investors incorporated jointly owned companies for each area, the capital stock of which is represented by 35% Class “A” shares owned by CVP and 65% Class “B” shares owned by the investors. The purpose of the jointly owned companies is to direct, coordinate and supervise the activities that will be executed by the operators of the areas.

In order to guarantee compliance with the minimum work program established in the agreements, CVP received in July 1996 letters of credit or guarantees from the investors’ parent companies. Pursuant to the agreements, these guarantees may be reduced every six months, upon request of the investors and in accordance with the development of such program. As per certification issued by the CVP and due to the fact that the minimum working programs were completed, the guarantees remained without effect.

As of December 31, 2005 and 2004, CVP has investments in shares representing its 35% participation in the companies as of that date, as listed below by area:

Areas	CVP partners	Jointly owned Companies
Eastern Paria Gulf	Ineparia, Inc - Conoco Venezuela, C. A. - ENI Venezuela B. V. (ENI) - OPIC Karimun Corporation (OPIC)	Administradora del Golfo de Paria Este, S. A.
Western Paria Gulf	Conoco Venezuela, C. A. - ENI - OPIC (1)	Compañía Agua Plana, S.A.
La Ceiba	Mobil Venezolana de Petróleos, Inc - Petro Canadá	Administradora Petrolera La Ceiba, C. A.

(1) Profit sharing agreement under phase I (development)

The companies listed above have not begun hydrocarbon commercial production operations; the activities performed during 2005 and 2004 consisted mainly of completing the minimum exploratory program and continuation of the exploration efforts, as well as approving and continuing with the assessment and outline plans. These activities included, among others, the reprocessing and 3D and 2D seismic interpretation, as well as the drilling of exploratory wells.

(Continued)

In December 2001, the Control Committee approved the assessment plan of the discovery in Alto La Ceiba (blocks 1, 3, 4 and 7) ending in June 2004, which in September 2003 was extended until December 2005, as a result of the events of December 2002 (see note 24), when the assessment process was completed. Investors reported on the commercial feasibility on September 30, 2005, and presented a development plan which contemplates, among other aspects, 24 wells with an estimated crude oil production of 50 MBPD; as well as facilities to process 120 MBPD of crude oil.

During 2005, investors of the Eastern Paria Gulf area presented the development plan Posa, which estimates crude oil production of 22 MBPD, the construction of a processing and dispatching floating unit, with the capacity to store 400 thousand barrels of crude oil. In addition, they presented the assessment plan for the discovery of the well Punta Sur 2X. Both plans are in the review process by CVP.

In April 2003, the Control Committee declared commercially viable a discovery in the Western Paria Gulf Project, named Corocoro. In May 2003, PDVSA's Board of Directors authorized CVP to participate in the development plan of this discovery. The participants in the consortium for the Corocoro development plan are: CVP (35%), Conoco Venezuela, C. A. (32.5%), ENI (26.0%) and OPIC (6.5%). At December 31, 2005 and 2004, property, plant and equipment include approximately $49 million and $62, respectively, corresponding to the contributions of CVP.

(c) Operating Agreements

During 1992 and 1993, PDVSA signed through its subsidiary PDVSA Petróleo the first and second rounds of operating agreements with specialized international companies. The purpose of these agreements is the reactivation and operation of 15 oil fields, which in general cover a term of 20 years. During 2005 and 2004 these reactivated fields have been productive.

In June 1997, PDVSA Petróleo held a third bidding round and awarded additional 17 fields to be operated under operating agreements with specialized national and international companies. These fields are located in the Venezuelan States of Anzoátegui, Falcón, Monagas and Zulia. Field operations are subject to the approval of development programs which include the execution of exploration activities at the operator's risk, and in areas where reserves are discovered, the agreement provides for the signing of new agreements for further development. Since the beginning of the agreements for the third round exploration, and until December 31, 2005 the activities in these fields have not been successful.

As established in the operating agreements, the investors will make capital investments in the assets necessary to increase production in the fields received, possibly recovering their investments by collecting operating fees and stipends, which are determined based on the amount of crude oil delivered to PDVSA Petróleo during the term of the agreement, at the end of which PDVSA Petróleo has no liability to pay for the remaining value of the assets existing in the fields (see note 23 -e).

The operating fees, capital fees and other, and stipends included as operating expenses in the consolidated statements of income are presented below (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Operating fees	1,627	1,242
Capital fees and other	894	769
Stipends	1,348	1,181
	3,869	3,192

As of December 31, 2005 and 2004, the accounts payable related to operating agreements amounted to $983 and $758, respectively, as a result of these operations (see note 11).

The memorandum accounts comprise the following (in millions of dollars):

	December 31	
	2005	**2004**
Property, plant and equipment:		
Construction in progress	3,914	4,135
Capitalization of production assets	1,310	1,432
Non-capitalized costs and expenses	4,564	4,072
	9,788	9,639

During 2005, the MENPET carried out a legal and technical analysis of these 32 operating agreements, which concluded that such agreements contain, among other elements, fee clauses based on the volume and price of the hydrocarbons produced in the areas, which contravene the nature of a simple service contract, which is not consistent with the current Organic Hydrocarbons Law.

On April 12, 2005, the MENPET instructed the Board of Directors of PDVSA to correct the omissions or errors in each and all operating agreements, and evaluated the legal mechanisms to extinguish such operating agreements in a period of not more than one year. In the last quarter of 2005, all of the companies with operating agreements signed “Transitory Agreements” in order to review the original operating agreements (see notes 1-p and 23-e).

(d) Projects for Development of Offshore Natural Gas - Plataforma Deltana

For purposes of granting rights related to the exploration and development of the Plataforma Deltana (Delta Platform), the area was divided into 5 blocks, mainly considered non-associated gas projects. The first exploration phase was completed by PDVSA in July 2003.

The licenses for the exploration and development of blocks 2 and 4 were granted by the MENPET in February 2003 to ChevronTexaco Corporation and ConocoPhillips to blocks 2 and Statoil ASA to block 4. These companies are engaged in carrying out a minimum exploratory program with an estimated investment of $150 million and the subsequent investment for its development, if its profitability is confirmed. The participation of PDVSA in the partnership, will be established when the profitability of each block is determined.

During the second half of 2003 blocks 3 and 5, as redimensioned, were offered. Block 3 was won by ChevronTexaco Corporation, which was assigned officially by the MENPET in February 2004. Block 5 did not receive offers.

Since the awarding of the block 3, the activity of PDVSA in the Project has been concentrated on following the administration of the licensees of blocks 2, 3 and 4 during the exploration phase as technical support to MENPET; the analysis of possible business opportunies and development for blocks 1 and 5; the studies required to complete the conceptual engineering of the entire project, including the transportation systems from CIGMA and the gas liquefaction plant, in addition to the social-economic environmental impact studies, the environmental base line and programs for sustainable development for the communities of the Orinoco Delta. During 2005 licensees completed the minimum exploratory program established in the licenses for block 2; in addition, 3 exploratory wells were drilled with successful results.

The estimated total investment for this project is approximately $3,810 million, including PDVSA's participation. Blocks 1 and 5 are reserved for future businesses.

(e) Cooperation Agreement for Orimulsión®

In April 2001, a cooperation agreement for Orimulsión® was signed between BITOR and China National Oil and Gas Exploration and Development Corporation (CNODC), a subsidiary of China National Petroleum Corporation (CNPC), the objective of which is to carry out a series of pre-investments necessary to determine definitively the feasibility of the project. On December 13, 2001, the National Assembly of the Bolivarian Republic of Venezuela authorized BITOR to establish with CNODC, a jointly controlled entity named Orifuels Sinoven, S. A. (SINOVENSA).

On December 27, 2001, the association agreement was entered into in connection with the Orimulsión® between BITOR, CNODC and PetroChina Fuel Oil Company Limited, (the latter two, subsidiaries of CNPC). The agreement is for the construction and operation of a bitumen emulsification module to produce Orimulsión® (MPE-3), the extraction, exploitation, transportation and industrialization of natural bitumen and associated fluids and the trading of Orimulsión® produced in the installation. BITOR shall have a share of 30%, CNODC 40% and PetroChina Fuel Oil Company Limited 30%. This module will have an effective production capability of 125 MBD of Orimulsión® (7.25 million of annual metric tons), that will be exported to the electricity generation industry in China. The field and the production facilities will be located in Cerro Negro and Morichal, southern Monagas State, and the emulsification plant at the industrial complex Complejo Industrial de Jose, Anzoátegui State.

At December 31, 2005, the facilities at Morichal and the industrial complex Jose reached 82% and 93% of completion, respectively, and they are expected to be completed during 2006. Once operative, this will be the only facility to manufacture Orimulsión®, and BITOR will carry out the supply agreements from such facilities. Due to the greater emphasis on the extra-heavy crude oil business, the Company decided to suspend development plans for other facilities producing Orimulsión®.

(f) Energy Agreements with Latin America and the Caribbean

The Government of the Bolivarian Republic of Venezuela subscribed the following agreements together with the governments of other countries, mainly from Latin America and the Caribbean: Caracas Energy Cooperation Agreement (ACEC), Integral Agreement of Cooperation (CIC) and the Petrocaribe Energy Cooperation Agreement. These agreements establish, among others, that PDVSA will supply crude oil and products to the state oil companies of the participating countries. A summary of these agreements follows:

Agreement	Country	Company	MBPD	Year Subscribed
ACEC	Cuba	CUPET	92	2000
ACEC	Dominican Republic	Refinería Dominicana, S.A. (REFIDOMSA)	50	2004
CIC	Argentina	CAMMESA (see note 4)	25	2004
ACEC	Paraguay	Petróleos de Paraguay (PETROPAR)	19	2004
ACEC	Bolivia	Yacimientos Petrolíferos Fiscales de Bolivia (YPFB)	2	2004
ACEC	Jamaica	Petroleum Corporation of Jamaica (PETROJAM)	21	2005
ACEC	Uruguay	ANCAP (see note 4)	44	2005
PETROCARIBE	Other counties from the Caribbean	Other	24	-

During 2000, an agreement was signed with the Government of the Republic of Cuba denominated Caracas Energy Cooperation Agreement, which establishes that PDVSA will supply Unión Cuba Petróleo, S.A. (CUPET) 53 MBPD of crude oil and products. During 2004, this agreement was modified in order to increase the supply to 92 MBPD.

Most of these supply agreements establish, among other conditions, a sales price equivalent to the market value, payment terms between 30 and 90 days for a significant portion of each shipment, and long-term financing for the remaining portion (between 15 and 23 years), (see note 9). The agreements will be effective for a one-year period and may be renewed by mutual agreement of the parties involved.

(11) Accounts Payable to Suppliers

Accounts payable to suppliers are summarized as follows (in millions of dollars):

	December 31	
	2005	2004
Trade	3,791	3,258
Related entities (see note 18)	219	297
Operating agreements (see note 10-c)	983	758
	4,993	4,313

(12) Taxes

A summary of taxes, which affect the consolidated operations of PDVSA, follows (in millions of dollars):

	Years ended December 31	
	2005	2004
Income taxes	5,817	5,419
Production and other taxes	13,318	9,247

(a) Income before Income Taxes

Income before income taxes for each year consisted of the following (in millions of dollars):

	Years ended December 31	
	2005	2004
In Venezuela	10,350	8,456
Foreign	1,950	2,369
	12,300	10,825

The income tax expense is summarized as follows (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Current income tax expense:		
In Venezuela (see note 18)	6,192	4,884
Foreign	503	393
	6,695	5,277
Deferred income tax (benefit) expense:		
In Venezuela	(1,042)	(27)
Foreign	164	169
	(878)	142
Income tax expense	5,817	5,419

The difference between the statutory income tax rate and the effective consolidated income tax rate for each year is analyzed as follows:

	Years ended December 31	
	2005	**2004**
	%	**%**
In Venezuela:		
Statutory income tax rate for the petroleum sector	50.0	50.0
Inflation adjustment for tax purposes and effects of translation to dollars	(3.9)	7.1
Operating agreements	(1.3)	(4.4)
Fair value loss on financial instruments	2.0	3.6
Tax credit	(1.8)	(3.1)
FEM	(0.3)	(0.5)
Transfer pricing adjustment	0.9	1.8
Dividend tax	3.4	2.2
Other differences, net	0.7	0.7
Effective income tax rate in Venezuela	49.7	57.4
Foreign:		
Effects of foreign taxation	(2.4)	(7.3)
Consolidated effective income tax rate	47.3	50.1

(Continued)

PDVSA and some of its Venezuelan subsidiaries are entitled to tax credits for new investments in property, plant and equipment up to 12% of the amounts invested. Such credits, however, may not exceed 2% of net taxable income, and the carryforward period may not exceed three years. Also, the income tax law allows tax losses to be carried forward for 3 years to compensate future taxable income, except losses resulting from the application of the fiscal inflation adjustment, which can be carried forward for one year, to compensate future taxable income. During 2005 and 2004, some subsidiaries utilized tax credits and tax loss carryforwards as follows (in millions of dollars):

Years ended	**Tax credits**	**Tax effect**	**Tax losses**	**Tax effect**
December 31, 2005	219	219	-	-
December 31, 2004	213	213	215	108

At December 31, 2005 there are investment tax credits and tax loss carryforwards of approximately $236 million and $55 million, respectively. These amounts have the following maturities (in millions of dollars):

	December 31		
	2006	**2007**	**2008**
Tax credits	-	76	160
Tax losses	46	1	8

The Venezuelan Income Tax Law introduced an initial adjustment for the effects of inflation for the income tax calculation. The inflation adjusted value of fixed assets is depreciated or depleted over their remaining useful lives for tax purposes. The Tax Law also provides for the calculation of a regular inflation adjustment to be made every year, and included in the reconciliation to taxable income as a taxable or deductible item.

In conformity with the Venezuelan Income Tax Law, taxpayers subject to income tax who carry out import, export and loan operations with related parties domiciled abroad must determine their income, costs and deductions applying transfer pricing rules. PDVSA has obtained studies supporting its transfer pricing methodology. The resulting effects are included as a taxable or deductible item in the determination of income tax.

The Venezuelan Income Tax Law establishes a tax rate of 50% for companies engaged in the exploitation of hydrocarbons and related activities, establishing certain exceptions for the exploitation and related activities for extra heavy crude oils, natural bitumen and non-associated gas, for which the tax rate is 34%. The applicable income tax rate for the main subsidiaries abroad is 35%.

The components of deferred income tax in the results of each year follow (in millons of dollars):

	Years ended December 31	
	2005	**2004**
In Venezuela:		
Accruals for employee benefits	(267)	(91)
Property, plant and equipment, net	238	(48)
Surface tax	(6)	(41)
Inventories	(496)	135
Capitalized interest	17	(92)
Accruals for contingencies	(360)	145
Investments in non-consolidated investees	(7)	-
Operating agreements, net	-	(61)
Investment tax credits and tax loss carryforwards	-	14
Other	(161)	12
	(1,042)	(27)
Foreign:		
Accruals for employee benefits	28	(65)
Property, plant and equipment, net	2	41
Investments in non-consolidated investees	12	17
Inventories	222	155
Investment tax credits and tax loss carryforwards	(13)	-
Other	(87)	21
	164	169
Deferred income tax (benefit) expense	(878)	142

The tax effects of significant items comprising PDVSA's net deferred tax assets (liabilities) are as follows (in millions of dollars):

	December 31	
	2005	**2004**
Deferred tax assets:		
Accruals for employee benefits	965	726
Property, plant and equipment, net	545	775
Surface tax	47	41
Inventories	281	210
Investment tax credits and tax loss carryforwards	13	-
Accruals for contingencies	734	374
Other	437	262
	3,022	2,388
Deferred tax liabilities:		
Property, plant and equipment, net	988	978
Capitalized interest	223	206
Investments in non-consolidated investees	289	284
Inventories	657	860
Other	235	308
	2,392	2,636
Total deferred tax assets (liabilities), net	630	(248)

Deferred tax assets and liabilities were reclassified to present the net non-current position in the balance sheet, as follows (in millions of dollars):

	December 31	
	2005	**2004**
Deferred income taxes - Assets	2,672	2,069
Deferred income taxes - Liabilities	(2,042)	(2,317)
	630	(248)

(b) Production Tax

Production tax is payable based on crude oil produced and natural gas processed in Venezuela. The production tax rate is 30% on the volumes of hydrocarbons for the delivery and sale of crude oil to traditional areas (PDVSA Petróleo and PDVSA Gas).

On November 30, 2005, an agreement between MENPET and PDVSA Petróleo was signed, in order to establish the terms for the payment of production tax on hydrocarbons exploitation and the participation in associated substances extracted during the hydrocarbons upgrade and refining process, that is, coque and sulfur. This agreement became effective on December 1, 2005.

For mature extra-heavy crude oil reservoirs in the Orinoco Belt, a 16 2/3% rate is applicable during the first phase of production, calculated on the basis of certain parameters established by the Venezuelan Government. Upon commencement of the commercial production of synthetic crude oil the rate will be reduced to 1% during the nine subsequent years or until the income from the sale of the crude oil triple the value of the initial investment, should that occur before the aforementioned term has elapsed. After the nine-year period, the 16 2/3% rate is reintroduced. In October 2004, the MENPET established that the new rate of 16 2/3% of production tax was effective from October 11, 2004.

For bitumens, a rate ranging from between 16 2/3% and 30% is used based on the profitability of reservoirs. Royalties for 2005 and 2004 amounted to $13,200 million and $9,129 million, respectively, and are included in production and other taxes in the consolidated statement of income.

(c) Business Assets Tax

During 2004, this tax represented an expense of $15 million, which is included in production and other taxes in the consolidated statement of income. Decree Law of November 26, 1993, which enacted Business Assets Tax, was repealed on August 17, 2004. The repeal Law became effective on September 1, 2004.

(d) Value Added Tax (VAT)

On September 1, 2005 the VAT Partial Reform Law was published, establishing a reduction in the rate from 15% to 14%, which became effective on October 3, 2005. On August 11, 2004, the VAT Partial Amendment Law was published, reducing the rate from 16% to 15%.

The VAT law establishes an exemption for the trading of certain fuels derived from hydrocarbons and the possibility to recover from the National Tax authorities certain tax credits resulting from export sales. The amounts pending recovery do not bear interest. A consolidated summary of VAT credits pending recovery or offsetting follows (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Credits pending recovery or offsetting at beginning of year	3,056	2,150
Generated during the year	1,282	1,264
Exchange loss	(327)	(358)
Credits pending recovery or offsetting at end of year	4,011	3,056
Less current portion (see note 23-j)	647	86
Long-term portion	3,364	2,970

The balance of tax credits at December 31, 2005 and 2004, includes approximately $138 million and $131 million, respectively, corresponding to subsidiaries involved with the Orinoco Belt's strategic associations.

(e) Sales and Excise Taxes

In Venezuela and the United States of America, sales of gasoline and other motor fuels are subject to sales and excise taxes. In 2005 and 2004, such taxes, paid to the corresponding governments, amounted to $4,358 million and $4,037 million, respectively. These taxes are not included in sales in the consolidated statement of income.

(f) Surface Tax

The Organic Hydrocarbons Law establishes the payment of a tax equivalent to 100 tax units (TU) per square kilometer or fraction of surface extention of land granted and not exploited. This tax will be increased annually by 2% during the first five years and by 5% in subsequent years. During 2005 and 2004, PDVSA Petróleo incurred surface tax in Venezuela of $118 million and $103 million, respectively, included under production and other taxes in the consolidated statement of income.

(13) Financial and Derivative Instruments

(a) Commodity Derivative Activity and Interest Rate Swap and Cap Agreements

PDVSA uses commodity and financial instrument derivatives to manage defined commodity price and interest rate risks arising out of the Company's core business activities, and does not use them for trading or speculative purposes. The Company's commodity derivatives are generally entered into through major brokerage houses and are traded on national exchanges and can be settled in cash or through delivery of the commodity.

PDVSA enters into petroleum futures contracts, options and other over-the-counter commodity derivatives principally to manage a portion of the risk associated with market price movements of crude oil and refined products. The Company's derivative commodity activity is undertaken within limits established by management and contract duration is generally less than 30 days.

Furthermore, PDVSA enters into various interest rate swap agreements to manage the risk related to interest rate fluctuations on its debt.

(b) Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist principally of its cash equivalents, derivative financial instruments and notes and accounts receivable. The Company's cash equivalents are in high-quality securities placed with a wide array of institutions. Similar standards of creditworthiness and diversity are applied to the Company's counterparties to derivative instruments. Notes and accounts receivable balances are dispersed among a broad customer base worldwide and the Company routinely assesses the financial strength of its customers. The Company's credit risk is dependent on numerous additional factors including the price of crude oil and refined products, as well as the demand for and the production of crude oil and refined products.

(c) Fair Value of Financial Instruments

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required for interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts (in millions of dollars):

	December 31			
	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Cash and cash equivalents	1,800	1,800	1,748	1,748
Restricted cash	4,879	4,879	3,748	3,748
Notes and accounts receivable	8,313	8,313	5,595	5,595
Recoverable value added tax	4,011	3,910	3,056	2,728
Long-term accounts receivable	937	937	698	698
Derivative assets (included in prepaid expenses and other)	35	35	16	16
Liabilities:				
Accounts payable to suppliers	4,993	4,993	4,313	4,313
Current portion of long-term debt	729	733	1,004	1,006
Long-term debt, net of current portion	2,704	2,718	2,716	2,743
Other liabilities (included in accrued and other liabilities)	1,166	1,151	828	819
Derivative liabilities (included in accrued and other liabilities)	23	23	15	15

The carrying amounts of cash and cash equivalents, notes and accounts receivable and accounts payable to suppliers approximate their fair value due to the short maturity of these instruments.

Restricted cash bears interest at variable market rates, and the carrying amount approximates fair value.

The fair value of recoverable value added tax and long-term accounts receivable have been determined by discounting the non-interest bearing carrying amounts, based on future recoveries, using the applicable interest rates in the money market.

The long-term accounts receivable are presented at fair value.

The fair value of long-term debt, including the current portion, at December 31, 2005 and 2004, is based on interest rates that are currently available to PDVSA for issuance of debt with similar terms and remaining maturities and broker quotes which contemplate credit risk.

(Continued)

The fair value of derivative instruments is based on the estimated amount that the Company would receive or pay to terminate the agreements, considering current commodity prices and interest rates and the current creditworthiness of the counterparties.

(14) Long-Term Debt

Long-term debt consists of the following (in millions of dollars):

	December 31	
	2005	**2004**
PDV America/CITGO:		
Variable interest rate senior sucured term loan, due 2012	700	-
Preferential bonds for $250 million, 6% unsecured senior notes, due 2011	-	248
7.875% unsecured senior notes under $150 million shelf registration, due 2006	15	150
9.3% unsecured private placement senior notes, due 2004 to 2006	-	23
7.17% to 8.94% unsecured master shelf agreement senior notes, due 2004-2009	-	165
Tax - exempt bonds, due 2004 to 2033 with variable and fixed interest rates, guaranteed with letters of credits	459	459
Variable rate taxable bonds guaranteed with letters of credit, due 2026	80	80
11.375% unsecured senior notes, due 2011	-	7
	1,254	1,132
PDVSA Finance – Unsecured notes (see note 23-h)		
6.25% due 2002 through 2006 (in euros)	-	1
6.65% due 2004 through 2006	1	7
9.37% due 2004 through 2007	4	5
6.80% due 2007 through 2008	6	6
9.75% due 2008 through 2010	24	24
8.50% due 2010 through 2012	29	29
7.40% due 2014 through 2016	13	13
9.95% due 2018 through 2020	3	3
7.50% due 2027 through 2028	5	5
	85	93
Carried forward	1,339	1,225

	December 31	
	2005	**2004**
Brought forward,	1,339	1,225
PDVSA Virgin Island, Inc. (PDVSA VI):		
8.46% notes guaranteed by PDVSA and the stock participation in Hovensa, due 2005 to 2009	212	273
PDVSA Petróleo:		
Variable and fixed rate (4.1% to 5.0%) loans guaranteed by Government export agencies and financial institutions due 2005	-	30
7.33% to 8.03% PDVSA Cerro Negro bonds guaranteed due 2005 to 2028	256	264
Variable rate PDVSA Cerro Negro line of credit guaranteed due 2005 and 2012	93	107
Variable rate PDVSA Sincor loan guaranteed due 2005 to 2012	336	384
Variable rate Corpoguanipa lines of credit guaranteed due 2008 to 2018	257	287
	942	1,072
	2,493	2,570
Bariven, S.A. (Bariven):		
Variable and fixed rate (6.13% to 7.69%) loans guaranteed by governmental export agencies and financial institutions, due 2005 to 2008	62	131
PDV Marina, S.A. (PDV Marina):		
Variable rate (2.81% to 3.66%) letters of credit facility guaranteed due 2005 to 2006	3	37
PDVSA Corporate:		
Variable rate LIBOR plus 0.5%, loans guaranteed by governmental export agencies and financial institutions, due 2008	467	534
Variable and fixed rate (1.70% to 2.30%) loans guaranteed by governmental export and financial institutions, due 2012 (in Yens)	296	388
Unsecured variable rate (LIBOR plus 4.5%) loan facility due 2010	12	14
	775	936
Other subsidiaries	100	46
	3,433	3,720
Less current portion of long-term debt	729	1,004
Long-term portion	2,704	2,716

Future maturities of the long-term portion at December 31, 2005 are as follows (in millions of dollars):

Years	
2007	446
2008	418
2009	165
2010	116
Remaining years	1,559
	2,704

All long-term debt is denominated in dollars except for the Euro and Yen denominated loans as indicated above.

On October 13, 2005, CITGO announced cash tender offers for all of its outstanding 7.875% senior notes due 2006 and 6% senior notes due 2011.

On October 14, 2005, CITGO sent notices of its election to redeem prior to their stated maturity dates the following debt securities:

- All of its outstanding 11.375% senior notes due 2011;
- All of its outstanding 9.30% private placement senior notes due 2006; and
- All of its outstanding master shelf agreement senior notes due 2006 through 2009 with interest rates ranging from 7.17% to 8.94%.

On November 15, 2005, CITGO entered into an agreement for a $1.85 billion senior secured credit facility, which consists of the five-year revolving credit facility in the amount of $1.15 billion and the seven-year term loan of $700 million, both described above (collectively referred to as the “credit facility”). The credit facility is secured by CITGO’s interests in its Lake Charles, Louisiana and Corpus Christi, Texas refineries; its trade accounts receivable and its inventories and is subject to covenants typical for secured financing.

In relation to the guaranteed preferential credit facility, CITGO redeemed the following debts (in millions of dollars):

	Interest rates	Amount
Unsecured preferential bonds maturing in 2011	6%	250
Unsecured senior notes maturing in 2006	7.875%	136
Unsecured private placement of non-guaranteed bonds maturing between 2005 and 2006	9.30%	23
Unsecured master shelf agreement maturing between 2006 and 2009	7.17% to 8.94%	165
Unsecured senior notes maturing in 2011	11.375%	7
		581

As a result of this redemption, CITGO incurred approximately $32 million of financial costs, of which approximately $25 million correspond to redemption premiums.

In October 2004 CITGO issued $250 million of 6% unsecured senior notes, due October 15, 2011.

In February 2003, CITGO issued $550 million aggregate principal amount of 11.375% unsecured senior notes due February 1, 2011. In connection with the October 2004 issuance of the Company's 6% unsecured senior notes, the Company repurchased approximately $543 million principal amount of its 11.375% senior notes due 2011 as a part of a tender offer for such notes. CITGO recorded, as charges to interest expense, a $122 million tender premium, $11 million unamortized fees and $3 million unamortized discounts. After the tender offer for the11.375% notes in October 2004, approximately $6.6 million remained outstanding at December 31, 2004. In connection with the November 2005 senior secured credit facility, CITGO redeemed the remaining $6.6 million of its 11.375% senior notes due 2011. CITGO recorded $1 million as charges to interest expense for tender premium, unamortized fees and unamortized discounts in connection with the November 2005 redemption of these notes.

On June 28, 2004, PDVSA Finance made a public offer in cash for the purchase of a portion or the entirety of bonds issued by such entity. Simultaneously with this offer, the subsidiary asked for the consent of the bondholders to amend certain provisions of the Indenture and Supplemental Indentures, under which each series of bonds had been issued. The adoption of the amendments proposed required the consent of the majority of the bondholders of the main aggregated amount of each series owed by them, by voting for all of them as a single class. Bondholders with an aggregate approximating 96.34% of the principal amount of the notes, participated in the offer and granted their consent in accordance with the purchase offer. According to this offer, on August 2, 2004 the subsidiary purchased a principal amount of such debt of $2,512 million. With the purchase of the debt a premium was incurred for $54.8 million, plus fees of the Dealer Manager for $15.1 million, plus expenses for $1.7 million, which are included as financing expenses in the consolidated statement of income for the year ended December 31, 2004.

Covenants

Various of PDVSA's borrowing facilities contain covenants that restrict, among other things, the ability of the Company and its subsidiaries to incur additional debts, to pay dividends, place liens on property and sell certain assets. The Company was in compliance with these covenants at December 31, 2005 and 2004.

Credit Facilities

At December 31, 2005 PDVSA has credit lines available, unsecured for $1,150 million.

(15) Capital Stock and Reserves

At December 31, 2005 and 2004, PDVSA's capital stock is represented by 51,204 registered shares of Bs25 million each, totaling $39,094 million. By law the shares may not be transferred or encumbered in any way.

The legal reserve is a requirement for Venezuelan companies. Pursuant to Venezuelan law, the legal reserve shall not be distributed as dividends. Other reserves include principally the reserve for the realization of deferred tax assets and the reserve for new investments.

Cash dividends are declared and paid to the Stockholder in bolivars based on the statutory financial statements reflecting retained earnings. During 2005 and 2004, advances of dividends were paid to the stockholder for $1,317 million and $1,302 million, respectively; in addition, payments were made by transferring promissory notes with a fair value of $126 million and $441 million, respectively. During 2005 and 2004, dividends were declared for $1,302 million and $650 million, respectively.

(16) Employee Benefit Plans

An analysis of the liability for employees benefit plans follows (in millions of dollars):

	December 31	
	2005	**2004**
Accrual for employee termination benefits	157	182
Pensions plans	829	693
Other postretirement benefits	911	827
	1,897	1,702
Less current portion	313	289
Long-term portion	1,584	1,413

PDVSA and its subsidiaries have the following employee benefit plans:

(a) Defined Contribution Savings Plans

PDVSA and its Venezuelan subsidiaries maintain savings funds for their employees and guarantee contributions to the members' accounts. At December 31, 2005 and 2004, the guaranteed amount in the savings fund is $67 million and $134 million, respectively. In addition, an U.S. subsidiary maintains three retirement and savings plans with defined contributions, covering all eligible employees; the employees who are members of these plans make voluntary contributions to the plans that in turn are matched by the subsidiary.

(b) Pension Plans and Other Postretirement Benefits

Pursuant to the collective labor contract, PDVSA and its Venezuelan subsidiaries have a retirement plan that covers all eligible employees. There is a single pension fund and an organization that administers the assets of the pension plan. The pension plan is terminally funded for most of the retirees' liabilities. An U.S. subsidiary also sponsors three qualified noncontributory defined benefit pension plans and three nonqualified defined benefit plans. The qualified pension plans are funded in accordance with current legislation, without exceeding tax deduction restrictions. The nonqualified plans are funded as necessary to pay retiree benefits.

CITGO sponsors three defined pension plans and non-contributive benefits; two which cover eligible employees in hourly regime and one that covers eligible employees earning salaries. CITGO also sponsors three defined benefit plans not qualifying for certain eligible employees.

In addition to pensions plans, PDVSA provides social benefits and life and health insurance for retired personnel. These benefits are funded on a cash basis.

An analysis of the accrual for pension plans and other retirement benefits follows (in millions of dollars):

	December 31			
	2005	2004	2005	2004
	Pension plans		Other retirement benefits	
Present value of the funded obligation based on an actuarial study	3,084	2,738	2,871	1,646
Fair value of plan assets	(2,632)	(2,250)	(1)	(1)
Present value of the net obligation	452	488	2,870	1,645
Unrecognized actuarial gains (losses)	404	493	(1,942)	(794)
Unrecognized past service cost	(27)	(288)	(17)	(24)
Accrual for pension plan	829	693	911	827

The movement on the accrual for plans and pensions and other retirement benefits follows (in millions of dollars):

	Years ended December 31			
	2005	2004	2005	2004
	Pension plans		Other retirement benefits	
Accrual at beginning of year	693	673	827	843
Expense for the year	437	364	229	172
Contributions received	(139)	(218)	(96)	(102)
Other	(93)	(29)	-	-
Effect of translation	(69)	(97)	(49)	(86)
	829	693	911	827

An analysis of the expense for pension plans and other retirement benefits, recognized in the consolidated statement of income, follows (in millions of dollars):

	Years ended December 31			
	2005	2004	2005	2004
	Pension plans		Other retirement benefits	
Service cost	60	57	34	29
Interest cost	214	200	130	99
Return on plan assets	(212)	(167)	-	-
Past service cost	(50)	294	42	4
Recognized actuarial loss (gain)	425	(20)	23	40
	437	364	229	172

Actuarial assumptions used are listed below:

	Years ended December 31			
	2005	2004	2005	2004
	Pension plans		Other retirement benefits	
	%	%	%	%
Venezuela:				
Discount rate	10.0	10.0	10.0	10.0
Rate of compensation increase	7.0	7.0	7.0	7.0
Expected return on plan assets	10.0	10.0	-	-
Foreign:				
Discount rate	5.8	6.3	5.8	6.3
Rate of compensation increase	4.5	4.5	4.5	4.5
Expected return on plan assets	8.3	8.3	6.0	6.0

(17) Accrued and Other Liabilities

Accrued and other liabilities are summarized as follows (in millions of dollars):

	December 31	
	2005	2004
Withholding taxes	317	322
Valued added tax (VAT)	369	363
Production tax payable	2,184	702
Capital leases (see note 8)	45	48
Provision for lawsuits and claims (see note 20)	910	448
Employees' accounts payable	394	349
Environmental accrual (see note 20)	669	587
Accrual for refining works	134	61
Accrual for asset retirement obligation (see notes 1-n and 8)	677	642
Interest payable	66	10
Dividends payable	154	314
Accrued expenses from foreign affiliates	19	184
Advances from contractors	102	113
Other	560	356
	6,600	4,499
Less current portion of accrued and other liabilities	4,779	2,860
Long-term portion	1,821	1,639

(18) Related Party Transactions

PDVSA considers its affiliates, companies controlled jointly, the Company's directors and executives, other companies that are also property of the stockholder and other government institutions as related parties.

A summary of transactions with related parties follows (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Activities of the year:		
Sales	10,856	8,769
Equity in earnings of non-consolidated investees (see note 7)	1,177	1,041
Costs and expenses	21,418	16,582
Income taxes in Venezuela (see note 12-a)	6,192	4,884
Social development expenses	6,909	1,242

	December 31	
	2005	**2004**
Balances at year end:		
Deposits with the BCV, contributions to the FEM (see notes 2 and 4)	727	705
Trust in BANDES (see note 4)	2,204	2,334
Trust in BANFOANDES (see note 4)	23	-
Accounts receivable (see note 5)	1,762	1,532
Long-term accounts receivable and other assets (see note 9)	937	698
Financing for social programs and projects (see notes 4 and 9)	692	399
Investments in affiliates (see note 7)	3,442	3,419
Accounts payable to suppliers (see note 11)	219	297
Accruals and other liabilities (see note 17)	3,043	1,885
Building used by governmental entities (see note 9)	123	133
Income taxes payable in Venezuela	4,714	3,387

(Continued)

During the years ended 2005 and 2004, PDVSA made sales to affiliated companies and related entities, which are summarized as follows (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Hovensa	4,986	3,520
LYONDELL-CITGO	3,543	2,852
Nynäs	671	386
Chalmette Refining	448	364
CADAFE	356	317
Petrozuata	294	293
Super Octanos	163	211
Fertinitro	79	62
C. A. Energía Eléctrica de Venezuela (Enelven)	37	42
Mount Vernon Phenol	109	99
Other	170	623
	10,856	8,769

PDVSA Petróleo has various agreements for supplies to related parties, which are summarized as follows:

Entities	**Delivery obligation (MBPD)**	**Year of termination**
Ruhr	237	2022
Nynäs	57	2005
LYONDELL-CITGO (see notes 20 and 23-i)	230	2017
Chalmette Refining	90	Strategic association period
ConocoPhillips	172	2020
Hovensa	270	Between 2008 and 2022
Hamaca Marketing Company	129	Strategic association period
	1,185	

During 2005 and 2004, CITGO sold to affiliated companies, mainly at market prices, raw material and other products for $369 million and $456 million, respectively. Outstanding balances relating to these operations at December 31, 2005 and 2004, for $93 million and $107 million, respectively, are included in notes and accounts receivable from related parties.

During 2005 and 2004, CITGO acquired refined products from various affiliated companies (LYONDELL-CITGO, Hovensa and Chalmette Refining) under long-term agreements. These purchases, for $8,700 million $6,800 million, respectively, are included in the consolidated statement of income as crude oil and products purchases. At December 31, 2005 and 2004, accounts payable to suppliers include $215 million and $183 million, respectively, relating to these operations.

During 2005 and 2004, PDVSA purchased upgraded crude oil from Petrozuata for $294 million and $293 million, respectively, which is included in costs and expenses. In addition, Petrozuata reimbursed PDVSA Petróleo operating expenses for $17 million and $10 million, corresponding to 2005 and 2004, respectively (see notes 7 and 10-a).

During 2005 and 2004, the amount paid by PDVSA to its directors and executive personnel for services rendered was approximately $1.76 million and $1.47 million, respectively.

In support of social projects carried out by the National Government (see note 1-a), PDVSA incurred the following expenses during 2005 and 2004 (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Social development expenses incurred through trusts in BANDES and Banco del Tesoro (see notes 4 and 9):		
Programs and Projects for Housing and Infrastructure Development	1,343	4
Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Invesment	585	-
FONDESPA	290	22
Bolivarian Missions and other Social Projects	115	-
Civil Associations for Vuelvan Caras Mission	89	-
Sustainable Development of the Country's Eastern and Western Regions	6	-
2005 Sowing and Production Plan	329	-
Social Production Companies (EPS)	100	-
	2,857	26
Expenses incurrred for Missions, contributions to communities and other:		
Ribas Mission	371	320
Vuelvan Caras Mission	220	172
Identidad Mission	1	44
Barrio Adentro Mission	309	275
Sucre Mission	668	113
Mercal Mission	303	146
Milagro Mission	125	-
Guaicaipuro Mission	11	-
Contributions to communities	432	133
Other	87	13
	2,527	1,216
Contributions to FONDEN (see note 2)	1,525	-
	6,909	1,242

Part of the supplies for the social projects are paid by offsetting accounts receivable from the sale of crude oil under the Caracas Energy Cooperation Agreement (see note 10–f).

Due to the complexity and scope of the social development activities undertaken by PDVSA in their financial, legal and operating aspects, and considering the requirements of the National Government, reactivation of the subsidiary Palmaven, S.A. was approved by the Board of Directors on October 21, 2004, with the objective of executing social development activities.

Notes and accounts receivable from related parties comprise the following (in millions of dollars):

	December 31	
	2005	**2004**
Hovensa	467	305
LYONDELL-CITGO	513	516
Nynäs	121	55
C. A. Energía Eléctrica de Venezuela (Enelven)	67	41
Super Octanos	12	20
Metor	47	31
APJ - PDV	251	356
Other	284	208
	1,762	1,532

At December 31, 2005 and 2004, notes and accounts receivable from related companies and entities include $251 million and $356 million, respectively, corresponding to payments for indemnities to retired personnel on account of the Civil Association “Administradora de los Fondos de Pensiones de los Jubilados de Petróleos de Venezuela, S. A. (APJ-PDV)”, (Retirees Funds Administration Company) subject to a long-term recovery plan.

Long-term accounts receivable as of December 31, 2005 and 2004, include balances with Petrozuata for $49 million and $137 million, respectively, which are held for cash requirements; also, they include balances receivable from C.A. de Administración y Fomento Eléctrico (CADAFE) for $306 million and $271 million, respectively, which do not bear interest and do not have fixed maturity dates. The accounts receivable from CADAFE result from services provided, industrial distribution, and methane gas transportation. Also, the supply of light diesel, by the subsidiaries of PDVSA Gas, Deltaven and PDVSA Petróleo, may be offset against energy supply services provided by CADAFE. During 2005 and 2004, PDVSA, through its subsidiary PDVSA Petróleo, offset with CADAFE $23 million and $27 million, respectively.

During 2004 and 2003, based on instructions from the shareholder, PDVSA through its subsidiary PDVSA Petroleo, acquired certain assets, which were subsequently transferred to CADAFE. The cost of the assets transferred are recoverable by PDVSA, through discounts and/or the supply of electricity from CADAFE.

At December 31, 2005 and 2004 PDVSA, through its subsidiary BITOR, has provided its affiliate Orifuels SINOVENSA $175 million and $71 million, respectively, for the construction and operation of a production and emulsification module of natural bitumen to produce Orimulsión (MPE–3), which is included in long-term accounts receivable (see note 10-e).

At December 31, 2005 and 2004, certain assets with a net carrying amount of $123 million and $133 million, have been identified, which correspond to buildings used by entities attached to governmental entities. During 2004, usage agreements were signed for some of these buildings. The agreements in relation to the conditions for their use and the possible transfer of such assets are in the process to being determined and legally formalized. The expenses for maintenance and other expenses for these facilities are assumed by PDVSA, which does not receive any consideration for the use of these assets. At December 31, 2005 and 2004, the value of such assets is presented under other assets (see notes 8 and 9).

(19) Operating Segments and Geographic Data

Intersegment sales, which primarily consist of sales of crude oil and natural gas, are generally made at approximate market prices. PDVSA evaluates the performance of its segments and allocates resources to them based on net revenues, operating income (calculated as income before financing expenses, social contribution development social expenses, income taxes and minority interests), capital expenditures and property, plant and equipment. The “other” line item includes corporate related items and results of non-significant operations in Venezuela, Europe and the Caribbean.

The exploration, production and upgrading segment in Venezuela, include the search for oil and gas reserves, and improvement of extra-heavy crudes; and the transportation of crude and natural gas to the point of delivery to the refineries and fractionation plants.

Refining, supply and marketing activities in Venezuela include the administration of refineries, marketing and transportation of crude oil, natural gas and refined petroleum products under the brand name PDV. The refining, trade and supply activities in the USA comprise the administration of refineries and gasoline and byproducts marketing, mainly in the eastern and the Midwest regions of the United States, under the brand name CITGO.

The gas activity includes the management of gas processing plants, commercialization of natural and liquid gas, both for industrial and household use, as well as its transportation, distribution, placement, and sale. Petrochemical activities in Venezuela include the production and marketing of various compound mixes, olefins, plastic resins and chemical additives (see note 23-b).

Summarized financial information for the Company's reportable segments is presented in the following table (in millions of dollars):

	Years ended December 31	
	2005	**2004**
Revenues:		
Net sales of crude oil and products:		
Segments in Venezuela -		
Exploration and production operations	42,579	25,798
Refining, trade and supply operations	52,776	41,489
Gas	3,023	2,342
Petrochemical	1,746	1,421
Segments in the United States of America -		
Refining, trade and supply operations	41,422	32,028
Other	1,541	1,255
	143,087	104,333
Eliminations [(1)]	(57,357)	(39,576)
	85,730	64,757
Operating income:		
Segments in Venezuela -		
Exploration and production operations	20,124	9,385
Refining, trade and supply operations	(4,596)	(3,006)
Gas	1,324	1,036
Petrochemical	243	343
Segments in the United States of America -		
Refining, trade and supply operations	1,493	1,920
Other	1,131	2,307
	19,719	11,985
Eliminations [(2)]	(321)	538
	19,398	12,523
Depreciation and depletion:		
Segments in Venezuela -		
Exploration and production operations	1,724	1,591
Refining, trade and supply operations	942	777
Gas	158	159
Petrochemical	65	142
Segments in the United States of America -		
Refining, trade and supply operations	386	348
Other	59	65
	3,334	3,082

(1) Represents the elimination of intersegment sales.

(2) Represents the elimination of sales, purchases and costs between segments.

	Years ended December 31	
	2005	**2004**
Asset impairment:		
Segments in the United States of America -		
Refining, trade and supply operations	20	6
Capital expenditures, net:		
Segments in Venezuela -		
Production and exploration operations	2,077	1,912
Refining, trade and supply operations	282	369
Gas	735	431
Petrochemical	60	79
Segments in the United States of America -		
Refining, trade and supply operations	664	364
Other	120	230
	3,938	3,385
Property, plant and equipment, net:		
Segments in Venezuela -		
Production and exploration operations	20,625	20,272
Refining, trade and supply operations	5,132	5,569
Gas [(1)]	3,358	2,778
Petrochemical [(2)]	1,738	1,742
Segments in the United States of America -		
Refining, trade and supply operations	4,297	4,039
Other	809	975
	35,959	35,375
Liabilities [(3)]:		
Segments in Venezuela -		
Production and exploration operations	5,005	5,371
Refining, trade and supply operations	1,744	1,113
Gas	701	568
Petrochemical	344	443
Segments in the United States of America -		
Refining, trade and supply operations	4,594	2,308
Other	991	653
	13,379	10,456

(1) Includes $1,169 million and $ 536 million in 2005 and 2004, respectively, corresponding to construction in process. In addition, $9 million in 2005 and $8 million in 2004, correspond to administrative assets.

(2) Includes $158 million and $129 million in 2005 and 2004, respectively, corresponding to construction in process. In addition, $30 million corresponds to land in both years.

(3) Does not include debt, interest, taxes payable or financial leases.

Net sales and long-lived assets information by geographic area are summarized below (in millions of dollars):

	Venezuela	United States of America	Other Countries (3)	Total
December 31, 2005 -				
Net sales (1)	42,767	41,422	364	84,553
Long-lived assets (2)	43,778	6,542	747	51,067
December 31, 2004 -				
Net sales (1)	31,478	32,028	210	63,716
Long-lived assets (2)	41,517	4,989	2,064	48,570

(1) Based on the country in which the sales originate.

(2) Based on the location of the asset.

(3) The long-lived assets consist primarily of investments in non-consolidated investees.

(20) Commitments and Contingencies

Guarantees

At December 31, 2005, some of PDVSA's subsidiaries have construction completion guarantees related to debt and financing arrangements secured by joint venture projects. The subsidiaries, projects, guarantee obligations and year of termination are presented below (in millions of dollars):

Subsidiary/Project	Guarantee Obligations	Year of termination
CITGO/affiliates and others	34	2006-2008
PDVSA Petróleo /Hamaca Project	257	2006
PDVSA Petróleo /Sincor Project	16	2006
PDVSA Petróleo / Ministry of Environment	30	2006
Bariven capital expenditures	2	2006

At December 31, 2005 and 2004, no liabilities have been recorded for these concepts, historically the claims as a result of guarantees have not been significant.

At December 31, 2005, CITGO has guaranteed debts from subsidiaries and affiliates, including letters of credit and financing for the acquisition of commercialization equipment.

At December 31, 2005, PDVSA Petróleo has guaranteed debt and financing agreements relating to the completion of the Hamaca and Sincor Projects (see note 14). These Projects are funded by project financing, which requires a guarantee by the partners of the projects during the construction stage until satisfactory completion of the "Test Completion", in order to later obtain the "Financial Completion Certificate". On September 30, 2003, the Sincor Project made the first "Test Completion" in a satisfactory manner, which reduced the guarantee to $43 million; PDVSA's participation in Sincor is 38%, equivalent to $16 million.

In addition, PDVSA Petróleo has a global environmental guarantee signed with the Ministry of Environment and Natural Resources (MARN), which guarantees the execution of environmental measures in accordance with current legislation.

Litigation and Other Claims

In September 2005, the company New Brunswick Power Corporation ("NB Power") introduced a lawsuit in a Canadian Court and an arbitration request to the International Council for Dispute Resolution of the American Arbitration Association of New York against PDVSA, BITOR and the Bolivarian Republic of Venezuela, alleging among other things, the failure to comply with an Orimulsión® supply contract. The Company claims indemnification for $1,800 million. Management and their legal counsel state that such contract was never signed, that all obligations have been satisfied and that they have substantially responded to the claims asserted and they intend to contest the claims vigorously. Management and their legal counsel believe that there is a high probability that PDVSA will succeed in this case and any resulting losses will not have a significant effect on the consolidated financial statements of PDVSA.

In February 2002, LYONDELL-CITGO commenced an action against PDVSA and PDVSA Petróleo in the United States District Court for the Southern District of New York. LYONDELL-CITGO alleges that PDVSA and PDVSA Petróleo erroneously declared situations of force majeur and reduced extra-heavy crude oil shipments to LYONDELL-CITGO. LYONDELL-CITGO requested indemnification for damages due to alleged violations of the crude oil supply agreement between LYONDELL-CITGO and Lagoven (subsequently merged into PDVSA Petróleo), and the supplementary supply agreement between LYONDELL-CITGO and PDVSA; both agreements dated May 5, 1993, expire in 2017 (see note 23-i).

On April 11, 2003, a legal action was filed against PDVSA and its subsidiaries PDVSA Petróleo, PDVSA Finance and CITGO in the federal district court of Denver, Colorado, USA. The plaintiff is a U.S. oil and gas exploration and production company that has allegedly entered into an exclusive offshore license agreement with the government of Grenada to explore, develop, produce and market oil and/or natural gas in 4.75 million offshore acres between Grenada and Venezuela. The plaintiff alleges that PDVSA has interrupted and otherwise interfered with its ability to develop and market Grenada's oil and natural gas resources in violation of the U.S. antitrust laws. The plaintiff seeks damages in an amount to be established at trial that it believes should exceed $100 million. PDVSA and its subsidiaries involved deny the allegations and complaints and intend to contest the case vigorously if it proceeds. In November 2003, the plaintiff filed a Notice of Dismissal, without prejudice, with respect to PDVSA Finance. On September 30, 2004 the court, where the case is dealt with, announced a decision favorable to PDVSA. This decision was appealed by the plaintiff, and in November 2005 it was withdrawn, resulting in a favorable decision for PDVSA.

In May 2003, an arbitration proceeding was commenced in the International Court of Arbitration against PDVSA Petróleo in connection with a dispute arising under an alleged contract for the sale and purchase of 50,000 MMT of unleaded gasoline dated February 19, 2003. The plaintiffs are claiming for damages amounting to $14 million. Management and their legal advisors deny the allegations and have contested the claims vigorously. A court decision was expected by August 2005. However, the plaintiff attempted the objection of the arbitration court, which has delayed the issue of a court decision (see note 23-g).

The Company is involved in various other claims and legal actions in the ordinary course of business amounting to $3,189 million. In the opinion of management and their legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Based on an analysis of the available information, a provision as of December 31, 2005 and 2004, amounting to $910 million and $448 million, respectively, is included in accrued and other liabilities relating to all the contingencies described above (see note 17). If known lawsuits and claims were to be determined in a manner adverse to the Company, and in amounts greater than the Company's accruals, then such determinations could have a material adverse effect on the Company's results of operations in a given reporting period. Although it is not possible to predict the outcome of these matters, management, based in part on advice of its legal counsel, does not believe that it is probable that losses associated with the proceedings discussed above, that exceed amounts already recognized, will be incurred in amounts that would be material to the Company's financial position or results of operations.

Environmental Compliance and Remediation

The majority of PDVSA's subsidiaries, both in Venezuela and abroad, are subject to various environmental laws and regulations under which they may be required to make significant expenditures to modify their facilities and to prevent or remedy the environmental effects of waste disposal and spills of pollutants. In the United States and Europe, PDVSA's operations are subject to various federal, state and local environmental laws and regulations, which may require them to take action to remedy or alleviate the effects on the environment of earlier plant decommissioning or leakage of pollutants.

PDVSA is taking important steps to prevent risks to the environment, people's health, and the integrity of its installations. In 2005, PDVSA continued implementing its Integral Risk Management System (SIR-PDVSA®) throughout the company. The full deployment of this system is expected to be completed by 2009. This management system is based on international practices and standards, such as ISO 14001 for Environmental Management, ISO 18000 & British Standard BS 8800 for health and the Occupational Safety and Health Administration (OSHA)'s and American Petroleum Institute (API) for process safety. PDVSA has invested approximately $41 million and in addition, it would invest $5 million to complete the total implementation of SIR-PDVSA. In addition, PDVSA has an investment plan to comply with the applicable environmental regulations in Venezuela. This investment plan contemplates approximately $2,255 million in capital expenditure from 2004 through 2009, including the following: $1,150 million for product quality; $911 million for risk control at operating sites; $162 million for environmental compliance projects; and $32 million for other environmental-related investments. CITGO estimates expenditures of approximately $1.1 billion for environmental and regulatory capital projects from 2005 through 2009. During 2005 and 2004, PDVSA incurred expenses in Venezuela for $8 million and $40 million respectively, in capital improvements and other environmental issues relating to its operations, and $203 million and $113 million, respectively, in CITGO.

Additionally and as part of the environmental responsibility of PDVSA, there is a plan to remediate a total of 12,367 petroleum pits (excavations made on the soil surface to store oil sludge and / or drilling cuts). The plan has an expected duration of 12 years and started in 2001. As of December 2005, a total of 2,404 petroleum pits have been remediated. Based on the analysis of the detailed information available, PDVSA's Corporate Management of Environment and Occupational Hygiene (AHO) estimated the liabilities relating to the cleansing of these pits and the attention to other environmental damages, and recognized expenses in the results of 2005 and 2004 for $82 million and $99 million, respectively. The balances of the accruals for environmental issues at December 31, 2005 and 2004, amount to $669 million and $587 million, respectively (see note 17).

CITGO has received various notices of violation from the Environmental Protection Agency (EPA) and other regulatory agencies, which include notices under the federal Clean Air Act, and could be designated as Potentially Responsible Parties ("PRPs") jointly with other industrial companies with respect to sites under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). These notices are being reviewed and, in some cases, remedial action is being taken or CITGO is engaged in settlement negotiations.

Conditions that require additional expenditures may exist at various sites including, but not limited to, the Company's operating complexes, service stations and crude oil and petroleum storage terminals. Management believes that these matters, in the normal course of operations, will not have a material effect on the financial position, liquidity or operations of PDVSA.

(21) Crude Oil Production

According to the Company's financial and operating information and production reports issued by the MENPET, crude oil production during the years ended December 31, 2005 and 2004, follows (expressed in MBPD):

	Years ended December 31	
	2005	**2004**
Own crude oil production [1]	2,109	2,066
Operating agreements [2]	502	519
PDVSA's participation in the Orinoco Oil Belt Associations (see note 10-a):		
PDVSA Sincor	73	66
PDVSA Cerro Negro	51	50
Corpoguanipa	50	32
Petrozuata	60	62
	234	210
Extra-heavy crude oil (less than 8 degrees API)	61	38
Total production of PDVSA	2,906	2,833
The nation's production [3]	3,274	3,148
Exports of crude oil and products [4]	2,993	2,834

(1) Includes condensed crude oil of 5 MBPD in 2005 and 6 MBPD in 2004.

(2) Includes 5 MBPD during 2005 corresponding to La Ceiba, for exploration agreements at risk (see notes 10-b and 10-c).

(3) Includes 368 MBPD in 2005 and 315 MBPD in 2004, corresponding to the participation of third parties in the Orinoco Oil Belt Associations (non-audited information). The financial statements of the Orinoco Oil Belt Associations were audited by independent public accountants.

(4) Includes 381 MBPD in 2005 and 307 MBPD in 2004, corresponding to the participation of third parties in the Orinoco Oil Belt Associations (non-audited information). The financial statements of the Orinoco Oil Belt Associations were audited by independent public accountants.

(22) Restatement of Consolidated Financial Statements from Prior Years

In December 2003, the International Accounting Standards Board (IASB) approved and issued as part of its Project on Improvements of International Accounting Standards (IAS) the modification to IAS 2 Inventories, which became effective on January 1, 2005. This standard includes some changes to the accounting treatment for inventories under the historical cost method, the most relevant for PDVSA being the prohibition to use the last-in, first-out (LIFO) method for inventory valuation.

PDVSA previously valued its crude oil and products inventories using the LIFO method. During 2005, and pursuant to the guidelines of IAS 2 revised, PDVSA completed the necessary analyses in order to determine the effects of the change to its new policy to value crude oil and products inventories using the average cost method. Pursuant to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Company recognized the effects of the changes to IAS 2, by restating the consolidated financial statements for 2004 and stockholder's equity at December 31, 2003 as follows (in millions of dollars):

	Balances previously reported	Adjustments Debit (Credit)	Balances restated
Year 2004:			
Inventories	2,824	1,713	4,537
Deferred income tax liability	(1,536)	(781)	(2,317)
Stockholder's equity	(40,997)	(932)	(41,929)
Net income	(4,970)	(436)	(5,406)
Year 2003:			
Stockholder's equity	(38,095)	(496)	(38,591)

(23) Subsequent Events

The most significant events considered, after the balance sheet date, are summarized as follows:

(a) Creation and Funds Allocation for Social Programs

As part of the support to various social programs established by the National Government, during 2006, the followings trust contracts were subscribed:

- On January 13, 2006, the agreement for the incorporation of a trust between CVP and Banfoandes, Banco Universal, C. A., was approved by the Board of Directors of CVP on January 10, 2006, for the creation of the Investigation, Development and Innovation Fund, as an economic support mechanism, not reimbursable, addressed to entrepreneurs, inventors, associations, micro, small and middle sized companies and the networks of productive innovation, which will carry out the development phases of prototypes and short research and development (R&D) projects. This trust was incorporated with an initial contribution of $50 million and with a one-year duration, extendable automatically for equal periods.

- On March 7, 2006, an agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP for the implementation of Ciencia Mission. This trust was incorporated with an initial contribution of $438 million, dated August 25, 2006, and it was decided to reduce the trust amount to $230 million and, the remaining amount was reserved for other social programs upon authorization of the National Government. This trust will have a one-year duration, extendable automatically for equal periods.

- On March 13, 2006, the agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP on March 7, 2006, for execution of the Plan Vialidad 2006. This trust will be incorporated with an initial contribution of $47 million, with a one-year duration, extendable automatically for equal periods.

- On April 7, 2006, the agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP on October 8, 2005, for the creation of a Social Fund for health, education, housing and contributions to the communities in a state of extreme social exclusion, and other social plans and projects presented in the social offers by PDVSA's contractors. This trust will be incorporated with an initial contribution of $465 million with a one-year duration, extendable automatically for equal periods.

- On April 7, 2006, the agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP on March 13, 2006, for the creation of the Fondo Social Fronterizo, in order to make the necessary payments to finance social projects for education, health, water supply, among others, to be carried out in frontier areas. This trust will be incorporated with an initial contribution of $595 thousand with a one-year duration, extendable automatically for equal periods.

- On April 28, 2006, the agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP on April 18, 2006, for the execution of works in the electrical sector nationwide, to support the Barrio Adentro II Mission. This trust will be incorporated with an initial contribution of $9 million with a one-year duration, extendable automatically for equal periods.

- On May 24, 2006, the agreement for the incorporation of a trust was subscribed between CVP and Banco del Tesoro, C.A., Banco Universal, and approved by the Board of Directors of CVP on May 23, 2006, for the creation of the Fondo de Garantías Nacionales, to guarantee individual credits, as well as loan portfolios relating to projects in the agricultural, industrial, services, mining technology and telecommunications sectors, among others. This trust will be created with an initial contribution of $50 million with a one-year duration, extendable automatically for equal periods.

- During 2006, PDVSA transferred $298 million, to Programs and Projects for Housing and Infrastructure Development, $349 million to Programs and Projects related to the Ezequiel Zamora Fund for Agricultural Investment, $229 million to FONDESPA and $3,880 million to FONDEN (see notes 2 and 4).

(b) Transfer of Subsidiary to Governmental Entities

At PDVSA's Extraordinary Stockholder's Meeting on January 20, 2006 a decision was made to transfer all of the shares of Pequiven, for no consideration, to the Bolivarian Republic of Venezuela, in order to comply with that established in the Law to Stimulate the Development of Petrochemical, Carbochemical and similar activities published on December 1, 2005. The net effect of the spin-off of that subsidiary is approximately $2,809 million, based on the net assets of that subsidiary at December 31, 2005. In addition, this transaction will result in a tax benefit in 2006 of approximately $665 million.

A summary of the assets and income presented in Pequiven's consolidated financial statements compared to PDVSA's consolidated financial statements follows (in millions of dollars):

	December 31	
	2005	**2004**
Total assets of Pequiven	3,342	3,077
Total assets of PDVSA	70,365	61,847
Pequiven assets as a % of PDVSA assets	5%	5%
Total revenues of Pequiven	1,767	1,447
Total revenues of PDVSA	85,730	64,757
Pequiven revenues as a % of PDVSA revenues	2%	2%

In accordance with guidelines of the National Government, PDVSA will continue giving financial and logistical support to Pequiven. The financial support includes loans for working capital in order to execute the investment plan for 2006, discounts in the prices of methane gas and financing of accounts receivable up to 180 days.

(c) Energy Agreements

During 2006, the Government of El Salvador subscribed an agreement with Venezuela to be part of the PETROCARIBE Energy Cooperation Agreement. This agreement establishes that PDVSA will provide to the Asociación Intermunicipal de Energía para El Salvador (ENEPASA), 100 MBPD of fuel at a sale price equivalent to the market price, with payment terms of 90 days for a portion of the shipment, and the remaining portion payable over 23 years at an interest rate of between 1% and 2%.

(d) Amendment to the Central Bank Law

Based on the amendment to the BCV Law and Exchange Agreement N° 9, on March 2, 2006 the Board of Directors of the BCV authorized PDVSA to increase the revolving fund up to the amount of $2,000 million, in order to guarantee its operating and investment payments (see note 2).

(e) Migration of Operating Agreements to Empresas Mixtas

On March 31, 2006, the National Assembly approved the Terms and Conditions for the Creation of Empresas Mixtas as well as the Model Contract for Empresas Mixtas to be subscribed with private entities. At the same time, Memorandums of Understanding were signed for the migration to Empresas Mixtas, except for the operators of two agreements that voluntarily refrained from signing these memoranda.

The Model Contract for Empresas Mixtas provides for the automatic termination of operating agreements from March 31, 2006, without the operating companies having the right to receive any compensation, except for payments corresponding to the first semester of 2006 or to make any claim as a result of such termination. In addition, it establishes that the assets operated at such date under the operating agreements will be immediately placed at the disposal of Empresas Mixtas for the performance of their activities, and ownership of the assets will be transferred subsequently.

At March 31, 2006, the net value of assets presented in PDVSA's consolidated financial statements to be contributed for the incorporation of Empresas Mixtas amounts to $4,850 million, including $4,288 million (88%) recognized in memorandum accounts. PDVSA will have a participation in these assets equivalent to the stockholding in each company to be incorporated.

On June 20, 2006 the National Government authorized through individual decrees the creation of 21 Empresas Mixtas, defining therein the capital stock for each entity; accordingly, an average participation of 63% in each entity was established for PDVSA, through its subsidiary CVP, and 37% as the average participation of third parties.

As of August 2006, 16 Empresas Mixtas were incorporated, and are waiting for the relevant official rights to develop primary activities, as established by the Organic Hydrocarbons Law.

In addition, the Terms and Conditions for the Creation of Empresas Mixtas establish that the transactions involving the transfer of assets upon incorporation of the Empresas Mixtas, and the termination of operating agreements will not cause significant tax obligations for PDVSA or the Bolivarian Republic of Venezuela.

(f) Recently Issued Accounting Standards

In March 2006, the IASB issued Interpretation N° 9 (IFRIC 9) Reassessment of Embedded Derivatives, which will be effective for periods beginning on or after January 1, 2007. This standard is being assessed by the Company's management.

(g) Legal Actions Against PDVSA and Subsidiaries

In relation to the arbitration process against PDVSA Petróleo (see note 20), in February 2006 the Company was notified of the arbitration court's decision declaring overruled all of the plaintiff's demands, instructing the plaintiff to pay PDVSA Petróleo all arbitration costs, relating to the dispute for the alleged contract violation for the sale and purchase of low octane gasoline.

On February 16, 2006, the Political Administrative Division of the Supreme Justice Court declared without merit the appeal filed by PDVSA Petróleo against a resolution of the SENIAT dated November 17, 1999. In accordance with this ruling, PDVSA Petróleo is liable for $839 million, for tax obligations corresponding to 1994, 1995 and 1996. Management and its legal counsel believe that the above decision violates fundamental constitutional rights and the Company will request a new trial before the Constitutional Division of the Supreme Court of Justice, together with a preventive measure in order to suspend immediately it effects. Management and their legal counsel believe that there is a high probability that PDVSA will succeed in this case and any resulting losses will not have a significant effect on the consolidated financial statements of PDVSA.

(h) Purchase of PDVSA Finance's Debt

On March 13, 2006, PDVSA Finance made public the redemption offer for the total outstanding debt of $83 million. This redemption was made on April 11, 2006, paying a premium of approximately $13 million (see notes 4 and 14).

(i) Sale of Participation in the Refinery LYONDELL-CITGO Refining, LP (LYONDELL-CITGO)

On August 16, 2006, CITGO sold its 41.25% interest in LYONDELL-CITGO effective as of July 31, 2006, CITGO received as consideration approximately $1,8 billion in cash proceeds in connection with the sale. At the time of the sale CITGO also received payment of a note receivable from LYONDELL-CITGO of $35 million and interest of $4 million.

In March, 2006, LYONDELL-CITGO and PDVSA announced the end of the litigation referring to the supply agreement (see note 20). CITGO paid $80 million to settle this legal dispute.

(j) Special Tax Reimbursement Certificates (CERTs)

During 2006, $647 million was received in CERTs from the Ministry of Finance, which was used to pay income taxes.

(k) New Subsidiaries of PDVSA

Based on the guidelines established by the MENPET and PDVSA's strategic plans, the Board of Directors of PDVSA approved after December 31, 2005 the creation of the following subsidiaries:

- PDVSA Colombia, S.A.
- PDVSA Ecuador, S.A.
- PDVSA America, S.A.
- PDV Andina, S.A.
- PDV Sur, S.A.
- PDV Eurasia, S.A.

These subsidiaries were created in order to carry out exploration and production, refining, trade and supply activities relating directly or indirectly to hydrocarbons; and also to carry out social, cultural, technological and educational projects and programs.

(l) Dividends Declared

At the Ordinary Stockholder's Meeting on June 20, 2006 dividends were declared for $1,317 million to the Bolivarian Republic of Venezuela, with charge to retained earnings at December 31, 2004 (see note 15).

(m) Bank Debit Tax

Official gazette Nº 38,375 dated February 8, 2006, published the Law repealing Bank Debit Tax, effective from February 9, 2006.

(n) Trans-Caribbean Gas Pipeline Antonio Ricaurte Project

On July 8, 2006 construction of the first stage of the Trans-Caribbean Gas Pipeline Antonio Ricaurte Project began, which will follow the route from Puerto de Ballena, Colombia, up to the Eastern Coast of Lake Maracaibo in Venezuela, costing approximately $335 million, with an estimated length of 225 kilometers (km) (90 km in Colombian territory and 135 km in Venezuelan territory), including an underwater lake segment of 22 km between the electrical plants Rafael Urdaneta and Ramón Laguna in Maracaibo. During the first four years the gas pipeline will transport gas from Colombia to Venezuela and subsequently from Venezuela into Colombia.

This energy cooperation agreement will be executed by PDVSA and Empresa Colombiana de Petróleo, S.A. (ECOPETROL). The Trans-Caribbean Gas Pipeline Antonio Ricaurte will connect the Caribbean with the Pacific Ocean through Panama and Central America.

The first stage of this gas exchange program will begin operations in 2008. Initially, Colombia will supply daily and for four years 150 million cubic feet of methane gas, provided by the area Campo de Ballenas, which will be used for operating the electrical plants Rafael Urdaneta and Ramón Laguna on the East Coast of Lake Maracaibo. Management believes that Venezuela will have the capacity to export to Colombia between 150 and 200 million cubic feet of gas on a daily basis.

(o) Partial Amendment Law of the Organic Hydrocarbons Law

Official Gazette N° 38,443, published on May 24, 2006 decreed the Partial Amendment Law of the Organic Hydrocarbons Law in effect since 2002 (see note 1-a). Among the most relevant aspects of this reform affecting PDVSA the following taxes were established:

- Extraction Tax, at a fixed rate of one third of the value of all liquid hydrocarbons extracted from any well, calculated on the same basis established in the Law for calculation of the royalty. In calculating this tax, the taxpayer will be able to deduct the amount paid for royalty, including the additional royalty being paid as special advantage.

- Export Registration Tax, at a rate of one in a thousand of the value of all hydrocarbons exported from any port in the national territory, calculated on the sales price of such hydrocarbons.

(p) Cases Under Internal Audit Review

During the first semester of 2006, two companies made public announcements concerning alleged improper payments made to employees of PDVSA, in order to obtain benefits in respect of their business relationships and services rendered. For each of these cases, PDVSA's Audit Committee began an internal audit review with the support of external specialists.

PDVSA instructed the Corporate Internal Audit Department to obtain the documentation relating to the facts reported, to review the Company's contracting processes and to gather and review the contracts and documentation relating to transactions with those contractors.

To date, the internal audit review has not identified any significant deficiencies in the internal controls for the Company's contracting processes, nor that any of these matters are material to the Company's business or financial results taken as a whole.

(24) Effects of the Work Stoppage on PDVSA

During December 2002 and the first months of 2003, a series of national events significantly interrupted the economic activities in Venezuela. Concurrently, a substantial group of workers from PDVSA and its Venezuelan subsidiaries abruptly initiated a work stoppage that interrupted the Company's normal ongoing operations in Venezuela, that continued despite requests made by management of the Company in the local media for them to return to their positions. PDVSA is of the opinion that this interruption of the activities, and related actions, constituted sabotage, and accordingly the Company has referred the matter to the competent authorities, including the General Prosecutor of the Republic, to establish the corresponding responsibilities.

Management of PDVSA believes that this interruption, in the normal ongoing activities of PDVSA's Venezuelan operations, was a major contributing factor to a significant reduction in PDVSA's production volumes of oil and natural gas in 2003 and 2002. Management attributes this reduction in crude oil and natural gas production as a major cause to the reduction in the exports of crude oil and products from Venezuela during 2004, 2003 and 2002. Presented below is a comparison of the export volumes and average price per barrel of exports of PDVSA's principal Venezuelan subsidiary, PDVSA Petróleo, for the years ended December 31, 2004, 2003, 2002 and 2001:

Year	Export volumes of Crude oil and products (in thousands of barrels)	Average price per Barrel of exports (US$ per barrel)
2004	880,957	32.96
2003(*)	760,718	24.78
2002(*)	870,473	21.84
2001	1,026,271	20.14

(*) Work stoppage commenced in December 2002 and continued into 2003.

During the period that PDVSA's operations were interrupted, the Venezuelan Government authorized PDVSA to purchase petroleum and diesel on the international market in order to meet the needs of the local market. These purchases were made at international prices that are higher than sales prices in the local market. The difference between the international purchase price for such petroleum products and the related sales prices realized in Venezuela resulted in an unfavorable effect for the Company in 2003 of approximately $504 million. Based upon an evaluation made by PDVSA, the Company's upstream and downstream installations in Venezuela were also damaged by the work stoppage, resulting in losses of approximately $209 million. Both amounts are reflected in the results of operations in 2003.

As a result of the work stoppage and the extensive reduction in the Company's workforce there were certain weaknesses in internal controls, which affected the processing of the Company's financial and operational information during December 2002 and an important part of 2003. During the affected period, the Company concentrated its efforts on filling key managerial positions and hiring and training new personnel to take charge of information, financial, administrative and operating systems and on the implementation of alternative controls. Pre-existing controls have been progressively re-established.

(25) Supplementary Information on Oil and Gas Exploration and Production Activities (Unaudited)

The following tables provide supplementary information on the oil and gas exploration, development and production activities in compliance with SFAS No. 69 "Disclosures about Oil and Gas Producing Activities", published by the U.S. Financial Accounting Standards Board. All exploration and production activities are located in Venezuela, principally represented by PDVSA Petróleo and its subsidiaries and PDVSA Gas.

Table I - Crude Oil and Natural Gas Reserves

All the crude oil and natural gas reserves located in Venezuela are owned by the Bolivarian Republic of Venezuela. Crude oil and natural gas reserves are estimated by PDVSA and reviewed by MENPET, using reserve criteria which are consistent with those prescribed by the American Petroleum Institute (API) and the U.S. Securities and Exchange Commission (SEC).

Proved reserves are the estimated quantities of crude oil and natural gas which, with reasonable certainty, are recoverable in future years from known deposits under existing economic and operating conditions. Due to the inherent uncertainties and limited nature of the data relating to deposits, estimates of underground reserves are subject to change over time, as additional information becomes available. Proved reserves do not include additional quantities which may result from the extension of currently explored areas, or from the application of secondary recovery processes not yet tested and determined to be economically feasible.

Proved developed reserves are the quantities that can be expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped reserves are those volumes which are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Proved crude oil reserves have been separated between conventional crude oils, consisting of light, medium and heavy grade crude oils, and extra-heavy crude oil.

A summary of the annual changes in the proved reserves of crude oil and natural gas follows:

(a) Conventional and Extra-heavy Crude Oil Reserves (in millions of barrels)

	Years ended December 31	
	2005	**2004**
Proved developed and undeveloped reserves of light medium and heavy crude oil at January 1	41,892	41,954
Revisions	441	285
Extensions and new discoveries	163	574
Production	(924)	(921)
Proved developed and undeveloped reserves of light medium and heavy crude oil at December 31	41,572	41,892
Proved developed and undeveloped reserves of extra-heavy crude oil at December 31	38,440	38,690
Total proved developed and undeveloped reserves at December 31	80,012	80,582
Total proved developed reserves, submitted to production, including extra-heavy crude oil at December 31 (included above)	16,938	17,275

At December 31, 2005 and 2004, proved reserves of crude oil under operating agreements amounted to 5,362 million barrels and 5,491 million barrels, respectively (see note 10-c y 23-e). During 2005 and 2004, the daily production of crude oil in the areas under operating agreements was approximately 502,000 barrels, and 517,913 barrels, respectively.

Venezuela has significant reserves of extra-heavy crude (less than 8 degrees API), which are being developed in conjunction with the production of Orimulsión® by the subsidiary BITOR, through operating agreements which apply new technologies for refining and improvement of the crude oil aimed at the economic viability of production (see note10-e). PDVSA used 25 million and 21 million barrels of extra-heavy crude oil for the production of Orimulsión® during 2005 and 2004, respectively. Furthermore, PDVSA is currently developing Venezuela's significant extra-heavy crude oil reserves with several foreign companies through joint ventures (see note 10-a).

During the years ended 2005 and 2004, the changes in proved developed and undeveloped extra-heavy crude oil reserves related to these projects and total proved developed and undeveloped extra-heavy crude oil reserves at those dates, reflecting the full amount of the reserves, are summarized below (in millions of barrels):

	Years ended December 31			
	2005		2004	
	Projects	Total including projects	Projects	Total including projects
Proved developed and undeveloped reserves of extra-heavy crude oil at January 1	13,094	38,690	10,483	35,186
Revisions (1)	-	19	2,801	3,740
Development and new discoveries	-	-	-	3
Production	(219)	(269)	(190)	(239)
Proved developed and undeveloped reserves of extra-heavy crude oil at December 31	12,875	38,440	13,094	38,690
Proved developed extra-heavy crude oil reserves at December 31	1,707	3,826	1,926	4,076
Net proved extra-heavy crude oil reserves in unincorporated joint ventures at December 31	10,397		10,572	
Net proved extra-heavy crude oil reserves in equity affiliate at December 31 (2)	2,478		2,522	
	12,875		13,094	

(1) Includes transfers from unassigned areas.

(2) Represents PDVSA’s equity share of the Petrozuata extra-heavy oil joint venture.

(b) Natural Gas Reserves (Billions of Cubic Feet - BCF)

	2005	2004
Proved developed and undeveloped reserves of natural gas at January 1	137,830	137,616
Revisions	949	645
Extensions and new discoveries	1,358	936
Production	(1,692)	(1,367)
Proved developed and undeveloped reserves of natural gas at December 31	138,445	137,830
Proved reserves related to extra-heavy crude reserves at December 31	13,819	13,649
Total proved developed and undeveloped reserves at December 31	152,264	151,479
Total proved developed reserves of natural gas, submitted to production, including quantities associated with extra-heavy crude oil in production at December 31 (included above)	106,726	106,035

Proved natural gas reserves include the portion of liquefiable natural hydrocarbons recoverable in PDVSA's processing plants. In 2005 and 2004, natural gas liquids recovered amounted to some 61 million barrels and 59 million barrels, respectively.

Production of natural gas is shown on the basis of actual volumes before the extraction of liquefiable hydrocarbons. During 2005 and 2004, natural gas utilized in reinjection operations amounted to 1,006 BCF and 1,003 BCF, respectively.

(Continued)

Table II – Costs Incurred in Exploration and Development Activities

Exploration costs include the costs of geological and geophysical activities and drilling and equipping exploratory wells. Development costs include those of drilling and equipping development wells, enhanced recovery projects and facilities to extract, treat and store crude oil and natural gas. Annual costs, summarized below, include amounts both expensed and capitalized for PDVSA's conventional and extra-heavy crude oil reserves (in millions of dollars):

	2005			2004			
	Conventional reserves	**Extra-heavy crude oil reserves**	**Total**	**Conventional reserves**	**Extra-heavy crude oil reserves**		**Total**
Exploration costs	118	-	118	60	-		60
Development costs	2,016	168	2,184	1,863	341	(1)	2,204
Total	2,134	168	2,302	1,923	341		2,264
Equity affiliate (2)	-	55	55	-	24		24
Total	2,134	223	2,357	1,923	365		2,288

(1) Represents PDVSA's equity share of the Petrozuata extra-heavy oil joint venture.

(2) Represents PDVSA's proportional share in unincorporated extra-heavy oil joint venture.

Table III – Capitalized Costs Relating to Oil and Gas Producing Activities

The following table summarizes capitalized costs of oil and gas exploration and production activities and the related accumulated depreciation and depletion at December 31 for PDVSA's conventional and extra-heavy crude oil reserves (in millions of dollars):

	2005			**2004**		
	Conventional reserves	**Extra-heavy crude oil reserves**	**Total**	**Conventional reserves**	**Extra-heavy crude oil reserves**	**Total**
Producing assets (1)	30,642	3,912	34,554	30,933	3,475	34,408
Support facilities	17,954	80	18,034	16,876	71	16,947
Total	48,596	3,992	52,588	47,809	3,546	51,355
Accumulated depreciation and depletion	(32,721)	(866)	(33,587)	(30,422)	(618)	(31,040)
Construction in progress	4,807	173	4,980	2,538	272	2,810
Net capitalized costs	20,682	3,299	23,981	19,925	3,200	23,125
Equity affiliate (2)	-	1,393	1,393	-	1,412	1,412
Total	20,682	4,692	25,374	19,925	4,612	24,537

(1) Includes land of $137 million at December 31, 2005 and 2004, respectively.

(2) Represents PDVSA's share of the Petrozuata extra heavy oil joint venture.

(Continued)

Table IV – Results of Operations for Oil and Gas Producing Activities for Each Year (expressed in millions of dollars)

	Years ended December 31					
	2005			**2004**		
	Conventional reserves	**Extra-heavy crude oil reserves**	**Total**	**Conventional reserves**	**Extra-heavy crude oil reserves**	**Total**
Revenues from production:						
Sales	42,973	2,678	45,651	26,032	1,480	27,512
Transfers	6,624	-	6,624	7,080	-	7,080
Production costs	(6,930)	(369)	(7,299)	(6,683)	(298)	(6,981)
Production tax	(12,792)	(408)	(13,200)	(9,012)	(117)	(9,129)
Depreciation and depletion	(1,634)	(250)	(1,884)	(1,681)	(200)	(1,881)
Exploration costs	(118)	-	(118)	(60)	-	(60)
Results before income taxes	28,123	1,651	29,774	15,676	865	16,541
Income tax	(13,710)	(467)	(14,177)	(7,668)	(253)	(7,921)
Results from production operations	14,413	1,184	15,597	8,008	612	8,620
Equity affiliate (1)	-	298	298	-	274	274
Total	14,413	1,482	15,895	8,008	886	8,894

(1) Represents PDVSA's equity share of the Petrozuata extra-heavy oil joint venture.

Revenues from crude oil production are calculated using market prices as if all production were sold.

The difference between the results before income taxes referred to above (Conventional Reserves) and the operating income reported for the upstream segment (see note 19) for 2005 and 2004, is mainly due to: 1) the use of transfer prices for segment reporting purposes and market prices in the results of operations, and the reclassification of sales of gas to the downstream operations segment of some $6,849 million, and $4,321 million, respectively; 2) the inclusion in the business segment of general expenses and other of some $1,477 million and $1,799 million, respectively.

Production costs are lifting costs incurred to operate and maintain productive wells and related equipment and facilities, including such costs as operating labor, materials, supplies, fuel consumed in operations and the costs of operating natural liquid gas plants. Production costs also include administrative expenses and operating fees for certain fields operated by specialized companies under operating agreements.

Production costs include $3,869 million and $3,192 million, paid to independent contractors under service contracts during 2005 and 2004, respectively, which relate to the production of 176 million and 190 million barrels of crude oil, respectively.

The costs of extra-heavy crude production include the expenses incurred to operate and maintain the productive wells, as well as transportation and handling expenses.

Exploration costs include those related to the geological and geophysical activities and non-productive exploratory wells.

Depreciation and depletion expenses relate to assets employed in exploration and development activities. Income tax expense is calculated using the statutory rate for the year. For these purposes, results of operations do not include financing expenses and corporate overhead no their associated tax effects.

The following table summarizes average per unit sales prices and production costs (in dollars):

	Years ended December 31	
	2005	**2004**
Averages sales price:		
Crude oil, per barrel	45.32	32.22
Natural gas liquids, per barrel	15.64	15.37
Natural gas, per barrel	4.86	4.29
Averages production costs, per barrel of oil equivalent	3.93	3.77
Average production costs, per barrel of oil equivalent, excluding operating agreements	3.13	3.29

Table V - Standardized Measure of Discounted Future Net Cash Flows Related to Proved Oil and Gas Reserves

Due to uncertainties surrounding the timing of the ultimate development of the country’s extra-heavy crude oil reserves, only the conventional proved reserves and those reserves related to PDVSA’s participation in the extra-heavy crude oil projects have been used in the calculation of discounted future net cash flows.

Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated proved reserves. Future income from extra-heavy crude oil production is determined using prices and quantities of the upgraded crude that will be produced in the upgrading facilities. Upgraded crude oil prices approximate those of conventional crude oil with similar characteristics at year-end. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves, assuming continuation of year-end economic conditions. Estimated future income tax expense is calculated by applying the appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows. This calculation requires a year-by-year estimate of when future expenditures will be incurred and when the reserves will be produced.

The information provided below does not represent certified estimates of PDVSA's expected future cash flows or a precise value of its proved measured crude oil and gas reserves. Estimates of proved reserves are imprecise and may change over time as new information becomes available. Furthermore, probable and possible reserves, which may become proved in the future, are excluded from the calculation. The valuation to comply with SFAS No. 69 requires assumptions as to the timing of future production from proved reserves and the timing and amount of future development and production costs. The calculations are made as of December 31 of each year and should not be relied upon as an indication of PDVSA's future cash flows or the value of the oil and gas reserves (in millions of dollars):

	2005			**2004**		
	Conventional reserves	**Extra-heavy crude oil reserves**	**Total**	**Conventional reserves**	**Extra-heavy crude oil reserves**	**Total**
Future cash inflows	2,136,699	371,994	2,508,693	1,602,527	116,109	1,718,636
Future production costs	(127,537)	(47,055)	(174,592)	(194,732)	(14,900)	(209,632)
Future production taxes	(578,862)	(62,011)	(640,873)	(434,972)	(19,355)	(454,327)
Future development costs	(89,320)	(30,092)	(119,412)	(83,520)	(9,217)	(92,737)
Future income tax expense	(630,799)	(71,111)	(701,910)	(414,624)	(23,037)	(437,661)
Cost of asset retirements	(3,269)	-	(3,269)	(3,082)	-	(3,082)
Future net cash flows	706,912	161,725	868,637	471,597	49,600	521,197
Effect of discounting net cash flows at 10%	(531,257)	(141,580)	(672,837)	(378,043)	(42,435)	(420,478)
Discounted future net cash flows	175,655	20,145	195,800	93,554	7,165	100,719
Equity affiliate (1)	-	5,249	5,249	-	2,581	2,581
Total	175,655	25,394	201,049	93,554	9,746	103,300

(1) Represents PDVSA's equity share of the Petrozuata extra-heavy oil joint venture.

Table VI - Analysis of Changes in the Standardized Measure of Discounted Future Net Cash Flows Related to Proved Crude Oil and Natural Gas Reserves

The following table analyzes the changes as of December 31 of each year (in millions of dollars):

	2005			2004		
	Conventional reserves	**Extra-heavy crude oil reserves**	**Total**	**Conventional reserves**	**Extra-heavy crude oil reserves**	**Total**
Present value at January 1:						
Sales, net of production costs and taxes	(26,947)	(1,562)	(28,509)	(17,894)	(395)	(18,289)
Value of reserves added during the year due to extensions and discoveries	853	-	853	1,256	-	1,256
	(26,094)	(1,562)	(27,656)	(16,638)	(395)	(17,033)
Change in value of previous year reserves due to:						
Development costs incurred during the year	2,016	168	2,184	1,863	341	2,204
Change in future development costs	1,944	90	2,034	6,293	26	6,319
Net changes in prices and production costs	117,143	146	117,289	83,073	(66)	83,007
Revisions of previous reserve estimates	3,261	-	3,261	4,471	-	4,471
Net changes in income taxes	(53,759)	(11)	(53,770)	(25,615)	(20)	(25,635)
Net changes in production tax and other	37,777	254	38,031	(24,309)	990	(23,319)
Total change during the year	82,288	(915)	81,373	29,138	876	30,014
Equity affiliate (1)	-	444	444	-	952	952
Total	82,288	(471)	81,817	29,138	1,828	30,966

(1) Represents PDVSA's equity share of the Petrozuata extra heavy oil joint venture.

Annex A

4. Monetary Conversion

On March 6, 2007 the Presidency of the Bolivarian Republic of Venezuela approved a decree with status, effect and force of law on monetary conversion which contemplates a new valuation of the monetary system's unit as of January 1st, 2008 to a unit equivalent to one thousand current bolivars.

In accordance with the text of said decree-law, as of that date prices, wages and other social services, as well as taxes and other amounts expressed in national currency in financial statements or other accounting documents, or in instruments of credit or of any other nature, as well as any operations or references expressed in national currency, will have to be expressed in terms of the revalued bolivar ("Strong Bolivars" or "Bs.F").

As part of the aforementioned conversion process, the decree-law contemplates that, as of October 1st, 2007, the instruments in which the prices of goods and services are offered, as well as others that express monetary quantities, will use in their references both the unit of account in force before the revaluation, and the unit of account that will result from said revaluation. Likewise, it is established that the financial statements for years ending before January 1st, 2008, but that are approved after that date, should be expressed in the new monetary unit.

5. Operational and Financial Results

PDVSA is a vertically integrated company that produces, refines and retails crude oil and gas. PDVSA carries out exploration and production operations with crude oil and natural gas in Venezuela ("upstream"), as well operations for the refining, marketing and transportation of crudes and refined products, and the processing, marketing and transportation of natural gas ("downstream"), not only in Venezuela, but also in the Caribbean, North America, South America and Europe, among other regions.

PDVSA evaluates its upstream operations on the basis of the following factors: number of wells, level of production per field, recovery factors, incorporation of crude oil and gas reserves, quantity and quality of professional staff such as oil engineers and geologists.

PDVSA evaluates its downstream operations on the basis of the following factors: Percentages of refinery use, product output and refining costs.

The financial results are evaluated taking in consideration: refinery margins, return of capital used, added economic value, free cash flow, operational costs per produced barrel, gross margin, comparative market studies, etc.

The financial results of PDVSA are closely linked to the price of oil. By supplying high quality blends of crude oil to clients and to its refineries, PDVSA has achieved profitability for its capital investments and used its refining capacity to the fullest possible extent, maintaining its margins in the sale of products in a context of secure operations that seeks to limit operational costs. Financial conditions are analyzed through indicators such as debt indicators, debt to capital ratio, return of capital used, added economic value and capability to incur in additional indebtedness.

The main opportunities available for PDVSA are based on increasing its reserves of light and medium grade crudes, increasing its recovery factor, continuing the development of extraheavy crude oil projects and improving the existing technology in order to maximize return on its investments.

In the downstream sector, PDVSA is making investments to increase its refining capacity, improve its products and comply with environmental laws both in Venezuela and abroad, expand its markets in Latin America, the Caribbean and Asia and improve the efficiency of our refining and retail processes.

Regarding the gas business, PDVSA is actively promoting the participation of the private sector in projects of non-associated gas, seeking to improve our distribution processes in order to increase national and international market share and expand markets for liquefied natural gas.

The main challenges faced by PDVSA's management in the medium term are the optimal maintenance of its oil reservoirs and production facilities, the investment in exploration programs geared towards increasing reserves, expanding the availability of gas in the Western regions of Venezuela and modifying the quality specifications of its products.

The changes needed in order to supply the new generation of products include the scheduling and execution of capital projects for oil and gas production and refining, the financing of these projects and the adjustment of operational practices and procedures in order to assure the delivery to our clients of products of the highest possible quality. Along with these goals the company must develop initiatives to improve efficiency and profitability.

The business of crude oil and refined products is highly volatile. The primary risk that this business faces is that of price instability. Another of the main risks is operational risk, that is, the risk of mechanical flaws and/or human error related to the operation of plants and equipment. Another risk area is that of political risk; in the short term, geopolitical measures could increase the supply and demand equation, impacting the price of crude and/or refined products and generating increases in the market. In the long term, changes in laws and regulations could radically increase the costs of the business; due to this risk, PDVSA is constantly monitoring trends that could have an effect on the business in which it operates.

PDVSA mitigates operational risk through its System of Integral Risk Management (SIR®-PDVSA) and by seeking and following the best practices and operational procedures. In addition to searching for operational excellence, PDVSA maintains insurance policies with which it covers the risk of possible damages to property, as well as the risk of business interruptions.

Political risk is a matter that must be accepted and dealt with once the business has made a commitment to invest in certain countries. However, PDVSA has sufficient strength in its production, refining, distribution and sales activities, providing a guarantee of operational flexibility that allows it to react to circumstances with production reductions or increases should unexpected events occur. Additionally, PDVSA reduces its political and commercial risk by diversifying its portfolio of clients and investing in refining capacity in new markets. In this regard, PDVSA is evaluating business opportunities in Asia (India and China), South America (Brazil, Uruguay, and Argentina) and the Caribbean (Jamaica and Cuba)

In Venezuela, PDVSA handles the risk of operating in an economy that for many years was characterized by an unequal distribution of wealth among its population. For this reason PDVSA is part of a process that gives its support to social projects carried out by the National Government. In order to mitigate this situation, PDVSA has dedicated, during 2006 and 2005, $13,784 and $6,909 million dollars, respectively, to the promotion of social development in the country.

Trends foreseen for the future are the production of fuel with low sulfur content and of high quality lubricants and asphalt. The capital requirements associated with the equipment required to generate these products could lead to a consolidation of refining capacity. PDVSA will continue to monitor these trends and take advantage of economic opportunities as they arise.

The greatest uncertainties PDVSA faces are usually related to market risks. PDVSA cannot predict the future of the markets for crude oil and refined products, the variations of which could have an impact on the company. PDVSA can prepare itself for possible contingencies. The company believes it is prepared to respond to most possible contingencies and minimize their possible negative impact on its behavior or its future. It therefore maintains appropriate levels of financial liquidity and debt, seeks to ensure that the distribution of its assets is flexible and that it can rely on multiple sources of supply and a diversified portfolio of clients, and keeps monitoring and analyzing market conditions on a continuous basis.

PDVSA continues to emphasize the importance of efficient operations and a commitment to safety. PDVSA operates in an industry that depends on prices and in which profits are volatile. Conditions can change rapidly and the operational results may differ substantially from company management estimates. Additionally, the credit risk of PDVSA’s clients and suppliers could have an impact on the company’s liquidity and on the lines of credit or terms of payment to which the company has access.

PDVSA has sufficient liquidity (defined as cash flow derived from operations) to provide support for its operations, to complete its capital projects and to reduce its debt. In 2007 PDVSA obtained new financing through a bond issue for US$7,500 million, a loan of up to US$3,500 million from the Japan Bank for International Cooperation (JBIC), and a credit line for US$1,124 million from a bank consortium led by BNP Paribas.

a) Consolidated Summary of Financial Information

Table 18: General Balance

	As of December 31st of					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**
	(Millions of U,S, dollars)					
General balance						
Cash and cash equivalent	1,875	1,800	1,748	2,938	1,703	925
Restricted cash	848	1,925	709	659	1,772	2,378
Documents and accounts receivable	10,322	8,625	5,595	4,955	3,515	3,280
Inventories	7,003	5,621	4,537	2,878	2,263	2,208
Other revolving assets	2,985	894	688	642	705	882
Revolving assets	**23,033**	**18,865**	**13,277**	**12,072**	**9,958**	**9,673**
Restricted cash	1,928	2,978	3,039	1,000	1,033	1,899
Properties, plants and equipment	42,503	35,959	35,375	35,211	36,397	36,888
Other non revolving assets	13,065	12,563	10,156	8,148	6,749	7,500
Total assets	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**
Accounts payable to providers	6,379	4,993	4,313	3,365	2,850	3,043
Long-term debt, revolving portion	652	729	1,004	750	1,817	1,000
Income tax payable and deferred	4,576	6,347	3,367	624	327	921
Other revolving debits	9,637	5,092	3,149	2,556	2,188	2,626
Revolving debit	**21,244**	**17,161**	**11,833**	**7,295**	**7,182**	**7,590**
Long-term debt, net of revolving portion	2,262	2,704	2,716	6,265	6,426	7,427
Other non revolving debits	3,920	3,405	5,369	4,280	3,096	4,246
Total debits	**27,426**	**23,270**	**19,918**	**17,840**	**16,704**	**19,263**
Patrimony (1)	**53,103**	**47,095**	**41,929**	**38,591**	**37,433**	**36,697**
Total debits and patrimony	**80,529**	**70,365**	**61,847**	**56,431**	**54,137**	**55,960**
Debt / Patrimony ratio (2)						
Total debt, including financial leasing	2,914	3,433	3,768	7,061	8,341	8,554
Debt / Patrimony (%)	5%	7%	9%	18%	22%	23%

(1) Of which social capital represents $ 39,094 million.
(2) Calculated as total long-term debt and financial leasing, including circulating portion, divided by the patrimony.

Table: 19 Income Statement

	Years closing on December 31st of					
	2006	**2005**	**2004**	**2003**	**2002**	**2001**
	(Millions of U.S. dollars)					
Status of results						
Oil sales and products sales:						
Exports and abroad	96,779	81,105	60,972	44,178	39,875	42,682
In Venezuela	2,233	1,408	1,227	961	1,236	1,701
Other sales	255	402	43	226	234	285
	99,267	**82,915**	**62,242**	**45,365**	**41,345**	**44,668**
Costs and expenses						
Purchases of oil and products	38,778	32,001	23,748	20,496	17,364	17,560
Operational expense	14,820	14,034	13,181	9,182	8,859	10,432
Exploration expenses	100	118	60	27	133	174
Depreciation and amortization	3,652	3,191	2,944	2,891	3,075	2,510
Asset Deterioration	(93)	20	6	296	722	257
Sales, administrative and general expenses	2,184	1,667	1,157	871	1,356	1,569
Royalties and other taxes	18,435	13,318	9,247	6,428	5,748	3,760
Financing Expenses	267	183	449	678	753	501
Other expenses, net	361	426	622	53	(701)	279
	78,504	**64,958**	**51,414**	**40,922**	**37,309**	**37,042**
Patrimonial participation in net results of affiliated companies	1,072	1,074	938	333	233	413
Profit in sale and investment in Lyondell-CITGO Refining L.P.	1,432	-	-	-	-	-
Profit before expenses for social development and income tax	**23,267**	**19,031**	**11,766**	**4,766**	**4,269**	**8,039**
Expenses for social development	13,784	6,909	1,242	249	-	-
Profit before income tax	**9,483**	**12,122**	**10,524**	**4,527**	**4,269**	**8,039**
Income Tax	4,031	5,793	5,420	1,274	1,082	3,645
Net profit of continuous operations	**5,452**	**6,329**	**5,104**	**3,253**	**3,187**	**4,394**
Discontinued operations:						
profit of discontinued operations net of taxes	-	154	302	30	359	(62)
Net profit	**5,452**	**6,483**	**5,406**	**3,283**	**3,546**	**4,332**
Attributable to Company Shareholder	4,994	6,469	5,432	3,277	3,541	4,327
Minority interests	458	14	(26)	6	5	5
	5,452	**6,483**	**5,406**	**3,283**	**3,546**	**4,332**
Information about cash flow						
In operational activities	4,104	5,595	8,792	5,929	5,189	7,297
In investment activities	(2,215)	(3,939)	(5,385)	(1,085)	(1,575)	(5,468)

In financing activities	(1,814)	(1,604)	(4,597)	(3,609)	(2,836)	(4,161)

b) Production

- **Crude Oil Production**

The 2006 production average was 2.907 MBD, 1 MBD over the production average of 2005 (2,906 MBD), as a result of the combined effect of lower production (15 MBD) in the share provided by the Orinoco Oil Belt Associations due to unforeseen plant interruptions, a reduction of the OPEC quota, lower production (46 MBD) of extraheavy crude oil of less than 8 API, the early shutdown of production in the 4 MBD La Ceiba Risk Exploration project and the effects of the migration of operational agreements to transform them into joint ventures. This caused a reduction of 381 MBD which was partially compensated by the production of 241 MBD by the joint ventures and a 206 MBD increase in PDVSA's own production.

- **NGL Production**

The average production for 2006 of natural gas liquids (NGL), including ethanol, was 177 MBD, an increase of 12 MBD over the 2005 production average (165 MBD) achieved in order to satisfy internal market demand and expand the company's presence in the Caribbean market, in keeping with Venezuelan governmental policies.

c) Sales

PDVSA increased its net sales by US$16,352 million, a 20% increase over the sales reported in 2005. Sales went from US$82,915 million in 2005 to US$99,267 million in 2006,

- **Export Sales**

In 2006 the average export volume of the Company's own production was 2,615 MBD, 3 MBD greater that the export average of 2005 (2,612 MBD). In 2006 exports of crude oil increased by 41 MBD, product exports increased by 5 MBD, and NGL exports increased by 18 MBD in order to fulfill strategic guidelines seeking market diversification. This was compensated by a lower volume of orimulsion exports, which fell by 61 MBD as a result of the decision to discontinue the manufacture of this product in order to direct extraheavy crude oil towards better uses.

The 2006 average export price of the Venezuelan Basket was close to 55.21 $/Bl. Prices registered an increase of 9.89 $/Bl compared with the average price in 2005 (46.15 $/Bl) which was mainly due to the sustained growth of demand in Asian countries, an agreement to limit OPEC production, the persistence of geopolitical tensions in the Middle East, production problems in Nigeria and speculative moves in the futures markets.

The main destinations of export volumes of crude oil, products and NGL for 2006 and 2005 are shown in the following chart:

	2006 MBD	**2005 MBD**
United States and Canada	1,253	1,337
The Caribbean and Central America	612	598
South America and Others	559	567
	2,424	2,502
Europe	191	110
Total	2,615	2,612

- **Net Sales, International Affiliates:**

In 2006, the total volume of crude oil, refined products and NGL sold reached a total of US$ 59,036 million compared with the 2005 total of US$51,091 million. This represented an increase of US$ 7,945 million. Most of these sales were generated by PDV-America, our fully owned affiliate (Citgo). The total volume of refined product sales by PDV-America was 1,637 MBD in 2006 and 1,685 MBD in 2005.

- **Local Market Sales:**

In 2006 PDVSA sold 548 MBD of refined products (including liquefied petroleum gas) on the Venezuelan market, compared with 506 MBD sold in 2005. Additionally, PDVSA sold 431 MBD of oil equivalent of natural gas, after selling 392 MBD of oil equivalent during the previous year. The price per barrel of refined products increased by 1.4% from 6.97 $/Bl in 2005 to 7.07 $/Bl in 2006.
In 2006 and 2005 the price of natural gas remained at 0.54 $/mcf.

d) Costs and Expenditures

- **Purchases of Crude and Products:**

The purchases of crude oil and products increased by US$6,777 million, or 21%, from US$32,001 million in 2005 to US$38,778 million in 2006. The increase occurred due to larger purchases of crudes and products, and to price increases in the International Sector, derived primarily from purchases made to third parties by Citgo (71.72 US$/Bl in 2006 vs. 58.24 US$/Bl in 2005), as well as from purchases by PDVSA Petróleo in the National Sector (49.14 US$/Bl in 2006 vs. 36.12 US$/Bl in 2005).

- **Operational Costs:**

In 2006 operational costs closed with a balance of US$14,820 million, while in 2005 they reached a level of US$14,034 million. This represents an increase of US$786 million, due primarily to the greater cost of contracts and services, combined with a more intensive use of electrosumergible pump equipment, greater costs in well drilling, high rental fees for aquatic and terrestrial transportation, the acquisition of multifased meters and spare parts, appreciation of insurance premiums for gas processing plants, greater advertising expenses and larger labor payments due to salary increases of approximately US$682 billion, greater costs incurred for the payment of benefits in the form of employer contributions, the absorption of contracted personnel and new employees. These expenditures were partially compensated by the suspension of OP-Fee, Cap-fee and stipend payments as a consequence of the migration of operational agreements to joint ventures as of April 1st, 2006.

- **Exploration Expenses:**

Exploration expenses were close to US$100 million, a decrease of US$18 million compared with 2005 due to lower geophysical expenses.

- **Sales, Administrative and General Expenses:**

For 2006 this expenditure reached US$2,184 million; in 2005 it had been of US$1,667 million. This constitutes a US$517 million increase, caused primarily by increases in:

- The cost of Contracted Services, which increased US$357 million from 2005 and where mention should be made of the expenditure of US$49 million in fees for professional services, a US$65 million expense in advertising and marketing, and the initiation of operations by new PDVSA affiliates towards the end of 2005 (PDVSA Cuba and PDVSA Uruguay) and during 2006 (PDVSA Bolivia, PDVSA China, PDVSA Argentina and PDVSA Colombia).

- Labor costs that reached 79 million dollars, generated by the hiring of personnel and by bonuses contemplated in Agreements with MENPET that were paid by the Parent Company in 2006.

- **Depreciation and Amortization Expenses**

Depreciation and amortization expenses for 2006 were in the order of US$3,652 million, exceeding those of 2005 by US$461 million. This increase was due basically to new capitalizations and to the incorporation of assets held by joint ventures.

e) Other

- **Participation in Net Income of Affiliated Company Shares.**

Income derived from the property of shares issued by associated companies diminished by $2 million in comparison with 2005, due primarily to the divestment of LYONDELL-CITGO Refining LP.

- **Profit from the Sale of Investment in LYONDELL-CITGO Refining LP.**

In August, 2006, CITGO sold its 41.25% share of LYONDELL-CITGO, effective July 31, 2006. From the sale of this investment CITGO received 1,774 $ million in cash and recognized a net profit of $1,432 million.

- **Social Development Expenses**

Social expenditures reached the sum of US$13,784 million, an increase of US$6,875 million when compared to the amount spent in 2005 (US$6,909 million) (see chapter IV N° 10).

f) Cash Flow

- **Liquidity and Sources of Capital**

The primary sources of liquidity are the cash flows derived from operations and from short and long term loans in U.S. dollars and in Bolivars. PDVSA continues making capital investments to maintain and increase the number of hydrocarbon reserves that we operate and the amount of oil that we produce and process. In the normal course of business operations, PDVSA and its affiliates enter into loan facilities and agreements with which to cover our liquidity needs and to obtain the funds necessary for our capital outlays. As of December 31, 2006, PDVSA has access to non guaranteed credit lines through which it can obtain $1,123 million.

- **Cash Flow from Operational Activities**

On December 31, 2006, PDVSA's net cash on hand provided by its operational activities was $4,104 million, derived basically from a net profit of $5,452 million, $3,652 million for depreciation and amortization expenses, $195 million for the cost of obligations payable for the retirement of assets, US$486 million for foreign exchange currency transaction loss, US$969 million for provision of employee benefits and other post-retirement benefits, US$822 million for an adjustment of the reasonable long term value of accounts receivable, compensated in part by the US$1,072 million derived from net income obtained from share earnings in associated companies, a US$1,432 million profit from the sale of the investment in Lyondell-Citgo Refining, L.P., US$93 million from deterioration of assets and US$12 million from a decline in the estimate of accounts receivable of doubtful collection and 4,139 $ million from changes in working capital.

- **Cash Flow Used for Investment Activities**

On December 31, 2006, the net cash of PDVSA used for investment activities was US$2,215 million, of which US$7,205 million was used for the net purchase of properties, plant and equipment, US$202 million for the incorporation of new affiliates, a US$2,127 million reduction in restricted cash, net of contributions that include trusts for US$229 million, US$1,774 million from the sale of the investment in

Lyondell-Citgo Refining, L.P., US$1,236 million from dividends received from associated companies and US$55 million from other variations in investments.

Millions of Dollars	Payments for Investments For the years closing on December 31st of 2006	 2.005	 2004
in Venezuela			
Exploration and Production	4,166	2,077	1,912
Refining	385	282	369
Gas	1,244	735	431
Petrochemical and Other	89	60	79
Sub Total	**5,884**	**3,154**	**2,791**
International refining	1,321	784	594
Total	**7,205**	**3,938**	**3,385**

- **Cash Flow Used for Financing Activities**

On December 31, 2006, the net cash of PDVSA used for financing activities was US$1,814 million, of which US$1,317 million correspond to the prepayment of expected dividends to the shareholder, and US$497 million to payments of long-term debt. On March 13, 2006 a debt payment was made according to established timetables and carried out simultaneously with a public offering for US$83 million by PDVSA Finance. This redemption was carried out on April 11, 2006, through payment of a premium of approximately US$13 million.

- **Contractual Clauses**

Several loan facilities establish contractual clauses that restrict the ability of the Company to incur in additional debt, pay dividends, mortgage properties and sell certain assets. On December 31st of 2006 and 2005 the Company was in full compliance with these clauses.

g) Restricted Cash

- **Bandes Trust**

Taking into account the new social responsibilities of PDVSA, the following trusts have been constituted with BANDES with the main purpose of providing for social programs and projects, public works, goods and services directed towards the development of infrastructure, agricultural activity, roads, health and education in the country:

a) FONDESPA, approved in Shareholder Assembly of January 23, 2004, is constituted in dollars and its funds derive from extraordinary income obtained from crude oil and oil product exports whose price exceeds the average price per barrel contemplated in the budget, net of royalties, taxes and other direct expenses, during the years 2004 and 2005. During those two years contributions to FONDESPA were of $2,000 million each year. In 2006 an extraordinary contribution of $229 million was made in order to guarantee the fulfillment of previously approved project commitments.

b) Integral Cooperation Agreement with the Argentine Republic. The creation of this dollar-denominated trust derives from the Integral Cooperation Agreement between the Bolivarian Republic of Venezuela and the Argentine Republic signed at a meeting of PDVSA's Board of Directors on July 15, 2004. This trust will be constituted by sums of money and asset instruments obtained through collections made by the Argentine state energy company, "Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima (CAMMESA)," for the sales of crude oil and oil products made by PDVSA in accordance with the agreement. The funds will be restricted so they can only be used to carry out payments to companies located in the Argentine Republic for imports of goods and services produced in that country. During 2006 and 2005 contributions of $158 million and $96 million, respectively, were placed into this trust.

- **Fund for Macroeconomic Stabilization (FEM)**

In November, 2003, the National Government constituted the FEM in order to achieve stability in State expenditures at the national, state and municipal levels by compensating for fluctuations that may occur in ordinary income. In accordance with the Law, until 2003 PDVSA made contributions in dollars on the basis of additional income obtained from petroleum sales, calculated as 50% of the difference between the income obtained for the export of crude oil and oil products and the average income obtained for these products during the previous three calendar years, after deducting the taxes generated by such income. The Law and its amendments have not contemplated additional contributions since 2004.

The resources stored in the FEM can be used if fiscal income, of any origin, diminishes in relation to the average income collected during the previous three calendar years, or should a state of economic emergency be decreed in accordance with the Constitution of the Bolivarian Republic of Venezuela. For resources to be withdrawn from the FEM by owner entities, the National Assembly's Permanent Finance Committee and the Office of the General Comptroller of the Republic must be informed in order to initiate the procedures contemplated by Law for these cases.

During 2006 and 2005, the financial resources placed in this fund were $39 million and $22 million, respectively, which are included in the consolidated financial statements under the heading "other net expenditures."

- **Trust Signed with BANFOANDES for the Construction and Conditioning of Welfare Modules for 'Barrio Adentro' Mission**

On March 24, 2005, PDVSA's Board of Directors approved the constitution of a trust between Palmaven, S.A. (affiliate of PDVSA) and BANFOANDES. This trust was created on June 20, 2005 and its purpose is the construction of 1,000 medical assistance modules for the 'Barrio Adentro' Mission. The trust was constituted with an initial contribution of $23 million and will have a duration of one year, extendable automatically for equivalent periods.

- **Funds for Extraheavy Crude Projects in the Orinoco Oil Belt**

Refers to funds deposited in financial institutions abroad, reserved exclusively for the fulfillment of commitments derived from financing received for the development of projects in the Orinoco Oil Belt dedicated to the production and improvement of extraheavy crude oil.

- **Fund for Investments in PDV Caribe, S.A.**

On August 11, 2006, PDVSA's Board of Directors approved the constitution of a fund in Euros (€) with an amount of €310 million (equivalent to $407 million) for the purpose of carrying out, through its affiliate PDV Caribe, S.A., investment plans in energy projects of great strategic importance, advanced within the context of the energy integration policy with countries in the Caribbean region that is being advanced by the National Government. On September 4, 2006, the Board approved the placing of these funds in a financial institution abroad, to be used exclusively for the purpose of seeking the adequate execution of the investments that are being planned.

- **Energy Cooperation Agreement with the Eastern Republic of Uruguay**

As a result of this agreement, signed in 2005, PDVSA is committed to provide crude oil, refined products and liquefied petroleum gas (LPG) to the Eastern Republic of Uruguay. In 2005 an initial contribution of US$44 million was made to an account in a financial institution located in the Eastern Republic of the Uruguay, in which the petroleum company of Uruguay, Administradora Nacional de Combustibles, Alcohol y Portland (ANCAP), shall deposit the collections obtained from the sales related to this agreement. These funds are restricted to the purpose of making payments to companies located in the Eastern Republic of the Uruguay for imports of goods and services produced in that country. During 2006 and 2005, contributions of US$191 million and US$44 million, respectively, were made to this fund.

- **Liquidity Account of PDVSA Finance and CITGO**

This is the "liquidity account" whose creation is contemplated in the agreement signed with financial institutions for the issuance of bonds. It is constituted by cash and fixed term deposits which include the accrued interests on said amounts.

h) Supply Agreements

PDVSA Petróleo maintains several supply agreements, as described below:

Entity	Supply Agreement (MBD)	Year of Termination
Ruhr	237	2022
Nynäs	57	2007
LYONDELL – Houston Refining L.P. (formerly LYONDELL-CITGO)	230	2011
Chalmette Refining	90	Duration of Association
ConocoPhillips	172	2020
Hovensa	270	From 2008 to 2022
Hamaca Marketing Company	129	Duration of Association
	1,185	

As a result of the sale in 2006 of the investment in LYONDELL-CITGO, that supply agreement is no longer in effect and a new agreement containing similar conditions was signed by LYONDELL Houston Refining L.P. and PDVSA Petróleo.

i) Significant Accounting Policies

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of those Standards issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

The consolidated financial statements were approved by the Board of Directors on June 13, 2007.

For the preparation of consolidated financial statements, management needs to make estimates, judgments and assumptions that have an impact on the way in which accounting policies are applied and on the asset, liability, income, and expense totals presented. The Company applies its best estimates and judgments; however, the final numbers may differ from those estimates.

The estimates and related assumptions are based on experience and on other factors considered reasonable in the present circumstances, and they constitute the basis on which to make judgments regarding the book value of assets and liabilities that are not easily determinable from other sources. These estimates and assumptions are reviewed periodically, and the reviews of these accounting estimates are applied to the period itself and to later periods affected by the adjustments.

In the application of accounting policies that have significant effects on the numbers included in financial statements, the main areas of uncertainty regarding estimates and critical judgments are the following:

- Note 11 – depreciation and amortization
- Note 15 – deferred income tax and use of tax losses
- Note 16 – valuation of financial instruments
- Note 19 – measurement of obligations derived from specific benefits, retirement plans and other
  benefits not associated with pension plans
- Note 20 – reserve fund set aside to address litigation, environmental matters and other claims
- PDVSA's operations might be affected by factors derived from political, legislative, regulatory and/or legal environments, both nationally and internationally. In addition, any significant change in prices or in the availability of crude oil and oil products could impact the Company's operational results in any particular year

- **Recently Issued Accounting Pronouncements**

Several new standards, as well as amendments and interpretations of the current standards, were still not in force during the year that ended on December 31st, 2006, and have not been applied for the preparation of these consolidated financial statements. For PDVSA, the most significant of these are the following:

- IFRS 7, Financial Instruments: Disclosures, and the amendment to IAS 1: Presentation of Financial Statements: Disclosures on Capital, require detailed disclosures on the relevance of financial instruments for the financial situation of an entity and for its performance, disclosures that must be both qualitative and quantitative regarding the nature and scope of the risks involved. IFRS 7 and the amendment to IAS 1, which will be mandatory for financial statements in 2007, will require the disclosure of additional information about the Company's financial instruments and social capital.
- During 2006, IASB issued International Financial Reporting Standard N° 8 (IFRS 8): Operating Segments. This standard will enter into effect for financial years beginning on or after January 1st, 2009.
- During the same year, IASB issued Interpretations N° 9 (IFRIC 9) Reassessment of Embedded Derivatives; N° 10 (IFRIC 10) Interim Financial Reporting and Impairment; and N° 12 (IFRIC 12) Service Concession Arrangements. IFRIC 9 and IFRIC 10 will enter into effect for financial years beginning on or after January 1st, 2007. IFRIC 12 will enter into effect for financial years beginning on or after January 1st, 2008.

PDVSA is evaluating the new standards that have been issued and, on the basis of the analysis done to date, believes these standards will not have a significant impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements

During the year 2006, the following standards and interpretations entered into effect:

- International Accounting Standard Nº 19 (IAS 19), Employee Benefits: the IASB issued an amendment to AIS 19 which had been revised in December, 2004, introducing an additional recognition of actuarial profits and losses that arise from specific post-employment benefit plans. Other features of the amendment include: i) a clarification that specifies that the contractual agreement between a multi-employer plan and participating employees determines the manner in which a surplus must be distributed or a deficit must be financed, and whether it generates an asset or a liability; ii) accounting requirements for benefit plans defined in the individual financial statements of different entities that participate in a group; and iii) additional disclosure requirements.

- IFRS 6, Exploration for and Evaluation of Mineral Resources: the IASB issued this standard in 2005. Its purpose is to review and improve the disclosure of financial information associated with the exploration and evaluation of mineral resources, and it specifically requires improvements in existing accounting practices used for the calculation of expenditures in exploration and evaluation.
- Interpretation N° 4 (IFRIC 4), Determining Whether an Arrangement Contains a Lease: the IASB issued this interpretation in 2004. It describes how to determine whether an agreement is a lease, or contains a lease, according to the definition included in IAS 17, Leases; and how to separate payments that derive from the lease from other elements included in the agreement, once it is determined that said agreement is, or contains, a lease.

The accounting policies of the Company have been reviewed and modified, when necessary, in order to adopt the requirements established by these new standards or interpretations. The adoption of these standards and interpretations has not had significant effects on PDVSA's consolidated financial statements.

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)

	Consolidated Interim Balance Sheet (IFRS)	
	(In millions of U.S. dollars)	
	June 30, 2007	**December 31, 2006**
	(unaudited)	(audited)
Cash and cash equivalents	3,560	1,875
Restricted cash	1,134	848
Accounts receivables, net	15,042	10,322
Inventories	6,423	7,003
Prepaid expenses and others	5,174	2,985
Assets classified as held for sale	445	-
Current assets	**31,778**	**23,033**
Restricted cash	1,796	1,928
Recoverable value added tax	3,542	3,460
Investments in non consolidated investees	3,423	2,503
Property, plant and equipment, net	44,377	42,503
Deferred income taxes	4,205	3,443
Accounts receivable and other assets	3,550	3,659
Long term assets	**60,893**	**57,496**
Total assets	**92,671**	**80,529**
Trade accounts payable	6,486	6,379
Current portion of long term debt	1,983	652
Income tax payable	2,444	2,487
Employee, pension and other post-ret. Benefits	640	374
Other current liabilities	9,770	9,263
Current Liabilities	**21,323**	**19,155**
Long term debt, net of current portion	11,595	2,262
Employee, pension and other post-ret. Benefits	1,875	1,731
Deferred tax liabilities	1,679	2,089
Accrued and other liabilities	2,558	2,189
Long term liabilities	**17,707**	**8,271**
Total liabilities	**39,030**	**27,426**
Minority interests	2,385	172
Stockholder's equity	51,256	52,931
Total Stockholder´s Equity	**53,641**	**53,103**
Total Liabilities & Stockholder´s Equity	**92,671**	**80,529**

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)

	Consolidated Interim Income Statement (IFRS)	
	(In millions of U.S.dollars)	
	Six Months period ended June 30,	
	2007	**2006**
	(unaudited)	
Sales of crude oil and products:		
Exports and international markets	41,580	49,612
In Venezuela	1,099	1,036
Other sales	225	219
Net sales	**42,904**	**50,867**
Cost and expenses:		
Purchases of crude oil and products	16,646	20,333
Operating expenses	4,875	7,648
Exploration expenses	52	34
Depreciation and depletion	1,795	1,479
Asset impairment	(16)	(33)
Selling, administrative and general expenses	1,129	932
Production and other taxes	8,974	8,705
Financing expenses	310	93
Other expenses / (income), net	828	757
Total costs and expenses	**34,593**	**39,948**
Equity in earning of non-consolidated investees	364	695
Gain on sale of investment in LYONDELL-CITGO Refining LP	641	-
Income before social development expenses and income tax	9,316	11,614
Social development expenses	7,243	6,719
Income before income tax	2,073	4,895
Income taxes	1,177	2,050
Net income	**896**	**2,845**
Net income:		
Attributable to the Company's stockholder	625	2,684
Minority interests	271	161
	896	**2,845**

PETRÓLEOS DE VENEZUELA, S.A. AND SUBSIDIARIES (PDVSA)

Consolidated Interim Statement of Cash Flows (IFRS)

(In millions of U.S.dollars)

	Six Months period ended June 30, 2007	2006
	(unaudited)	
Cash flows from operating activities:		
Net income	896	2,845
Non cash items:		
Depreciation and amortization	1,795	1,479
Asset impairment	(16)	(33)
Cost of asset retirement obligations	91	-
Deferred income taxes	(1,172)	(856)
Provision for employee benefits and other postretirement benefits	636	480
Equity in earnings of non-consolidated	(364)	(695)
Gain on sale of investment in LYONDELL-CITGO Refining L.P.	(641)	-
Change in operating assets:		
Notes and accounts receivable	(4,105)	(3,758)
Inventories	309	685
Prepaid expenses and other assets	(2,080)	(4,137)
Recoverable value added tax	(697)	(463)
Change in operating liabilities:		
Accounts payable to suppliers	107	262
Taxes payable and other liabilities	607	4,725
Payments of termination, pension and other	(231)	(234)
Total adjustments	(5,761)	(2,545)
Net cash provided by operating activities	**(4,865)**	**300**
Cash flows from investment activities:		
Capital expenditures, net	(3,823)	(1,971)
Decrease (increase) in restricted cash, net of trust fund contributions	(154)	3,053
Sale of investment in LYONDELL-CITGO Refining L.P.	756	-
Incorporation of non-consolidated investees	(957)	-
Dividends received from non-consolidated investees	280	527
Other change in Investments	2	148
Net cash used in investment activities	**(3,896)**	**1,757**
Cash flows from financing activities:		
Proceeds from issuance of debt	11,427	-
Long-term debt payments	(758)	(339)
Dividends paid, and dividends advances to Stockholder	(85)	(1,317)
Dividends paid - minority interests	(138)	-
Net cash used in financing activities	**10,446**	**(1,656)**
Net incr. (decr.) in cash and cash equiv.	1,685	401
Cash and cash equivalents at January 1	1,875	1,800
Cash and cash equivalents at end of year	**3,560**	**2,201**

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LUXEMBOURG LISTING AGENT AND PAYING AGENT

The Bank of New York (Luxembourg) S.A.
Aerogolf Center
1A Hoehenhof
L-1736 Senningerberg, Luxembourg

You should rely only on the information contained in this Prospectus. We have not authorized anyone to provide information different from that contained in this Prospectus. We are offering to sell, and seeking offers to buy, the Notes only in jurisdictions where offers and sales are permitted. The information contained in this Prospectus is accurate only as of the date of this Prospectus, regardless of the time of delivery of this Prospectus or of any sale of the Notes.

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Petróleos de Venezuela, S.A.

PDVSA

$3,000,000,000 5.25 % Notes due 2017
$3,000,000,000 5.375 % Notes due 2027
$1,500,000,000 5.50 % Notes due 2037

ABN AMRO

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Prospectus

November 30, 2007