

Contact with the New PDVSA

A Newsletter about
Venezuela's National Oil Industry

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Model for Mixed Companies approved

page **8** The Venezuelan
National Assembly
unanimously
approved the contract model for
the creation and operation of this
business scheme, as well as its
charter and statutes



**Great
Southern
Gasline**
Development for
Latin America



Inauguration of
commercial office
in **Bolivia**



Puerto La Cruz
and El Palito
establish
HDHPLUS®



Mission Science
scientific and technological
independence



White Dove award
for Venezuela



Caripito:
refinery for social
development

INTEGRATION » New Venezuela, Argentina and Brazil presidential get-together

The Great Southern Gasline to promote Latin American social development



Together, Venezuela, Argentina and Brazil embark on the largest energy project in Latin America.

The essential idea of this huge undertaking is the creation of a Latin American energy source that boosts the social development of its people

The main objective behind the construction of the Great Southern Gasline is the boost it will provide to the promotion of development poles throughout its length, as has been pointed out by the authorities promoting this ambitious project.

The gasline will not only become an energy source for Latin America,

but also an important link within the regional integration vision, because it will represent the crystallization of an undertaking which will be a worthy example for the start of other joint projects, framed within the concepts of complementarity and solidarity of peoples.

It will, at the same time, be a fount of resources to power the development of the Latin American peoples, who will see in the Great Southern Gasline an indispensable hubs for social progress since, in addition to the operational activities generated in the almost seven years it will take to build, it will enable the growth of other energy-related undertakings, such as industry, manufacture and services.

The starting date of the project, as well as its initial investment, will be decided at the next meeting of the Heads of State of the three main nations involved: Argentina, Brazil and Venezuela.

The most recent presidential meeting took place last 19th January at the Granja del Toro, Brazil's official presidential retreat, where the presidents of the three countries analyzed various regional issues, chief among them being the Great Southern Gasline's interconnections.

On this occasion, Hugo Chávez, President of the Bolivarian Republic of Venezuela, said that the gasline is *"an integrating project because a dynamic of social, economic, housing,*

roads, health and development hub plans revolve around it". In this sense, he considered that "it is not a case of making an 8,000 kilometer pipe to take gas, a source of wealth and development, along villages full of poverty and misery. It becomes necessary to add integral projects to it; we have to take gas and leave some of it along the way in the form of industrial development".

Gas: Clean and cheap energy

The Venezuelan Head of State considered that "gas represents one of the strategic lines of future development that will enable the generation of clean, cheap and accessible energy for all peoples".

In this sense, Rafael Ramírez, minister of Energy and Petroleum and president of Petróleos de Venezuela - who was a member of the delegation which accompanied the Head of State on his visit to Brasilia- stated that once the distribution of the gas transported by the Great Southern Gasline had been initiated, a project for massive gasoline consumption substitution, could be implemented.



Venezuela expects more South American countries will join the project.

BACKGROUND » Gasline's Multilateral Technical Committee



Technical commissions from Argentina, Brazil, and Venezuela are working on Phase I of the project.

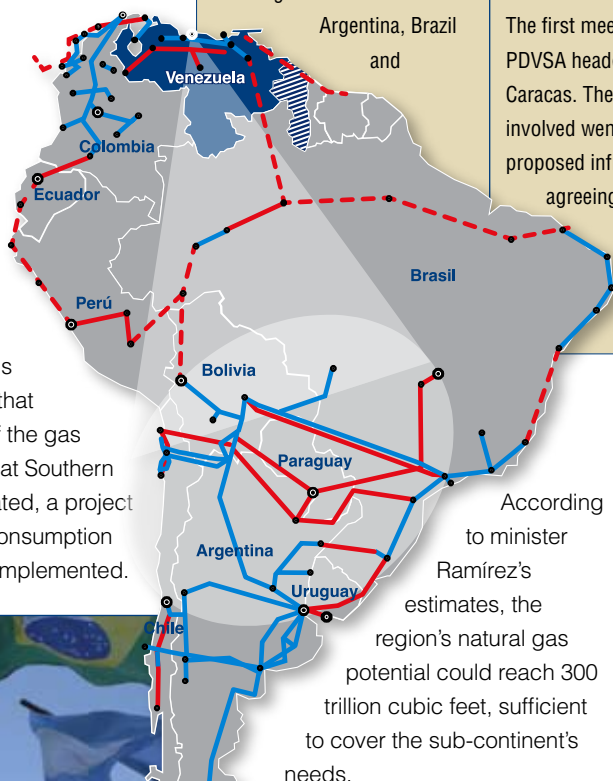
With the aim of making progress in the technical aspects of the South American gasline, the Multilateral Working Committee for the

Argentina, Brazil and

Venezuela Gas Interconnection has held several meetings in the main cities of these countries.

The first meeting took place at PDVSA headquarters in Caracas. The delegations involved went over the proposed infrastructure, agreeing that it was perfectly viable.

The joint commission is made up by a Ministerial Coordination and Decision Committee, a high-level coordinating committee, and work teams for marketing, resources, rate design, regulatory, legal and fiscal aspects, planning and engineering, permits, environmental, social and political impact, technology, research and financing options. ■



According

to minister Ramírez's estimates, the

region's natural gas potential could reach 300 trillion cubic feet, sufficient to cover the sub-continent's needs.

Ramírez disclosed that the gasline would begin in Puerto Ordaz, in southern Venezuela, continuing to Manaus in northern Brazil, crossing the Brazilian states of Fortaleza, Salvador, Brasilia and Pernambuco, the objective being to transport gas directly from the offshore developments in eastern Venezuela to the Pernambuco refinery.

At the session which took place in Brasilia, the Heads of State of the three countries reviewed the agreements arrived at to date, such as the route, the volumes involved, execution times, work schedules, the regulatory regime, the engineering, as well as the structuring of the various teams that will evaluate the fiscal and financial aspects.

During the Brasilia presidential meeting, Venezuela and Argentina signed a letter of intent for the purpose of initiating the geological studies and information interchange both for the Junín field in Venezuela's Orinoco Oil Belt and the San Jorge Gulf in Argentina. The objective is to evaluate the available crude reserves and determine the possibilities for undertaking a joint development by Venezuela's PDVSA and Argentina's ENARSA, a project which could eventually include Brazil's Petrobras. ■

INTEGRATION » Venezuela signs two energy cooperation agreements with Bolivia



Integration for La Paz

Evo Morales, President of the Bolivian Republic signed his first international agreements during his first day in office. These were two energy cooperation agreements he signed together with Hugo Chávez, President of the Bolivarian Republic of Venezuela, who said that the event was the beginning of *"new times in relations seeking the integration of our peoples"*.

Through the Caracas Energy Cooperation Agreement (in Spanish Acuerdo de Cooperación Energética de Caracas, ACEC), Venezuela agreed to supply Bolivia, through Petróleos de Venezuela (PDVSA), with 200,000 barrels per month of crude, diesel fuel and liquefied petroleum gas (LPG), with the aim of meeting the Andean country's total internal fuel demand.

The ACEC contemplates a compensation mechanism to settle the energy supply bill that will enable Bolivia to exchange products or services as

PDVSA is to supply 200,000 barrels per month of crude, diesel and liquefied petroleum gas (LPG) to Bolivia, in exchange for Bolivian agricultural products

President Chávez stated that this new stage of relations which links both nations is based on the integration of brother nations

payment. *"Venezuela stands ready to begin these cooperation agreements"* President Chávez stated.

Petroamérica becomes consolidated

The Venezuelan-Bolivian energy sector cooperation agreement aims to initiate a broad and sustained integration process that will enable the development and

promotion of areas such as oil, gas, electricity and petrochemicals, which will contribute to the consolidation of the Petrosur and Petroamérica initiatives.

This technical and operational agreement will serve to promote the agreements framed within the initiatives promoted by the Bolivarian Government. Venezuela has the experience to advise Bolivia on the internal use of gas and

thereby make a better use of its primary energy matrix, in terms of maximizing the benefits of the resource for all Bolivians.

Similarly, Venezuela committed itself to help in the process of upgrading Bolivia's state-owned company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and to set up PDVSA-YPFB joint ventures, as well as providing technical assistance for project evaluation and development, technology supply and cooperation in the training of specialized human resources. ■

VENEZUELA

Energy Map

Proved Gas Reserves
150 TCF

Probable Gas Reserves
100 TCF

Proved Oil Reserves
80 MMBB

Probable Oil Reserves
235 MMBB

Gas Production
6.300 MMCFD

Natural Gasoline and Oil/Condensate Production
3,3 MMBD

TCF: Trillion Cubic Feet
MMBB: Billion barrels
MMCFD: Million Cubic Feet per Day
MMBD: Million Barrels a Day

BOLIVIA

Energy Map

Proved Gas Reserves
26,7 TCF

Probable Gas Reserves
22 TCF

Proved Oil Reserves
254,7 MMB

Probable Oil Reserves
391,4 MMB

Gas Production
1.419,63 MMCFD

Natural Gasoline and Oil/Condensate Production
50,58 TBD

TCF: Trillion Cubic Feet
MMB: Million barrels
MMCFD: Million Cubic Feet per Day
TBD: Thousand Barrels a Day

Source: Ministry of Hydrocarbons of the Republic of Bolivia

UNION OF PEOPLES » Cooperation and complementation principles



Venezuela-Bolivia Agreements aim at the complementarity of the peoples.

During Evo Morales' inauguration, President Chávez spoke of the need to add Bolivia to Latin America's biggest energy project: the Great Southern Gasline.

The Venezuelan Head of State pointed out that Bolivia has the third largest gas reserves in the continent which, added to Venezuela's (130 trillion cubic feet), make up together with Argentina, Peru and Brazil a great gas potential that represents one of the cleanest energy sources and a major opportunity for the development of these countries.

PDVSA office inaugurated in Bolivia

Rafael Ramírez, Venezuelan Energy and Petroleum minister and president of PDVSA, and Edgar Hernández Behrens, president of BANDES, the economic and social

development bank, inaugurated PDVSA Bolivia's commercial office, located in a building which will also house BANDES and Industrial Bank of Venezuela (BIV) offices.



Hernández and Ramírez during the inauguration.

PDVSA Bolivia will be in charge of overseeing compliance of the energy and technological cooperation commitments agreed to by the presidents of both countries.

Minister Ramírez emphasized that PDVSA Bolivia would enable both nations to "proceed with a number of projects and programs we have agreed with this country". He emphasized that "These are the headquarters of Venezuelans and Bolivians, and we want them to feel it so, because we want hard work to be produced here for the benefit of progress for the people",

Regarding the energy agreements signed by the

presidents of Bolivia and Venezuela, Ramírez said that once the working teams had become consolidated, "we expect to develop an agenda to proceed with the issues contemplated in these agreements".

Productive interchange

On the agreement, minister Ramírez was confident that "this is not a supply agreement in which commercial considerations are paramount over any others, because these are guided by the spirit of integration, solidarity and reciprocity between both countries; this is why the diesel fuel we send to Bolivia will be turned into food or other products of Bolivian farming for Venezuela".

For his part, Bolivian Hydrocarbons minister Andrés Soliz Rada underlined the importance of the Bolivarian Government's initiative "with just having our fuel supply guaranteed, we achieve several objectives: we reduce the diesel subsidy and bring tranquility to the agricultural sector, all of this thanks to the support and solidarity of the Venezuelan people. ■

SCIENCE AND TECHNOLOGY» PDVSA, through CITGO, powers a massive knowledge plan

Mission Science: scientific and technological independence



The first year's investment in Mission Science will be 941 billion bolivars, to be contributed by CITGO, a Petróleos de Venezuela (PDVSA) subsidiary

The Venezuelan President launched the Science Social Program during his television show "Aló, Presidente" (Hello President) number 247.

Mission Science was created as part of the national development plans being undertaken by the government of the Bolivarian Republic of Venezuela, presided over by Hugo Chávez. The Mission's aim is to reach scientific and technological independence through the incorporation of Venezuela's whole population to the generation and strengthening of new technologies.

"The day must come when we produce 100% of what we consume", the president stated when announcing the launch of this new Mission, the main objective of which is to identify Venezuelans' talent and inventiveness through four specific components: applied knowledge, increased capabilities, extension, popularization and development.

The Head of State qualified the Mission Science as *"a massive knowledge explosion which will enable us, in a not too distant future, to produce not only for internal consumption, but also for the*

brother peoples of the Caribbean and South America".

Petróleos de Venezuela's Sowing the Oil Plan is one of the structuring projects conceived within the pyramidal global strategy of the Mission, in which the establishing of an Energy Studies Center has been foreseen as part of this program's second component. This phase includes the establishing of high-complexity knowledge concentration points to increase national scientific and technical capacities.

CITGO's role

Mission Science will have in its first year a 941 billion bolivar investment, contributed by CITGO, a PDVSA subsidiary. On this point Chávez underlined the importance of a company such as CITGO, with a revenue of 30 billion dollars per annum, which has begun to pay dividends to Venezuela. The first dividends to be paid by CITGO began last year. *"In 20 years Venezuela*

never received a cent from this company", the president recalled.

Strategic lines

Mission Science is made up by five strategic action lines: Habitat and Endogenous Development, Food Sovereignty and Security, Health and Safety, Energies, and Defense. Beginning with these strategic areas, the following theme areas are identified as Strategic Lines for Research and Development:

- 1 *Biotechnology*
- 2 *Metallurgy and new materials*
- 3 *Information technologies and communications*
- 4 *Electronics and microelectronics*
- 5 *Ecology*
- 6 *Town planning*
- 7 *Industrial processes*
- 8 *Geology*
- 9 *Energies*
- 10 *Military technology*

“The government’s
first duty is to provide
education for the
people...”

Simón Bolívar
Angostura Speech
15 February 1819



With the implementation of Mission Science, the mandate established in Article 110 of Venezuela’s Constitution has been met: *“The State will recognize the public interest of science, technology, knowledge, innovation and its applications, and the necessary information services because these are fundamental instruments for the country’s economic, social and political development, as well as for security and national sovereignty”.*

This Mission is to have five research centers: the Center for Biotechnology, Agriculture and Health, the Center for Energy Studies, the Center for Environmental Studies, the Center for Housing and Habitat, and the Center for Innovation of Steel and Aluminium Technology

Its scope is based on the massive incorporation of the social and institutional players through economic, academic and political networks for the intensive and extensive use of knowledge in terms of endogenous development and deepening of the Bolivarian national project.

This initiative requires the full participation of Venezuelans and of all their institutions because this is a macro project with a national reach. Its structure reflects an organization based on three levels: the first corresponds to the structuring of the social bases, as well as the networks and cooperatives of innovators; the second is related to the structuring of productive chains developed by inventors, the third one being the start-up of major structuring projects for national development in scientific matters.

One of the targets of Mission Science is to be able to produce 100% of the products which the country needs, at lower costs, and supply internal needs as well as powering endogenous development through the promotion of national sovereignty, solidarity and integration. ■

International agreements



Scientific knowledge will be at the service of
the Venezuelan people.

Venezuela has scientific and technological development agreements with countries such as Argentina. In agro-production, energy, aerospace and biotechnology with Brazil. In agro-production, electronics, biotechnology, energy, aerospace, information technology and communications with China. In agro-production, aerospace, electronics and energy, metallurgy and new materials, information technology and communications with Cuba. In biotechnology and ecology with India. In biotechnology, space technology, information technology and communications with Russia. In aerospace and agro-production with Uruguay.



Last year, CITGO, an affiliate of PDVSA, paid dividends to Venezuela for the first time.

RESOURCES » In figures Mission Science

Productive innovation networks	Bs 124 billion
Digital Mayoral Networks and Infocenters	Bs 124 billion
Medium, small and micro companies	Bs 120 billion
National inventiveness	Bs 33 billion
Talent formation	Bs 180 billion
Software developers	Bs 40 billion
Certification Labs. research & development	Bs 160 billion
Communicational and logistical strategy	Bs 7 billion
Professional services	Bs 126 billion
Extension programs	Bs 22 billion

ACHIEVEMENTS » Energy independence

The National Assembly approved the Mixed Company contract model which ensures national oil sovereignty



The Mixed Company scheme, which foresees a 60% and 70% State ownership participation, was unanimously approved

At the end of March, the National Assembly of the Bolivarian Republic of Venezuela unanimously approved the contract model for Mixed Companies to be established by Petróleos de Venezuela (PDVSA) and the private operators. The model specifies the terms and conditions for the creation and operation of these schemes, as well as their founding charters and by-laws.

The document submitted to the National Assembly (NA) establishes a 20-year duration for the Mixed Company, and clearly determines that royalties and the corresponding taxes are to be paid.

The Mixed Company contract stipulates, besides the 30% royalty, a special 3.3%

special advantage contribution to help promote social development projects in the communities where the companies operate. Of this 3.33% contribution, 2.22% will go to the municipal councils, the rest being handed over to the Endogenous Development Fund.

This new contract guarantees a 50% State participation in the Mixed Company's gross income, which re-establishes an old rule of Venezuela's oil tradition known as the "fifty-fifty".

A national, popular and revolutionary policy

Following the approval of the Mixed Company contract model, the agreements for the definitive migration

of the contracts were signed, a ceremony which took place on 31 March at Miraflores Palace's Salon Ayacucho.

During the ceremony, president Hugo Chávez stated that *"we are going to work and we are going to produce good oil, and here we will all come out winning. With this we are increasing our capacity to continue powering social development"*. The president also praised private capital participation in energy projects to promote the Nation's growth, and emphasized that the mixed companies have several interpretations: *"sovereignty, recognition of the national reality and private capital contribution to the country's integral development"*.

Operating Agreements	VS.	Mixed Companies
<ul style="list-style-type: none"> They were illegal, as they had never been approved by the old National Congress 		<ul style="list-style-type: none"> They will be analyzed and discussed in the National Assembly, the institution that must approve them before they go into force.
<ul style="list-style-type: none"> They violated Article 1 of the Nationalization Law. 		<ul style="list-style-type: none"> They are based on Article 12 of the Constitution of the Bolivarian Republic of Venezuela and on Article 22 of the Organic Hydrocarbons Law.
<ul style="list-style-type: none"> They were modeled on the transnational companies, maximizing PDVSA'S profit to the detriment of the State, the Treasury and the Venezuelan people. 		<ul style="list-style-type: none"> They respond to the principles of a state-owned company, maximizing profits for the State, the Treasury and the Venezuelan people.
<ul style="list-style-type: none"> They negated the sovereign right to regulate the exploitation rate of the depletable and non-renewable natural resource: the royalty 		<ul style="list-style-type: none"> They guarantee the sovereign right to remuneration for the exploitation of a non-renewable natural resource.
<ul style="list-style-type: none"> They made it mandatory to arbitrate any contractual differences in New York courts, thereby violating our national sovereignty. 		<ul style="list-style-type: none"> They establish the authority of the national courts of law.
<ul style="list-style-type: none"> They reported high operating costs indexed to the market price of the oil barrel. 		<ul style="list-style-type: none"> Reduction of expenses and increased royalty and taxes
<ul style="list-style-type: none"> They were not aligned with the national development plans 		<ul style="list-style-type: none"> Aligned with the Sowing the Oil Plan
<ul style="list-style-type: none"> They meant the privatization of 500,000 barrels of crude per day. 		<ul style="list-style-type: none"> Rescue Full Oil Sovereignty.

Chávez recalled that Sowing the Oil Plan (2005-2030) requires 70 billion dollars, which is why *"we will need a major investment. we have foreseen that our contribution will be 60%"*. In this context he also said that national and international private investment was needed for the major petrochemical and gas projects.

National Assembly confirms oil sovereignty

The present NA's participation in the migration process has been important because this institution has confirmed its sovereign right to decide on issues that are vital to the country, while in the past, when the oil opening was growing, legislative authority was overlooked in many aspects.

Therefore, on submitting to the NA the Bolivarian Government's Mixed Company framework model, Rafael Ramírez, Energy and Petroleum minister and president of PDVSA stated: *"we are thrusting forward a national policy designed to restore our full oil sovereignty. This is indeed a national, popular and revolutionary policy. It is national because it gives us back our control on resources, popular because it rests on the shoulders of our people,*

and revolutionary because of the way the oil rent is disposed of, distributed to the benefit of the people". Ramírez recalled that 4 billion dollars had been disbursed in 2005 to cover the production of 500,000 barrels per day of crude by the Operating Agreements, while for this year the aim is to produce the same or a larger amount for only one billion dollars.

"This is a net saving of 3 billion dollars which goes to the shareholder as dividends or contributions to social development, just as we have been doing since last year in the case of CITGO, the PDVSA subsidiary in the United States. In this case we have brought to the country 900 million dollars in dividends which are invested here in the missions and in other works that also benefit the people." ■

Permanent Sovereignty over Natural Resources

Almost 44 years ago, on 14 December 1962, the General Assembly of the United Nations Organization approved Resolution 1,803, which states the following:

- The rights of peoples and nations to the permanent sovereignty over their riches and natural resources must be exercised in the interest of national development and the well-being of the people of the respective State.*

- The exploration, development and disposal of such resources as well as the importing of foreign capital to undertake them, should adhere to the rules and conditions that these peoples and nations freely*

consider to be necessary or desirable to authorize, limit or prohibit such activities.

- In the cases in which authorization is granted, the capital introduced and its increments will be ruled by the Nation, by the national law in force and by international law. The profits to be obtained must be shared, in the proportion freely agreed to in each case, between the Investors and the State which receives the investment, taking care not to restrict for any reason the sovereignty of such State over its riches and natural resources.*

- The violation of the sovereign rights of peoples and nations*

over their riches and natural resources is contrary to the spirit and principles of the United Nations Charter and hinders the development of international cooperation and the preservation of peace.

- The agreements on foreign investments freely arrived at by sovereign States or among them must be undertaken in good faith. The States and the international organizations should strictly and scrupulously respect the sovereignty of peoples and nations over their riches and natural resources in accordance with the Charter and the principles contained in the present resolution.* ■

TECHNOLOGY » The Puerto La Cruz and El Palito refineries to use HDHPlus®

Conversion of heavy crudes with Venezuelan technology



Last year, CITGO, an affiliate of PDVSA, paid dividends to Venezuela for the first time.

Petróleos de Venezuela together with IFP and AXENS of France signed an agreement to upgrade the refining capacity of the oil industry through the use of the Venezuelan HDHPLUS® technology for the purpose of increasing the production of diesel, high-quality gasoline and other fuels for the international market

Petróleos de Venezuela signed a Cooperation Agreement with the French Petroleum Institute (in Spanish Instituto Francés del Petróleo, IFP) and the AXENS company of France for the use of the Venezuelan HDHPLUS® technology in the Puerto La Cruz and El Palito refineries located respectively in the states of Anzoátegui and Carabobo.

HDHPLUS® is a technology developed by PDVSA INTEVEP since 1984 for the treatment, conversion and value increase of the heavy and extra-heavy crudes of the Orinoco Oil Belt, an area which holds the world's largest reserves of this type of hydrocarbon.

The agreement signed by the Energy and Petroleum minister and president of PDVSA, Rafael Ramírez; PDVSA INTEVEP president, Alfredo Morales; the president of AXENS, Jean Sentenac, and the president of IFP, Olivier Appert, will upgrade PDVSA's refining capacity through the use and optimization of HDH PLUS® technology.

100% Venezuelan technology

PDVSA, IFP and AXENS agree to work in the Puerto La Cruz and El Palito refineries to optimize the HDH PLUS® technology with the aim of reaching a higher conversion level of heavy and extra-heavy crudes, to improve the

refineries' performance and reduce the capital investment required for each installed barrel.

On the agreement reached, minister Ramírez stated that *"the agreement has an imponderable value because we now can make free use of our own technology. We no longer depend on licensing but use a totally Venezuelan product which has been developed years ago by INTEVEP, but which had never been applied in Venezuela."*

The president of the French Petroleum Institute, Olivier Appert, highlighted the importance of the agreement due to the fact that *"it aims at dealing with an*

issue which is fundamental to the world: the conversion of heavy crudes, which is possible due to PDVSA INTEVEP'S work in the conversion field, and that of IFP and AXENS in the area of hydrotreatment processing and effective transformation of this type of crude".



President Ramírez and Vice-President Granado signing the document.

For his part, AXENS president and general manager, Jean Sentenac explained that the new technology would enable PDVSA to increase its production of diesel and high-quality gasoline, as well as other fuels for the international market.

In this way, PDVSA boosts its strategic energy integration plans and makes a further contribution to the high conversion requirements of the Venezuelan refining circuit.

It is worth mentioning that the signed South American energy integration agreements that require high conversion processes will use HDH PLUS® technology. ■

DEVELOPMENT » PDVSA INTEVEP's CEPRO arrives at its 10th anniversary



An oil sovereignty laboratory

The Experimental Production Center (CEPRO, in Spanish) is a laboratory attached to PDVSA INTEVEP's Exploration and Production General Managership, made up of an 8,000 foot deep well, a drilling fluids and cementation bank, an experimental flow station and a testing circuit for metering equipment

Petróleos de Venezuela is celebrating the tenth anniversary of CEPRO, which is attached to PDVSA INTEVEP's Exploration and Production General Managership. It has been a decade of leadership in oil research.

CEPRO is a real scale laboratory whose impressive installation is made up of an eight thousand foot deep well, a drilling fluids

and cementation bank, an experimental flow station and a testing circuit for metering equipment.

PDVSA inaugurated this center on 13 February 1996 at Tía Juana in the State of Zulia, because of an initiative promoted by a group of PDVSA INTEVEP research staff. Its creation met the need to simulate and reproduce real conditions in Venezuelan oil wells.

PDVSA'S great laboratory has 6,490 square meter (m²) surface, divided into areas of 33,260 m² of land where, for 10 years, successful experimental tests associated with projects supervised by PDVSA INTEVEP's Research & Development and Technical Services were carried out for the purpose of validating the technologies being developed.

This modern installation allows the evaluation of various production methods with the aim of optimizing the work in the field. Indeed, it is possible to vary conditions in the processes selected and to analyze results immediately, and so determine their real impact. ■



PDVSA's technological arm

PDVSA INTEVEP, the corporation's technological arm, has patented 205 products developed mainly for exploration and refining activities, and which represent a greater degree of independence for the Venezuelan oil industry, and a major step in achieving its technological sovereignty

Among the products developed are HDHPLUS®, a technology for the treatment, conversion and value increase of the Orinoco Oil Belt's heavy and extra-heavy crudes; DISOLO®, a technology to convert natural gas, residual fractions and petroleum coke into waxes, lubricant bases and high value added, non-contaminating, synthetic fuels. ■

BUSINESS » Venezuela strengthens presence in Argentine market

PDVSA acquires ANCAP's shares in Petrolera del Cono Sur

The purchase of these shares responds to the Bolivarian Government of Venezuela's strategic orientation with regard to bringing about the energy integration of Latin America



PDVSA, together with ANCAP, will strengthen its presence in the Argentinean fuel market.

Petróleos de Venezuela acquired 50% of the shares held by Uruguay's energy authority Administración Nacional de Combustibles, Alcohol y Portland (ANCAP) in Petrolera del Cono Sur, based in Argentina, for the sum of 15 million dollars. In this way the Venezuelan national oil company controls 46% of the southern company's shares, further consolidating its presence in this market by placing 145,000 barrels of fuels per month through 155 service stations.

On this subject, Venezuela's Energy and Petroleum minister and president of PDVSA, Rafael Ramírez expressed his satisfaction for *"this decisive step in South America's energy integration, taken in a sovereign and independent manner, with total control over our resources, while strengthening PDVSA's presence on Argentine soil"*.

Energy integration

For his part, ANCAP president, Daniel Martínez pointed out the possibilities for development through the alliance

of both companies because *"ANCAP secures its fuel supplies, while PDVSA strengthens its share in the Argentine market"*.

At the same time, the entry of Enarsa, Argentina's state energy company, as a partner in Petrolera del Cono Sur, is being analyzed.

ANCAP held 92% of the Petrolera del Cono Sur's shares and, with PDVSA's purchase, the Argentine territory becomes an important client for the marketing of Venezuelan fuels and lubricants with the PDV brand.

The decision to buy the shares is in line with the Bolivarian Government's strategic orientation with regard to bringing about Latin America's energy integration, especially in the Southern Cone, based on the principles of solidarity, cooperation and complementation among peoples. Worthy of note is the fact that Petrolera del Cono Sur has among its assets, besides the 155 service station network, an ISO 14001 certified distribution terminal, as well as 52 offices. With 4%



President Hugo Chávez with his Uruguayan counterpart, Tabaré Vázquez.

of the market, it is the fifth service station network in Argentina.

This step consolidates PDVSA's position as the first world-scale oil company to boost Latin American energy integration, a worthy example of promoting a true commitment to raising the people's quality of life, something very different from the traditional attitude of this type of company towards the communities where it operated; shown mainly through symbolic contributions and donations without a telling impact on their social structure. ■

BUSINESS » PDVSA secures its diversification policy

Asian markets are a target for Venezuelan crude



Venezuela placed 2 million barrels of crude in India, in a shipment protected by all the corresponding security measures. PDVSA cooperates with India on exploration through sharing its experience and technology developed over the years

As part of its market diversification policy, as contemplated in the 2005-2030 Sowing the Oil Plan, Petróleos de Venezuela sent its first 2 million barrel shipment to India, with the aim of expanding its reach in the Asian continent.

PDVSA used for this purpose the Very Large Crude Carrier (VLCC) "Venus Glory, loaded with 1.1 million barrels of 16°API Merey crude and 900,000 barrels of 30° API Mesa crude. The shipment was unloaded at the Indian port of Sikka.

The operations complied with all the technical and safety measures required to dispatch a double hull VLCC with an

overall length of more than 300 meters and a 22 meter exit draft.

The diversification strategy is aimed at capturing new markets in countries such as China, India and Japan, taking advantage of the growing world demand, without curtailing Venezuela's presence in traditional markets.

Exploration in India

PDVSA INTEVEP successfully drilled a pilot well in the Baghewala field, located in India's Rajasthan province, a region rich in heavy crudes, where PDVSA's expertise is particularly valuable.

This drilling project is derived from the cooperation agreement signed by the

governments of the Bolivarian Republic of Venezuela and the Republic of India, represented respectively by their state oil companies PDVSA and Oil India. The agreement establishes the possibility of interchanging and transferring oil technology and knowledge between both nations.

INTEVEP's support

The project covered both the design of the subsoil and surface equipment used to operate the block, and the definitive production plan. Towards this end, a team of PDVSA INTEVEP specialists evaluated the production system, reviewed the geological and engineering models, and designed a plan for the development of the area.



In addition, PDVSA INTEVEP carried out the drilling engineering and contributed its knowledge in the areas of fluids, cementation and mechanical design for the construction of the well.

The reservoir's infrastructure was left in charge of the Oil India technicians, while the PDVSA INTEVEP advisors were responsible for the conceptual aspects.

It is estimated that the reservoir in question holds some 300 million barrels of heavy crude, a significant volume for India, which must import 70% of the oil it consumes. ■

Petrotips

A 39% savings in cementation operations



The most recent application of SOLSURF™ technology was undertaken in the country's Central-South Division,

where it generated a savings of 30.6 million bolivars. Its application in the Borburata field in the State of Barinas and La Victoria in Apure is foreseen.

The use of this technology enables PDVSA to do away with the importation of additives employed in washing and separating, an operation of the cementation process that is part of the exploration activity.

Petrocaribe activates 12 electricity generation plants in Antigua and Barbuda



In compliance with the Petrocaribe Energy Cooperation Agreement, 12 portable electricity generation plants to provide 10

megawatts per hour were installed. This will help meet the demand for this service by Antigua and Barbuda. The operation will lead to increasing generation capacity by 25%. The agreement establishes that PDVSA, through its Petrocaribe subsidiary will provide electricity supply to both these islands during six consecutive months, which can be extended up to one year.

PDVSA analyzes producing 25,000 barrels per day of ethanol from sugarcane



PDVSA has financed a feasibility study covering the sowing of 276,000 hectares of sugarcane, which will allow it to produce 25,000 barrels per

day of ethanol, required by the oil industry to process and blend with the gasoline produced by its refineries.

Molasses or saccharose is extracted from sugarcane and subjected to an industrial fermentation process to produce ethanol alcohol.

Negra Hipólita Mission a helping hand



The Negra Hipólita Mission is a social aid program with the main objective of rescuing, and securing the rights of the homeless and people living in

extreme poverty. The Negra Hipólita Mission seeks to provide a real opportunity for a decent life to the main victims of this scourge.

Values and concepts such as solidarity and cooperation are part of the solution provided by the Bolivarian Government in the struggle against this social problem. ■

PDVSA in figures 2005*



Proven Reserves

Crude 80 Bn Barrels

Gas 150.4 tcf

Venezuela's production capacity

Crude 3.9 m BPD

Gas 6.9 Bn cf

LNG 0.25 m BPD

Refining capacity

In Venezuela 1.3 m BPD

Abroad 2.0 m BPD

Total 3.3 m BPD

Global income

85.3 Bn US\$

Glossary

m: Millions
cf: Cubic feet
BPD: barrels per day
MBD: Millions of barrels per day
m cf pd: Millions of cubic feet per day
Bn US\$: Billions US dollars

* Preliminaries numbers

Quote of the month

“We believe that the gasoline that will go from Puerto Ordaz to Buenos Aires will be the most important integration work ever to be developed in South America”

Rafael Ramírez
Minister of Energy and Petroleum
and President of PDVSA



OPERATION INDICATORS
May average 2006

CRUDE

3,3
m b/d

GAS

6,9
bn cu ft

REFINING (Ven.)

1,3 m b/d
(Venezuela/Isla
Circuit)

EXPORTS

2,4
m b/d

EXPORT BASKET

\$ 52,15
per barrel

RECOGNITION » Venezuelan oil corporation's credit capacity strengthened

PDVSA's credit rating improves

Fitch Ratings, the international credit rating agency, raised Petróleos de Venezuela's rating in local and, foreign currency from B+ to BB- thereby reflecting its trust in solid financial and operating standing of the country's main industry. Similarly, it raised the rating of its subsidiary PDV Finance from BB to BB+

Fitch Ratings also assigned an AAA rating to PDVSA for the Venezuelan market. This rating, which represents the highest quality credit, with particularly low risk expectations, is assigned to entities with an exceptionally solid capacity for the timely payment of financial commitments.

One of the factors taken into account by the credit agency was the start-up of the first stage of the 2006-2030 Sowing the Oil Plan. The Plan includes a 56 billion dollar investment,

and aims to produce by 2012 a total of 5.8 million barrels of crude per day, expanding refining to 4.1 million barrels.

The third most important

In December 2005, PDVSA rose to the third position among the world's 50 most important oil companies, according to an analysis undertaken by Petroleum Intelligence Weekly, the prestigious oil trade publication. ■



Risk scale

BB- Speculative: It indicates that the companies can rely on alternatives that would allow payment of commitments, despite the possibility of credit risk arising from adverse economic changes over time.

B+ Highly speculative: It means a significant credit risk, with a limited safety margin, Although the payment of commitments is being undertaken, the payment capacity is only subject to a sustained and favorable condition of the business and the economy.

Source: www.fitchvenezuela.com

AWARD » Limitless solidarity

Venezuela receives international award for humanitarian support of US poor

The Rochester Committee for Latin America (ROCLA) is an independent organization which has been active for some years in the drive to achieve a pacific society. Its "White Dove" award is bestowed in recognition of efforts made by personalities and institutions in improving the quality of life of the American people.

The Bolivarian Government of Venezuela received the "White Dove" International Award granted by the Rochester Committee for Latin America in recognition of the

humanitarian support provided by the government of president Hugo Chávez Frías to poor communities in the United States through the supply of fuel at low cost.

In a ceremony which was attended by more than 200 citizens, Venezuelan consul general, Leonor Osorio received the award on behalf of the Bolivarian Government and the Venezuelan people.

Effort recognized

Osorio highlighted the importance of the award for Venezuela because "it grants recognition to president Chávez and

the government of Venezuela for their integration efforts".

She pointed out that Venezuela had provided constant and unconditional help to the US population after the ravages caused by the Katrina and Rita hurricanes in the second half of 2005. PDVSA, through its US subsidiary CITGO Petroleum Corporation, supplied low cost fuel to communities in more than seven states.

For his part, John Locke, one of the Rochester Committee members, recognized that president Chávez was democratically elected as Venezuelan Head of State. ■

GUIDELINE » PDVSA refining capacity to increase by 50,000 barrels per day

Caripito refinery to boost social development in Monagas

Petróleos de Venezuela is to invest more than 500 million dollars in the construction of the Caripito asphalt refinery, in eastern Venezuela's State of Monagas. Of the total amount, 10% will be devoted to social development through the region's Social Production Companies. The Caripito refinery project contemplates important improvements in roads, infrastructure and dredging of the Caripito and Guanoco ports, upgrading of the power substation and the treatment plants, besides works of social interest.

Social development

The social orientation of the project responds to the guidelines set by the Bolivarian Government, contained in the 2005-2030 Sowing the Oil Plan. PDVSA's vice-president for Refining, Alejandro Granado stated that *"the projects being developed by our industry now not only aim for the benefits for the corporation, but also those that can be generated for the community, the Nation and all Venezuelans"*.

Worthy of note is the fact that, with 30 billion bolivars, PDVSA began the development of several social infrastructure projects; among them, an Integral Diagnostic Center, expansion of the water plant, refurbishing of the Darío Márquez Hospital, construction of a soft-ball stadium and the headquarters for the Children and Adolescents Symphonic Orchestra.



The project is part of the 2005-2030 Sowing the Oil Plan and its construction is estimated will take 4 years, being completed in 2010. The refinery is expected to generate 10,500 jobs, 3,000 of them direct and 7,500 indirect

Job generation

The Caripito refinery's construction project is currently at the conceptual engineering stage. The construction of the complex is expected to take four years and will generate 10,500 jobs; 3,000 of them direct and 7,500 indirect jobs.

Once completed, the complex will process 50,000 barrels per day of crude from the Guanoco Lake and

produce 18,000 barrels per day of asphalt, 7,000 barrels of diesel fuel and 2,000 barrels of naphtha. Production will go to meet local demand in the States of Anzoátegui and Sucre, and it is expected that products may be exported in the future.

The refining complex, which is to begin operations in 2010, will draw its feedstock from Guanoco Lake, one of the few in the world holding large proven reserves of natural asphalt. ■

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