

The New PDVSA Contact

A Newsletter about
Venezuela's National Oil Industry

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Planes Estratégicos



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The Plan for Sowing the Oil

page **2** **PDVSA's Strategic Plans by sector project a long-term vision of the Venezuelan Oil and Gas Industry by 2030**



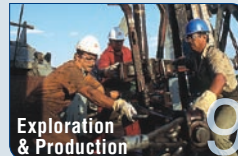
Ramírez: PDVSA
is an instrument at the
service of the country



Refining
Refining investment for
\$16.5 billion planned



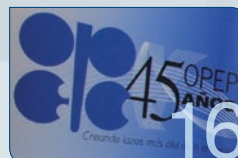
**Commercialization
& Supply**
PDVSA increases export
market diversification



**Exploration
& Production**
Production capacity to
increase to 5.4 million
barrels per day by 2012



Orinoco Oil Belt
To produce 1.2 million
barrels per day of
heavy crude by 2012



Venezuela celebrates
OPEC's 45th anniversary



Excerpts from President Hugo Chávez's address

The Plan for Sowing the Oil

a strategic vision of the hydrocarbons industry, the country, and the Latin American region

The President of the Bolivarian Republic of Venezuela, Hugo Chávez, presented the projects and vision of the National Oil and Gas Industry for the next 25 years

Recently PDVSA's Strategic Plans by sector were presented in Caracas, projecting a long-term vision of the hydrocarbons industry for Venezuela and the Latin American region.

Bellow we present excerpts of the opening speech of the Venezuelan President, Hugo Chávez:

Today we announce to the Nation and to the world our strategic plans as initiated and generated by the New PDVSA. It is a national project, which we have been carrying forward for several years, to which the government, the nation as a whole, is committed in body, soul and spirit ...

In Perspective

This strategic plan covers the next 25 years, from 2005 to 2030, so as to coincide with the Bolivarian Bicentennial 1830-2030, and upon its completion we will be able to tell the world "We have not plowed in the sea, the Nation has been saved, rebuilt, and is going forward in an irreversible process forever." In honor of the spirit of that statement, in honor of the famous Venezuelan writer, Arturo Uslar Pietri, of Dr. Juan Pablo Pérez Alfonzo (Venezuelan founder of OPEC) and of all those who warned, wrote, said, fought and even died for the national sovereignty of our hydrocarbons, I propose that we name the 2005-2030 Plan: "Sowing the Oil".

PDVSA's Strategic Plans by sector are: quantification and certification of our reserves, the Orinoco Project, the Caribbean Delta Project, Refining, Infrastructure and Regional Integration.

All Venezuelans know that Petróleos de Venezuela was in the hands of a corrupt, anti-national, treasonous elite and powerful international interests. They had managed to control the oil industry from its brain to its hands, its policies, strategies, and businesses. And they had placed this enormous potential at the service of foreign interests.

Certification of Reserves

The first project will certify Venezuela's oil reserves before the world. This is an exploration program for the next several years, with greater scope, scientific research, for prospects. The Orinoco Oil Belt covers an area of 55,314 square kilometers. There are 11,593 square kilometers under exploitation at the moment. The area which will be quantified covers 18,000 square kilometers. Other remaining and reserved areas cover 25,000 square kilometers.

Venezuela has reserves of some 312,000 million barrels of oil and the *coup d'état* (refers to the cup against Chávez gov't in 2002) was nothing more than the consequence of our government plan to recover control of the oil industry for the State and place it at the service of national interests.

Orinoco Project

The Orinoco Project covers the Orinoco axis and includes part of the Apure River, a great development area. The plan is to explore and develop the various fields of the Oil belt: Boyacá, Junín, Ayacucho and Carabobo, formerly known as Machete, Zuata, Hamaca and Cerro Negro respectively.

The Plan for "Sowing the Oil" means the utilization of oil, the whole oil industry, as a lever for the integrated development of this axis and this whole nation. We are using oil in that direction, to promote integrated social, economic and productive development. We could take a block from the Orinoco Oil Belt to form an alliance with South America's oil companies, for example, with Ecopetrol, or Petroecuador, Petroperu, Enarsa of Argentina, because we want to place this great energy resource at the service of all the people on the planet, for their future development...

The old oil elite was really only an instrument of North American hegemonic interests and the transnational companies. This must be said. "In speaking the truth, I neither offend nor fear".

DeltaCaribe Project

Gas will be used as an element for endogenous development, for the industrialization of the country. One of the main objectives of this project includes the great petrochemical plan.

We hold the 8th largest gas reserves in the world. We have begun to develop this potential gas business to benefit our own nation and regional integration; energy cooperation with the countries of Latin America and the Caribbean. The Gas Project is divided into various specific areas: the construction of the Gran Mariscal de Ayacucho Gas Industrialization Center (CIGMA) in Paria Peninsula, in the State of Sucre; the

We have to balance the country's infrastructure to foster Venezuela's integral development. The plan is to install a development pole in the heart of the country and some of these projects are already in motion

Deltana Shelf, where we have already started to drill; the Rafael Urdaneta Project in the Gulf of Venezuela and surrounding areas of the Paraguaná Peninsula. We could call this the DeltaCaribe Project for the Orinoco at the Delta and the Caribbean. Such project is also an act of sovereignty over a geopolitical space. We are taking a step forward towards the Caribbean and a step sideways, to the right, towards our Atlantic border, which had been totally abandoned; the domestic gas business, we must guarantee all these energy supplies to our own people. We all have a right to use these resources to improve our quality of life. We plan to build a pipeline which goes from Sucre, crosses the center of the country, crosses the plains, to take gas to the West and thus balance the potential: the same for the North and South.

Infrastructure and Refining Projects

The development of infrastructure; that is to say, within Venezuela: refineries, terminals, oil installations, pipelines, 99% of which are located in the north of the country, and we have great

extensions of good land where there is not one refinery, not one pipeline, not one gasline, not one oil industry installation. We have to balance infrastructure so as to promote integrated development in the country. This Plan includes the construction of a group of refineries in Venezuela; one of them will be in the Barinas plains, with a capacity of 50,000 barrels a day. Then another refinery is planned in Caripito, Monagas State, also with a capacity of 50,000 barrels a day, producing asphalt. And the star refinery, the newest, in Cabruta, Guárico State. A great refinery for 400,000 barrels a day of oil, in the heart of the Orinoco area, there in Cabruta, at the heart of Venezuela. The plan we have is to install a development axis in the geographical heart of the country and, some of these projects are already in motion.

As outlined before other key project is the one related to refineries. Today we are refining 1.3 million barrels a day, that is to say that we are exporting approximately 2 million barrels of crude a day. With this plan we are going to increase refining to 2 million barrels within Venezuela. Part of this development project is to increase refining capacity in our own territory and also in the surrounding Latin American region, as I already mentioned, one of the most important refining projects will be the refinery in Pernambuco (Brazil).

Regional Integration

At the last meeting of the Andean Community in Lima, we proposed the creation of Petroandina and this has been well received by all. We have proposed to South America and we are going forward with the creation of Petrosur, with Argentina, Brazil, Uruguay and we hope other countries will also join Petrosur. We have created Petrocaribe, with our brothers of the Caribbean islands. We are talking to some governments, with some of the Central American leadership, to see how we can help Central America too, to strengthen political integration, economic integration, social integration; the dream of Bolívar to achieve a multipolar world. ■



President of the Bolivarian Republic of Venezuela, Hugo Chávez Frías and, Rafael Ramírez, Minister of Energy and Petroleum and President of PDVSA, opening the exhibition on PDVSA's Strategic Plans.

The Plan for Sowing the Oil 2005-2030 in context

PDVSA is at the service of the Bolivarian Republic of Venezuela



The Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, pointed out “We are talking about a set of investments for 56 billion dollars, with a Venezuelan State policy of national participation, not only as operators or investors, but also in the supply of goods and services”

In the following we present excerpts of the conference on the Plan for Sowing the Oil which encompasses the PDVSA's Strategic Plans by sector, given by the Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez.

A strategic vision of oil

This is the first time that we present the country with a set of plans with a different vision, so important that they transcend PDVSA itself and become a national plan which will have a decisive impact on the development of our country, of our capacities, and which will help to deconcentrate our population and strengthen our industrial sector. The Plan for Sowing the Oil is going to contribute to strengthening

all our national capacities and is going to take part directly in the construction of an economic order that is more just and balanced.

A real sowing of the oil

We are working so that a real sowing of the oil can take place; this means taking apart the oil enclaves, democratizing our activity. We face the very important challenge of this extraordinary expansion. Moreover, we want to work in harmony with our national development plans, and this means having a definitive impact on important areas of the country that remained submerged in backwardness and exclusion.

All Venezuelans should participate in this vision. In this first instance, PDVSA

is a tool at the service of our country, fighting along with the State in the recovery of our sovereignty, fighting alongside the people in the battle against exploitation, supporting our national private capital so that it recovers and becomes stronger, establishing new relationships with our national companies. We have here an extraordinary opportunity. We are talking about a set of investments of 56 billion dollars, with a Venezuelan State policy that emphasizes national participation, not only as operators or investors, but also in the supply of goods and services.

PDVSA recovered for Venezuelans

The new PDVSA has recovered all of its capacities after the defeat of the oil sabotage at the end of 2002 and beginning of 2003. I will always remember this situation distinctly because it is a landmark for the PDVSA that crumbled into pieces, which was no longer viable in a country with a new constitutional framework and with our people. Thanks to the efforts of our people, of our Bolivarian government, of the workers and managers of the New PDVSA, today we have the company consolidated, firm in all its operating capacities, in its oil production, its gas production, its refining capacity. PDVSA is an instrument, which is now at the service of the whole country, not at the service of an elite group, an enclave, not at the service of transnational interests. It is at the service of the Venezuelan people, of our highest interests, which cover all sectors of the country.

The international scenario

Tensions are increasing in the international oil market as a result of structural change factors, as we have argued within the Organization of Petroleum Exporting Countries (OPEC), which marks a market situation distinguished by instability and high oil prices.

An aggressive foreign policy against the oil producing countries conducted by the United States, the *coup d'état*

in Venezuela, the oil sabotage, all of this in 2002. The Iraq invasion in 2003, which caused oil production to fall from 3 million barrels per day to 1.8 million barrels per day and which, with all the instability of the case, they are trying to produce. The tensions over Iran, the terrorist attacks in Egypt and Saudi Arabia. This is to say that instability persists in the Middle East and in the petroleum producing countries. In addition, of a sustained and permanent demand, caused by a structural change in the world economy. Additionally, the great economies of China and India are boosting their manufacture and industrialization with high energy consumption.

The absence of spare production capacity and a sustained process of low prices during the 80's and 90's brought about disinvestment and, as a result additional production capacity was not built. Within OPEC we have discussed that when production capacities reach their top, there is a risk of a dangerous deficit in production capacity, which cannot be solved in the short term. This warns us that, in the short and medium term, we are going to have a problem that is clearly detected by the market; in addition to a decline in the production of non-OPEC countries. We also have to add the refining capacity problem. We estimate that only in the Atlantic Basin there is a deficit of 4 million barrels in refining capacity. Evidence of this bottleneck is that not a single new refinery has been built in the United States during the past 25 years.

Heavier crude

This is why we say that the era of cheap oil is over. The market has ever larger volumes of heavy sour crude, characteristics of the crude which make it more expensive to refine, and which will continue to maintain high levels. We estimate that the price situation we are seeing has come to stay, and when the conditions are appropriate, we will have to promote a new band system that will enable the stabilization of the oil market.

Contribution to the Nation (US\$ m)

January - June 2005

Income	17,312
Income Tax	3,793
Royalty	4,776
Sub total	8,569
Social programs	744
Fondespa	1,000
Total \$	10,313

PDVSA financial management with social investment

We can count on a company strengthened not only in all its operational aspects, but also in its extraordinary financial results. A company that last year had worldwide revenues of 64 billion dollars, with a net profit of 4.7 billion dollars, with some excellent financial results that have won us a positive standing by credit rating agencies, which have always been very tough on Venezuela.

We have brought health back to the company in all its fundamental financial

Financial results 2004*

Revenues	\$ 64,5 billion
Net income	\$ 4,7 billion
Assets	\$ 62,3 billion
Debt to net worth	9%

*Preliminary results

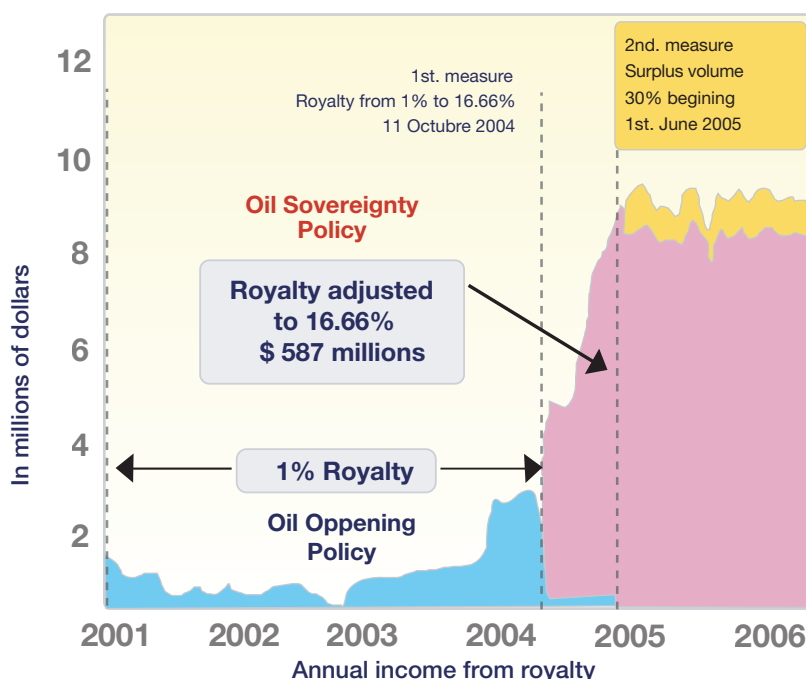
aspects and we have an extraordinary capacity to undertake associations, and joint-ventures, within the framework of our new law, with all the partners needed to move this project forward.

Our fiscal contribution and our task in the social sphere are clearly reflected in the financial results for the first quarter of 2005. We are reinvesting in Venezuela the surpluses generated by oil through the Fund for Economic and Social Development of the Country (Fondespa). Since the Fund was created, we have deposited \$3 billion, and this has served to complete a number of infrastructure and service projects, among which there is a \$600 million contribution for electric power generation. Approximately 25% of the total amount is dedicated to roads and

(continued on page 6)

Income increase due to royalty adjustment in Orinoco Oil Belt associations

Measures taken by the Energy and Petroleum Ministry



(continue from page 5)

highways, transport systems, water systems, housing and education. This is a fundamental role assigned to us by Article 5 of the hydrocarbons law in force, and with which we are gladly complying, with the direct involvement of our managers.

Shaping and development of the national industry

We are in the process of creating a 100 million dollar fund for the industrial sector to promote new types of organizations. We have more than 5,000 suppliers of goods and services in our records, and the majority of them are at a standstill. We are going to study this and we are going to offer all the technical support, all the financial support needed, but complying with our commitments in the social area so as to incorporate the people into all these activities in order to strengthen the national economic and achieve diversification.



Full petroleum sovereignty

This process of recovering control of our main activity and the expansion of our oil industry touches the development and deepening of a policy we have come to call Full Petroleum Sovereignty. We are committed to dismantling the Oil Opening, which actually compromised the control of the Venezuelan State over its resources. We should remember that our Constitution, the previous one and the current Bolivarian one, reserve the hydrocarbons control and administration to the State, as well as the effective control of its national operator. ■

Growing through own effort

PDVSA plans to increase crude production to 5.4 million bpd by 2012



Luis Vierma,
Vicepresident
of **PDVSA**

“ All the developments that we will undertake, both upstream and downstream, as well as offshore, will be closely tied to integral development of the region, which is why all of these projects will have an important social component ”, stated Vierma

PDVSA's Exploration and Production Vice-Presidency pointed out the goal to increase crude production to 5.4 million barrels per day by the end of 2012. Of this figure, 4 million will be contributed by the industry through own efforts.

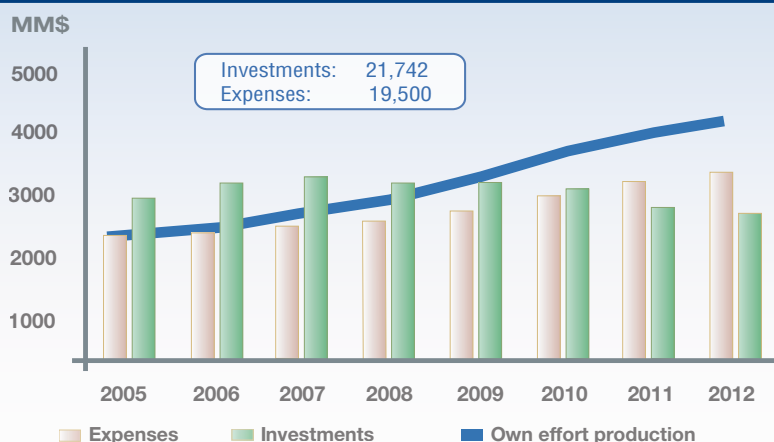
The corporate strategy covers the increase of light and medium gravity crude reserves, as well as increasing the value of its heavy crudes, as

objectives to be reached through own effort and third-party support.

The national production increase is in tune with estimates according to which, at the present rate, world oil production by 2012 will reach 90 million barrels per day.

To materialize the plans set forth for Exploration and Production (E&P) in the Business Plan will require a disbur-

Investment Plan (\$ in millions)



sement of \$41 billion, of which \$21.7 billion will be directed to investment and \$19.5 billion to expenses.

It is estimated that 75% of Venezuela's geological basins have yet to be fully analyzed, which is why the E&P projects portfolio includes the evaluation of all of the country's existing areas. At least 651 projects will be studied with the aim of adding another 44 billion barrels to reserves.

At the PDVSA Strategic Plans event, Luis Vierma, Exploration and Production Vice-President stated, "All the developments which we will undertake both upstream and downstream,

as well as offshore, will be closely tied to integral development, which is why all of these projects will have an important social component".

Main Exploration and Production projects

Each of E&P's divisions is to carry out a number of projects, which in the national scene, will enable PDVSA to achieve its foreseen targets.

In the west, for example, plans relate to the construction of a power generation plant, the development of the Cretaceous formation in Lake Maracaibo, and the development



Current Infrastructure

- 16,700 wells
- 83 drilling rigs
- 14,481 kilometers of pipelines
- 16 tank farms
- 4 marine shipping terminals
- 203,000 square kilometer area

of Urdaneta, Ceuta-Tomoporo, and Barúa-Motatán Projects.

In the east, there is a water and gas injection project at El Furrial, the development of Tácata, Mix Saddy and Bare-Arecuna, Pesao West and Morichal Projects mainly.

The search for light, medium and heavy gravity crudes will require alternate fluid injection for enhanced recovery, real-time monitoring of reservoirs, recovery factor increase either through intelligent well drilling or enhanced recovery and the use of steam or chemicals, which also poses an important technological challenge for the Venezuelan oil industry.

Addition to crude reserves by 2012

West	36 wells adding 3,340 million barrels to reserves
East	102 wells adding 4,110 million barrels to reserves
South-Center	58 wells adding 1,150 million barrels to reserves
Total	196 wells adding 8,600 million barrels to reserves

Areas under exploration 2005-2012



Due to Exploration and Production objectives, plans are being made to increase crude storage capacity in the west to 2.7 million additional barrels. Towards this end, 14 additional tanks will be built in the area.

In eastern Venezuela storage capacity will be increased to 6.6 million barrels, 21 tanks will be built, together with 3 new marine terminals and 650 kilometers of oil pipelines.

All these new developments are aimed to meet the demand of natural markets as those of Latin America and the Caribbean, operating under the Petrosur and Petrocaribe agreements, and the United States as well as those of emergent markets such as China and India. ■

Doubling current crude production

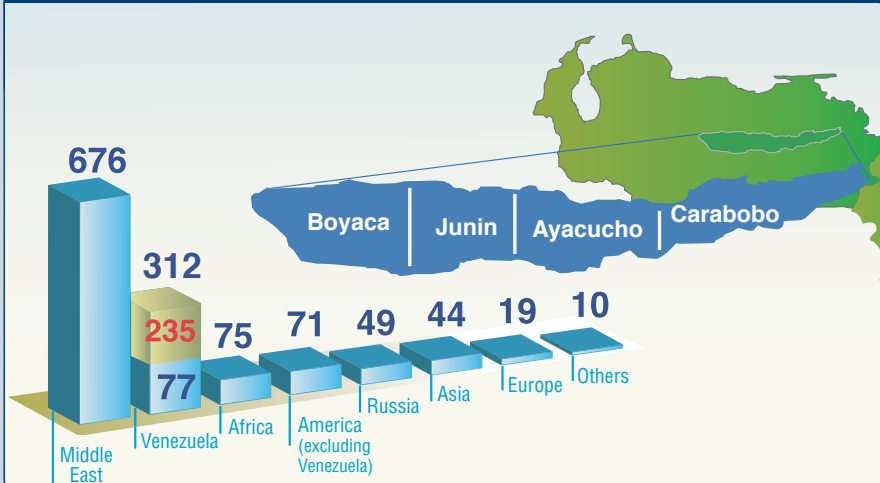
Orinoco Oil Belt to produce
1.2 million barrels per day
of crude oil by 2012



PDVSA's strategy in the development of the Orinoco Oil Belt, besides being aligned with the Nation's economic and social development plan, will enable the certification of its crude reserves, thereby consolidating Venezuela as the country with the world's largest hydrocarbon reserves

It has been estimated that, with the startup of the PDVSA 2006-2012 Business Plan, the Orinoco Oil Belt would be producing 1.2 million barrels per day by 2012, which would mean doubling the current production of 600,000 barrels per day.

Orinoco Oil Belt resources (bn bbls)



"The strategic orientation of the Orinoco Belt's projects aims at converting this huge hydrocarbons resource into a sustainable axis to power the country's economic, social, industrial and technological development, through raising the value and achieving an optimum development of its resources, within the National Development Plan and the legal framework in force". The above statement is derived from a presentation made by Eulogio Del Pino, a director of

PDVSA and president of the Corporación Venezolana del Petróleo (CVP) at PDVSA's Strategic Plans meeting. Del Pino considers that an Orinoco Belt objective is that it should supply important crude volumes to the world's markets, in a secure and reliable manner.

The development of the Orinoco Oil Belt will require an investment of \$15.4 billion, which is approximately 30% of the total amount budgeted in the PDVSA 2006-2012 Business Plan.

Orinoco Oil Belt

The old PDVSA	The new PDVSA
Low productivity and reserves recovery	Greater productivity and reserves recovery
Only 13% of reserves officially proven	Total reserves certification
Third-party projects unfavorable for Nation	Third party projects in accordance with laws in force
No commitment to the country's Development Plan	Committed to the Nation's Economic and Social Development Plan
Minority State participation	Majority State participation
Traditional markets (countries and customers)	Multi polar markets (customer and market diversification)

Magna Reserva Project

The principal aim of the Magna Reserva project is to achieve the quantification and certification of reserves in the Orinoco Oil Belt -estimated at 235 billion barrels- as with their inclusion, Venezuela would have the largest accumulation of liquid hydrocarbons in the world, with an approximate total of 312 billion barrels in reserves, which is an amount larger than that held by Saudi Arabia.



The **quantification and certification of reserves** would enable:

- 🔹 The positioning of Venezuela as the country with the largest crude reserves in the world
- 🔹 The application and development of new technologies
- 🔹 The provision of a technical basis for carrying out new business analyses
- 🔹 The leveraging of the development of the country's Northeastern and Orinoco-Apure axis.

Towards this end, the Belt has been divided into four main areas: Boyacá, Junín, Ayacucho and Carabobo, which in turn have been sectioned off into 27 blocks of 500 square kilometers each, in the interest of expediting the tasks

of quantification and certification. The current effective recovery factor for the Orinoco Belt should be from 12% to 16% of the oil in place. If this factor could be raised to a level of around 20%, and once the program-

med studies are undertaken, using new technology and synergies with Venezuelan and international companies, it should be possible to meet national market demand and to export crude even beyond the year 2100. ■

More than \$16 billion will be invested in gas during 2006-2012

DeltaCaribe Project will power gas industrialization in Venezuela



Eulogio Del Pino,
Director of **PDVSA** and
President of the Corporación
Venezolana del Petróleo (CVP)

**PDVSA plans to
develop high impact
gas projects and
increase production
from 6.3 to 11.5
billion cubic feet
per day by 2012**



**PDVSA presented the
strategic plans that will
enable it to develop the
country's huge natural
gas potential on land
and offshore, with
the aim of meeting
national market
demand, leveraging
the petrochemical
industry, building
a new productive
model and promoting
Latin American and
Caribbean integration**

With the development of the gas business on land and offshore, Venezuela will give a definitive boost to its petrochemical industry, contribute to the construction of a new socially productive model, and promote Latin American and Caribbean integration. This ambitious project bears the name of "DeltaCaribe Project" and is one of the fundamental elements of the Plan for "Sowing the Oil", which President Hugo Chávez's Bolivarian government will carry out through PDVSA.

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Venezuela has 2.5% of the world's total gas reserves, 29.3% of the continent's reserves, and 59% of the proven reserves in Central and South America

Venezuela has a total estimated gas potential of 196 TCF, about 50 % offshore, what would place it as the fifth largest country in gas reserves in the world

Gas is one of most attractive forms of energy in today's world because of its efficiency, low cost, and cleanliness. It is estimated that its demand will increase between 2.4% to 2.8% per year until 2030. Faced with this scenario, Venezuelan authorities have taken on the challenge of developing the potential lying in our own country, to meet rising demand, and eventually exporting production surpluses.

In the world scene, Venezuela ranks eighth among the countries with the largest natural gas reserves; which is to say, with 150 trillion cubic feet (TCF), after Russia, Qatar, Iran, Saudi Arabia, the United Arab Emirates, the United States and Algeria.

An estimate of the magnitude of the task ahead was given by Eulogio Del Pino, PDVSA director and president

of the Corporación Venezolana del Petróleo (CVP). Del Pino reported that the Corporation plans on investing a total of \$16.8 billion in major gas development projects, and to increase production from 6.3 to 11.5 billion per day by 2012. The amount represents 30% of total investment planned for the period.

Land operations

Natural gas development presents a unique opportunity to energize regional economies, to fulfill basic needs, and to contribute to achieving the potential inherent in human, economic, and technological capacities.

Among the leading projects for gas development on land are: increasing production at Anaco, a gas production and distribution center located in eastern Venezuela, from 1.7 to 2.8

billion per day. At Yucal-Placer, in the center of the country, production is to increase from 100 to 300 million cubic feet per day (m cu ft/d), while 100 m cu ft/d will be added at Barrancas, in the country's central-western region.

Regarding infrastructure, the major projects are the Central-Western Interconnection (ICO), which will ensure a national energy balance; the Barbacoa-Margarita gas transmission line, which will provide the fuel for the island, the country's leading tourism center; the expansion of the network connection systems of Anaco-Puerto La Cruz (Jose), Anaco-Puerto Ordaz, the North-Llanero transport system, and the Offshore-Land gas pipeline in the east of the country. All of these pipelines will be built with PDVSA's own efforts.

Offshore opportunities

The Venezuelan government has promoted private sector participation in the gas business through the new Gaseous Hydrocarbons Law, part of a modern legal framework that provides security and stability for investors. The Law also permits a national and foreign investor participation of up to 100% of the capital.

A clear example of the opportunities that are available are to be found in the offshore projects Deltana Shelf (31 TCF) and Rafael Urdaneta (35 TCF), in the east and west of the country, respectively, which are going forward with third-party participation. Also available to outside participation are projects such as Mariscal Sucre (14.3 TCF), Corocoro (3 TCF), and the construction of the Gran Mariscal de Ayacucho Industrial Complex (CIGMA) in the country's northeast.

At the Deltana Shelf, Block #2, which is operated by Chevron and ConocoPhillips, one is expecting a declaration of its commercial viability in the first quarter of 2006. At Block #4, operator Statoil expects to continue its explora-



Main Gas Projects

Land/ Prod.	Offshore/ Prod.	Infrastructure
Barrancas (100 m cu ft/d)	Mariscal Sucre (1,200 m cu ft/d)	Interconexion Oriente-Occidente (ICO)
Yucal Placer (300 m cu ft/d)	Deltana Shelf (1,000 m cu ft/d)	Gasline Barbacoa-Margarita
Anaco (2,794 m cu ft/d)	Rafael Urdaneta (to be defined)	Improved conexión Anaco-Puerto La Cruz and Anaco-Puerto Ordaz
	Corocoro (to be defined)	Transport system Norte-Llanero
		Gasline Offshore-Land

m cu ft/d: million cubic feet per day

tion campaign in the second quarter of 2007. Block #1 is to be developed by PDVSA, with its own effort.

The oil industry also expects that the process leading to the unification of reservoirs I and II with Trinidad & Tobago will be completed by the first quarter of 2008, to thereby bring on line the first production from the second Block by the end of 2009.

The first stage of the Mariscal Sucre Project, which includes the Río Caribe and Mejillones fields, will be undertaken by PDVSA with its own effort. Drilling in these reservoirs is expected to begin in the second quarter of 2007.

CIGMA Project

The Gran Mariscal de Ayacucho Industrial Complex (CIGMA) that will consist of a pier to land machinery and construction equipment would be completed by the end of 2006, and that the services pier would be in operation by 2007. Also a terminal for the storage and shipping of crudes and products would be ready by 2008.

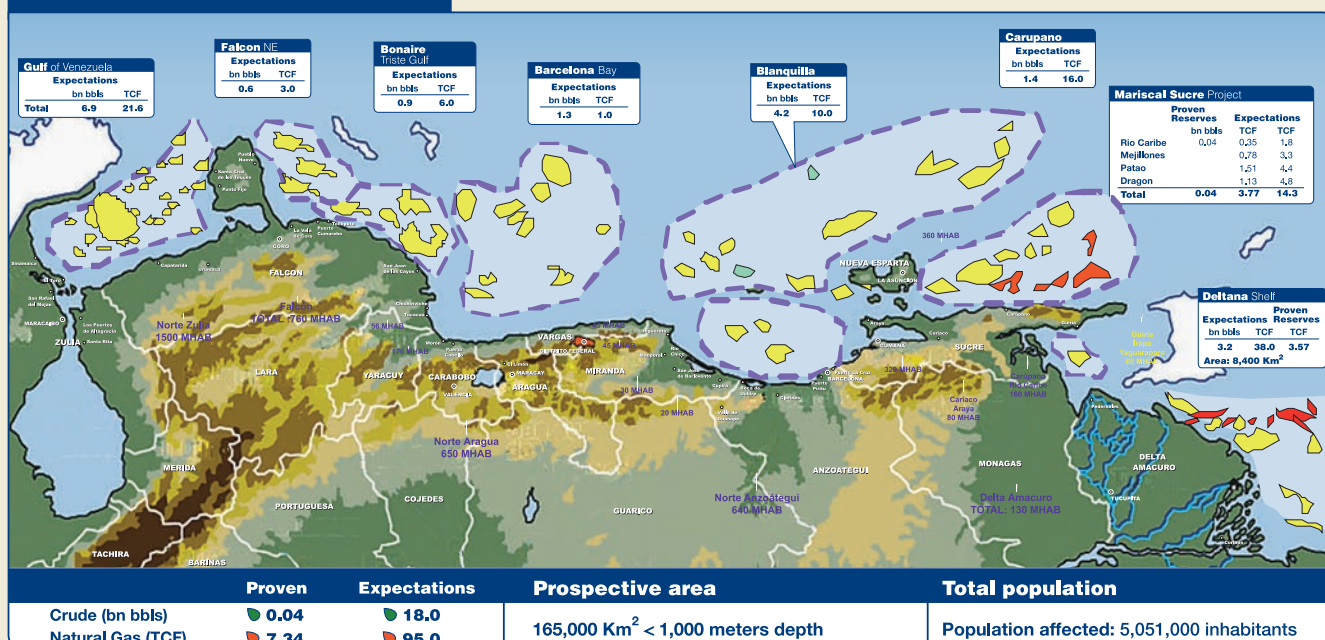
Engineering activity on this project is underway, and it is expected

that the Exploration and Production development schedules in the west of the country will in practice be aligned with CIGMA scheduling.

With regard to the Liquefied Natural Gas plant (LNG), the CVP president stated that it would be available to all producers. The plant, which is due to be completed by the end of 2010, will be located at CIGMA and operated by PDVSA.

Other Latin American integration initiatives, such as a pipeline which would cross Colombia at the Guajira Peninsula, and a system that would connect the Caribbean and reach as far as southern Brazil, would eventually become part of this effort. ■

The potential of the DeltaCaribe Project with its offshore developments in the east and west of Venezuela is comparable to few projects in the world



Etanol Project moves forward

Investment for **\$16.5 billion** to strengthen refining capacity

Refining investment within the PDVSA 2006-2012 Business Plan is to reach \$16.5 billion, and includes the construction of a system of three new refineries in Venezuela, as well as upgrading and refurbishing plans in existing facilities to process heavy crudes in existing refining complexes.

According to estimates, \$10 billion of the above mentioned amount are to be devoted to strategic projects within the country, with \$2.6 million going to other major projects. The Ethanol Project will require \$1.3 billion, while \$2.2 billion will go to meet the targets set for Petroamérica

These investments will enable to increase the processing of heavy crudes by 62%, to 910,000 barrels per day, as well as to achieve an ethanol production of 21,000 barrels per day, thereby providing further leverage for the country's new productive model.

Ethanol Project

Because Venezuela discontinued the use of tetra-ethyl-lead (TEL) as an octane-enhancing additive in the gasoline sold in the country, 21,000 barrels per day of ethanol are required to replace it. The Ethanol Project includes the planting of 105,000 hectares of manioc and 209,000 hectares of sugar cane. The strategy involved will integrate the country's endogenous and territorial development through a progressive and sustainable production of ethanol, thus generating 5,600 new jobs.



Alejandro Granado,
Vicepresident
of **PDVSA**

Plans to cover the expansion, upgrading and construction of new refineries, both in Venezuela and abroad, are aimed at processing heavy crude from the Orinoco Oil Belt

The Ethanol Project's first crop and initial industrial operation are planned for the third quarter of 2006, and the 21 thousand barrels per day production average is expected to be achieved by 2012. This will require an industrial investment of \$930 million and an agricultural investment of \$417 million, for a total of \$1.3 billion.

New refineries

The three new Venezuelan refineries will be built along the Orinoco-Apure axis and meet the objective of powering internal development. The first one, to be called "Batalla de Santa Inés", will be located in the State of Barinas. This facility will process 50,000 barrels per day of Guafita crude, to meet regional fuel demand. The complex will begin operation at the end of 2010, and will require investments for \$1 billion.

Another refining complex will be located at Cabruta, in the eastern State of Monagas, and will process 400,000 barrels per day of approximately 8.5° API Orinoco Belt crude, the distillates produced by this facility being earmarked for the export market. It should be pointed out that Cabruta will use the HDH Plus upgrading technology de-

veloped by Intevep, PDVSA's research and development subsidiary. Investment has been estimated at \$6 billion, and its operational startup has been planned for the second quarter of 2011.

The third refinery will be located at Caripito and will have a 50,000 barrel per day capacity to process crude from Lake Guanoco. The complex will produce mainly asphalt to meet national demand and requires an investment of \$500 million. It is expected that the Caripito refinery, also in the State of Monagas, will boost the economy of the area.

Expansion plans

The Business Plan also contemplates adapting the Puerto La Cruz and El Palito refineries as well as the Paraguaná Refining Complex for further processing of Venezuelan heavy crude, which is to become increasingly available with the execution of PDVSA's exploration and production projects.

Puerto La Cruz refinery. Two 80,000 and 90,000 barrels per day units will be revamped at this facility located in the eastern State of Anzoátegui. The new plant will process heavy Merey crude to cover internal demand and export fuels

(gasoline, jet-fuel, diesel and naphtha). The construction will require \$1.7 billion outlay, of which \$50 million will be PDVSA's contribution to promote social projects related to the oil industry.

El Palito refinery. A high-conversion unit to process 70,000 barrels per day of heavy crude will be installed at this facility in the State of Carabobo, thereby eliminating the production of fuel oil at this refinery. Capital investment required has been estimated at \$1,200 million and will generate 300 direct jobs and 1,200 indirect ones.

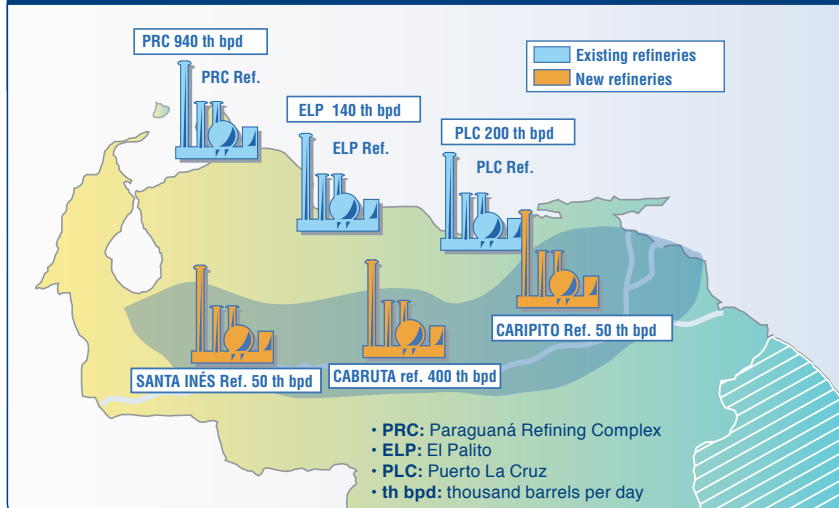
Amuay refinery. The main refinery of the Paraguana Refining Complex, one of the largest in the world, will further upgrade its facilities through projects designed to achieve even larger fuel oil conversion volumes.

The Regional Energy Integration Initiative

Venezuela, through PDVSA, is promoting a number of initiatives aimed at strengthening regional energy integration. Some of these are:

Reactivation of the Cienfuegos refinery. PDVSA and Republic of Cuba authorities are working on the studies required to materialize the reactivation of the Cienfuegos refinery, in order to meet internal fuel-market demand. The task requires a \$44

Orinoco-Apure axis territorial deconcentration



million investment, and the operational startup has been planned for 2007.

Expansion of the Kingston refinery in Jamaica. PDVSA plans to bring about a project to expand the moderate conversion Kingston refinery in Jamaica and increase its 36,000 barrel per day capacity to 50,000 barrels per day of 22° API Leona crude. Operational startup has been scheduled for 2008, and a \$197 million investment. 50% of this which is to be contributed by PDVSA, will be required for the initial stage.

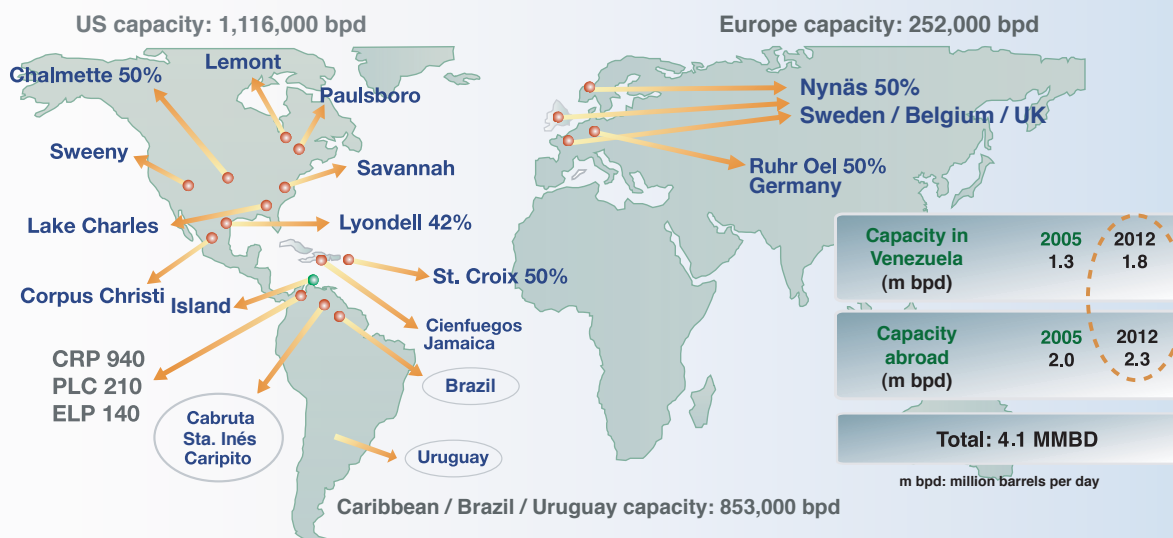
Building a refinery in Brazil. This project is to be undertaken jointly by PDVSA and Petrobras, the Brazilian national oil company. Its feedstock will be a 50/50 blend of Orinoco Belt and Brazilian crudes. PDVSA is to contribute

\$3 billion to the project, which is 50% of the investment required.

Refurbishing La Teja refinery in Uruguay. This complex is to process 50,000 barrels per day of extra-heavy Orinoco Belt crude through a high conversion scheme. Venezuelan companies would participate in the project and its operational startup is foreseen for 2010. Investment is estimated to be in the order of \$600 million.

All of these projects are aimed at ensuring the processing of Venezuelan crude, given the fact that additional world demand for refined products is estimated at approximately 7 million barrels per day by 2010, which is why PDVSA is gearing up to meet the added demand from its export markets. ■

PDVSA Refining System (2012)



Firm steps in response to increased world demand

PDVSA increases export market diversification



Asdrúbal Chávez,
Director of **PDVSA**

The strategic orientation of the PDVSA Commerce, Supply and Transport Management Unit is towards the domestic market's energy security, followed by the use of hydrocarbons as a factor in Latin American integration (Petroamérica) and market diversification (Europe and Asia), while maintaining traditional markets, such as the United States

The Petróleos de Venezuela 2006-2012 Business Plan envisages, among its main objectives, the diversification of its export markets. Towards this end, the Commerce, Supply and Transport Executive Management Unit designed its commercial plan covering a seven-year program, which is an integral part of the 2005-2030 macro plan known as "Sowing the Oil".

Product exports totaling 1.4 billion barrels per day (bpd) have been planned for 2012. This volume is almost double that of the 757,000 bpd which are being marketed abroad today in the form of jet fuel, asphalt, gasolines, and naphthas.

International market diversification

At the moment, 57% of the crude and products exported are placed in North America. The figures of 975,000 bpd for crude and 278,000 bpd for products have remained a constant over time. Since 2002, PDVSA has increased its supply to Latin America and the Caribbean by 31%. The total volume is accounted for by 420,000 bpd of crude and 254,000 bpd of products.

With regard to Europe, supplies are 88,000 bpd of crude and 61,000 bpd of products, which is 7% of exports. Asia receives 22,000 bpd in crude and 104,000 bpd in products, amounting to 6% of Venezuelan oil exports.

Petrocaribe

Venezuela's energy cooperation initiative foresees two scenarios. A short term one, to supply crude to the islands of the eastern Caribbean -Dominica, Jamaica and Cuba- from Venezuela or from Isla refinery in Curaçao. Eastern Caribbean requirements of 11,800 bpd will be transported in small tankers, while larger Panamax type tankers will be used to transport the 93,000 bpd covered by the supply agreement with Cuba.

The medium and long term supply strategy for the region includes the

activation of the Cienfuegos refinery and the Matanzas terminal in Cuba, as well as storage centers in Dominica. The Bopec (Bonaire) and Borco (Bahamas) distribution centers will also be used for this purpose.

The materializing of these projects will require an investment of approximately 24 million dollars between 2006 and 2012 to cover the whole of the Caribbean in terms of the Petroamérica objectives.

Within the strategy of supply to South America through the Petrosur and Petroandina initiatives, a first aspect to be taken into account is the supply of fuel to the PDVSA-Pe-

trobras refinery to be built in Brazil, Pernambuco, called Abreu e Lima.

In the Petrosur context, Venezuela has signed energy cooperation agreements with Brazil, Argentina, Uruguay and Paraguay, and has also promoted negotiations for the construction of a products pipeline through Colombia to the Pacific Ocean.

To supply such volumes to all of these markets, especially to Latin America, will require a fast renovation of the current shipping tonnage, because a total of 58 tankers to transport 45% of the 2012 export volume should be available by then.

National commerce and supply scene



The national fuel distribution system in Venezuela is concentrated in the north of the country, since refineries have traditionally grown together with distribution centers, as explained by Asdrúbal Chávez, PDVSA's Commerce, Supply and Distribution Manager and Board's Committee Director.

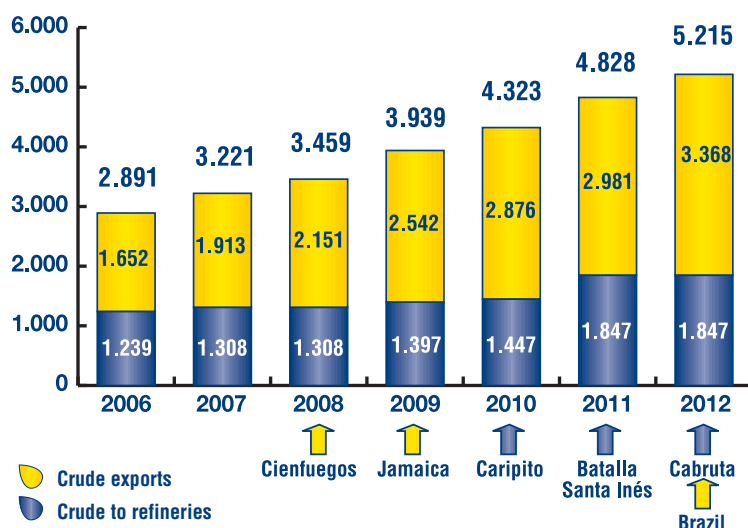
For this reason, future distribution centers will be built alongside the refining complexes to be constructed in the interior of the country, such as Batalla de Santa Inés, Cabruta and Guanoco refineries. At the same time, crude pipelines joining the Paraguaná Refining Center (PRC) with La Fría, and with Cisco, a system that transports fuel to Barquisimeto, in the northwestern State of Lara. From there the system will then interconnect with the product pipeline that reaches Yagua, in the central State of Carabobo. A new distribution center for the Tuy Valleys area, linked to the planned development of the national railway system, has also been foreseen.

PDVSA estimates, a total investment of \$760 million will be required between 2006 and 2012 to develop these plans, which include the construction and renovation of improved distribution facilities in Venezuela.

Deltaven currently has 722 service stations flagged under the PDV sign, while also serving 312 independents, for a total of 1,834 points of sale of this type. It is expected that by 2012 Deltaven will be positioned directly in 895 service stations, which would give it 45% of the market. ■



2006-2012 Crude Supply (m bpd)



At **PDVSA's** La Estancia Art Center

Venezuela celebrates **OPEC's** 45th anniversary



The celebration of the 45th anniversary of OPEC reaffirms Venezuela's oil sovereignty

The Ministry of Energy and Petroleum, PDVSA, and La Estancia Art Center, with the support of the embassies of OPEC member countries in Venezuela, celebrated the 45th anniversary of the Organization of Petroleum Exporting Countries (OPEC) with a concert performed by the National Philharmonic Orchestra.

During this event, which gathered many representatives of the energy, political and cultural spheres of Venezuela, the Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez, stated, "OPEC has become an extraordinary instrument to defend and maintain sovereignty over hydrocarbons". In the same vein, he said, "Venezuela will continue to defend the just value of the oil barrel and the formulation of policies which ensure that the Venezuelan people will enjoy the benefits resulted from the sale of this non-renewable natural resource".

Multi-ethnic music "with moons and stars"

The event began with a musical composition entitled "The Crescent Moon and the Seven Stars", composed by Diego Silva Silva. This piece, which was written in 2000 for the celebration of the II International OPEC Summit, was selected again by virtue of its aesthetic and conceptual value, which emphasizes symbolic associations



The Minister of Energy and Petroleum and PDVSA's President, Rafael Ramírez, touring the exhibition accompanied by various industry leaders.

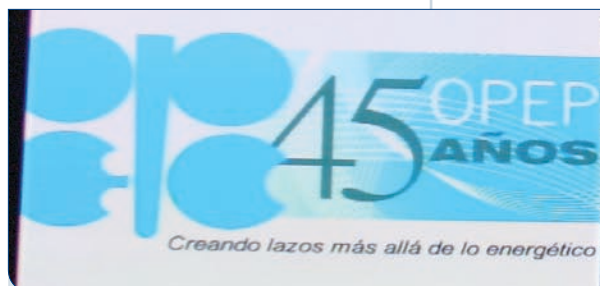
with nature, as well as musical elements that allude to the diversity and riches of the cultures of the countries that make up the Organization.

45 Years of OPEC exhibition

At the same time, the "45 Years of OPEC" exhibition was opened in the rooms of La Estancia Art Center, divided into three sections. The first emphasized the most important achievements in OPEC's history; the second was dedicated to the theme of "A Shared Challenge within OPEC", highlighting the contributions made by Venezuelans such as Juan Pablo Pérez Alfonzo, Alí Rodríguez Araque, Álvaro Silva Calderón and the present Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez. The third and last section included images and artwork representing the cultural heritage of the eleven nations that make up OPEC.

The validity of the Petroleum Pentagon

In his speech, Rafael Ramírez referred to the continued validity of the Petroleum Pentagon when comparing the oil industry at the present time with this theory of the OPEC founder. As regards 'fair participation' as advocated by Pérez Alfonzo, he said, "we maintain this principle by maximizing the State's participation through royalties and the payment of income taxes". As to the principle of 'no more concessions', today we say "no more operating agreements that go against the interests of the nation".



The National Philharmonic Orchestra opened the event with the moving "With moons and stars" concerto.



"Venezuela will continue to defend the just value of the barrel and the formulation of policies that allow the people to enjoy the benefits derived from this non-renewable natural resource"

Rafael Ramírez at the inaugural act of the OPEC's 45th anniversary

As to 'coordination for the conservation and marketing of hydrocarbons' he said that today this principle means the strengthening of the Ministry of Energy and Petroleum in conducting petroleum policies adapted to the new realities of the international markets. With regard to the Pérez Alfonzo's requirement that 'national petroleum companies be created', the Minister added "at this time we are trying to recover our oil industry and strengthened it according to the highest interests of the Venezuelan state".

Minister Ramírez continued "in the light of today's realities, we would have to add to Pérez Alfonzo's Pentagon the revision of our internationalization policies, which are based only on commercial interests, for policies of integration, diversification, and technological independence that consolidate our sovereignty over our oil". Ramírez also highlighted PDVSA's active participation as a tool for social progress,

dedicated to fight poverty and eliminate inequality. "PDVSA is opening up to the benefit of the people and commits itself to their future; oil income not only contributes to the expansion of the nation's economic and industrial platforms, but also represents a vital source to provide its inhabitants with jobs, education, health care and a better quality of life".

OPEC: retrospective

The Organization of Petroleum Exporting Countries (OPEC) was created on September 14, 1960 in Baghdad, in association with Saudi Arabia, Kuwait, Iran, Iraq and Venezuela, the last a country that played a definitive role in its foundation, thanks to the initiative put forward by the then Minister of Mines and Hydrocarbons of Venezuela, Juan Pablo Pérez Alfonzo, a politician and oil strategist who foresaw the need for an instrument to defend oil prices, to avoid economic loss related to oil as an exhaustible resource, as well as the instability of price fluctuations.

During that same decade, Qatar, Libya, Indonesia, the United Arab Emirates and Algeria joined the organization, followed in 1971 by Nigeria. Since its inception, OPEC has been an instrument to fight for justice, freedom, peace and development. From the beginning, the Bolivarian government of Venezuela has worked to strengthen OPEC. In 2000 the II OPEC Summit was held in Caracas, which renewed the commitment of the member countries with greater force, to achieve the goal of defending a fair price for oil as a non-renewable natural resource, under the principles of unity and political will at the highest level. ■



The exhibition also includes artcraft, typical dresses and images of the nations that integrate OPEC.

Petrotips

The Health Ministry backs Misión Ribas



The employees of the Health Ministry who have been unable to finish their high-school

education will now have the chance to do so at their place of work through an agreement of that Ministry with the Misión Ribas Foundation, coordinated by the Ministry of Energy and Petroleum. Public institutions with a high percentage of employees in a similar situation can avail themselves of the Misión Ribas services to offer continued education to their employees, following Health's initiative.

Public consultation on the Organic Hydrocarbons Law's regulations now open



At the inauguration on the Second International Gas Congress, held recently in Cumaná, State of Sucre, Energy and Petroleum Minister and President of Petróleos de Venezuela Rafael Ramírez announced the start of the consultation process prior to the approval of the regulations pertaining to the Organic Law on Hydrocarbons. Ramírez said that the Ministry was open to the opinions of the various hydrocarbons-related sectors, opinions which would serve to enrich the proposal, and that the Ministry's web page is available for this purpose.

Gasoline sent to the US states hit by Katrina



A cargo of more than 12.6 million gallons of gasoline was sent by Ve-

nezuela to the southern States of the US, which had been devastated by Hurricane Katrina. Venezuelan president Hugo Chávez said that Louisiana governor Kathleen Blanco had accepted the aid and thanked Venezuela for this goodwill gesture.

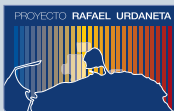
Five new transition agreements towards joint ventures were signed



Recently, five new transition agreements were signed with Perenco, Tecpetrol and Teikoku Oil de

Venezuela, in which the migration from operating agreements to joint ventures were agreed to. Petrobras also accepted the migration of their operating agreements to joint ventures, thereby making 13 operators holding 22 agreements, out of a total of 32, who aligned to the legal standards established in the Organic Law on Hydrocarbons with regard to joint ventures, in which the State holds the majority share.

First Rafael Urdaneta Project licenses awarded



Hugo Chávez Frías, President of the Bolivarian Republic of Venezuela, handed out the first licenses for the exploration and development of Phase A of the Rafael Urdaneta Project, at a ceremony which took place in the State of Falcón, in the west of the country. The Gazprom and Chevron representatives received licenses for the three blocks (Urumaco I & II and, Cardón III) which were put to tender last April. The licenses awarded will have a 30-year duration, and the gas produced will go to meet national domestic and industrial demand, with surpluses to be exported.

PDVSA in figures



Proven Reserves

Crude	80.6 Bn Barrels
Gas	151.5 TCF

Venezuelan Production Capacity

Crude	3.7 m BPD
Gas	6.9 Bn cf
LNG	0.25 m BPD

Refining Capacity

Domestic	1.3 BPD
International	2.0 m BPD
Total	3.3 m BPD

World Revenues (US\$)

	64.5 Bn*
Profit (US\$)	4.7 Bn*

* Preliminary 2004 figures

Crude:
m: million
Bn: billion
cf: cubic feet

Gas:
trillion cubic feet
BPD: barrels per day
the US\$ billion of US dollars

Quote of the month

“The price of a barrel of crude is determined by structural factors, and we must give refining capacity the importance it merits. We have said that the price would remain high for a considerable time; and we have maintained for more than a year that the current market situation has to do with many factors, and not just geopolitical ones”

Rafael Ramírez
Venezuelan Minister of Energy and Petroleum and President of PDVSA at the 137th Meeting of the OPEC Conference, held in Vienna last September, 2005



OPERATIONAL INDICATORS
Annualized average until October 2005



CRUDE
3.3
m b/d

GAS
6.3
Bn cf

REFINING (Ven.)
1.3 m b/d
(Venezuela/Island)

EXPORTS
2.2
m b/d

EXPORT BASKET
\$ 44.51
per barrel

Venezuelan and British companies will exchange drilling technology

PDVSA promotes the consolidation of national industries at Offshore Europe 2005

Due to the efforts of PDVSA's National Capital Formation Management Unit, a Memorandum of Understanding was signed between the Venezuelan company Geohidra and the British Seacore Limited, allowing the Venezuelan company to raise its offshore drilling capability of a depth over 2,000 meters

PDVSA's Corporate Management for National Capital Formation promoted the signing of a Memorandum of Understanding (MOU) between the Venezuelan company Geohidra C.A. and the British company Seacore Limited to exchange technology in the area of deep-sea drilling, which will aid offshore oil projects being developed by Venezuela.

The signing of this agreement, which will lead to the formation of a joint venture, resulted from the activities carried out at PDVSA's Business Center at the Exhibition Center in Aberdeen, Scotland, where Offshore Europe 2005 took place last September.



Offshore Europe 2005 was attended by more than 45,000 people, between exhibitors, speakers, visitors and hosts. PDVSA took advantage of this opportunity to present its main projects, among which are the Orinoco Oil Belt and Offshore Gas developments

This MOU confirms the information acknowledged by the international oil market about Venezuelan industries that operate within the energy sector and shows the technological and professional levels reached by the country.

The signing is the result of PDVSA's approaching to different countries to identify new business opportunities and allowing Venezuelan companies to acquire the necessary competence, so they will be able to participate

in the projects that Petróleos de Venezuela is promoting.

The Vice President of Geohidra Consultores C.A. explained that up until now, Venezuela has only drilled at depths of 100 and 200 meters, but through the Memorandum of Understanding, the necessary technology to be able to work at depths of up to 2,000 meters in the Deltana Platform will be acquired. For its part, Seacore is a company with significant experience in drilling deep in the North Sea.

PDVSA presents the main Venezuelan oil advantages to Europe

PDVSA's participation in Offshore Europe 2005 gave positive results to the corporation since it confirmed the most important advantages of Venezuela in the hydrocarbons area, especially as regards development projects that caught the attention of investors and entrepreneurs. ■

Through CITGO

Venezuelan fuel will reach poor communities in the US



Before the onset of winter, Venezuela will begin to supply fuel to the poorer communities of the United States through CITGO, a PDVSA subsidiary there. The announcement was made by the President of the Bolivarian Republic of Venezuela, Hugo Chávez Frías, during the Poverty and Justice in our Globalized World forum

held at the Church of St. Paul and St. Andrew in Manhattan, New York State.

The Venezuelan President explained that the direct supply of fuel, without intermediaries in the marketing chain, could result in savings to the final consumer of up to a dollar a gallon, which in this case would benefit civic

The supply of fuel will be carried out directly, without intermediaries, which should result in savings to the final consumer of up to a dollar a gallon, which in this case would benefit nonprofit organizations, hospitals and schools serving the poorer or less favored sectors of the population

organizations, hospitals and schools serving the less favored sectors of the population.

Payment could be effected through credits and donations, President Chávez said at the gathering with New York progressive communities, which was attended by representatives of more than 100 community, union, religious, educational and youth organizations, as well as progressive leaders, such as the Reverend Jesse Jackson, Danny Glover, social activist and President of the Trans-Africa Forum, and José Serrano, a congressman of Latin American background. ■

Some 10% of the products refined by CITGO would be sold directly to organized communities of the disadvantaged

After the meeting held in Caracas by the Reverend Jesse Jackson and President Hugo Chávez, Energy and Petroleum Minister and President of PDVSA Rafael Ramírez explained that, according to the Venezuelan plan known as "Heating Oil", CITGO would devote 10% of its refined products to be sold directly, without intermediaries, to organized poor communities and non-for-profit institutions.

The plan proposes the sale of heating oil and gasoline to hospitals, shelters and schools, as well as to organized

communities of the poor on United States soil, according to Ramírez

The Venezuelan government would not lose income from such a scheme, due to the fact that the proposal does not contemplate discounts, but only the elimination of third-party intermediaries. CITGO currently refines 664,000 barrels of crude at the refineries which it operates in the United States.

According to PDVSA's president, the program would be implemented before the start of winter, and the beneficiaries



Reverend Jesse Jackson during its visit to Caracas with the Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez.

would pay up to 30% less for the fuels obtained.

Bernardo Álvarez, Venezuela's ambassador to the US, has already received more than 140 applications to join the plan. ■