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The New PDVSA Contact

A Newsletter about
Venezuelan National Oil Industry

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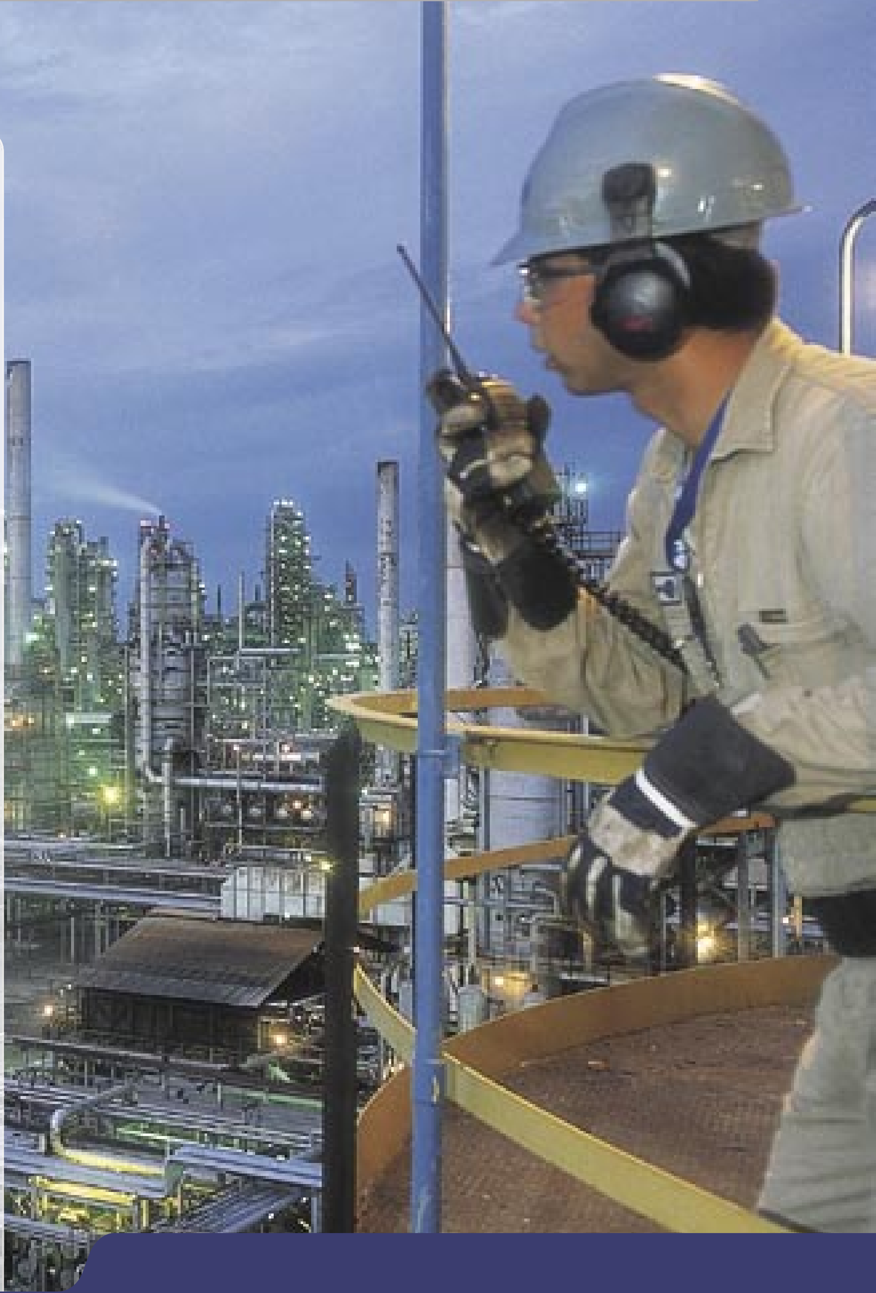
Rendering account

page 2 Audited financial statements for 2003 confirm solidity of **PDVSA** despite sabotage



MINISTERIO
DE ENERGÍA Y PETRÓLEO
REPÚBLICA BOLIVARIANA DE VENEZUELA

PDVSA

Earnings for the period reach $3.28 billion dollars.

Audited financial statements for 2003 confirm solidity of PDVSA despite sabotage

PDVSA's Stockholders' Meeting approves Management Report and Audited Financial Statements for the year 2003, when the company was hit by a criminal sabotage that crippled it for over 60 days.

Despite the sabotage to which it was subjected, Petróleos de Venezuela, S.A. (PDVSA) boasted its financial and operational solidity during the 2003, when it successfully generated net earnings of $3.28 billion dollars and closed with a consolidated equity of $38 billion dollars. These figures, which were revealed by the audited financial statements, were revised at the stockholders' Meeting which also approved the management report for the period.

According to the results, which were audited by an international firm of independent public accountants, the sabotage of the oil industry generated losses in sales of $12.75 billion dollars, as well as net losses of $504 million dollars, used to purchase imported gasoline to address the local shortage experienced during the stoppage of operations. The sabotage also resulted in losses of $209 million dollars due to the loss of, or damage to facilities and equipment.

Solvency gains and social investment

Notwithstanding these setbacks, the Ccorporation was able to reduce its external debt by $1.22 billion dollars (15% percent in relation to 2002) and closed its financial obligations for $7.01 billion dollars. Likewise, PDVSA was able to boost its solvency ratio from 1.38% percent to 1.62% percent, thus confirming its determination to fulfill its commitments and solidifying its financial prestige.

With regard to the year 2002, PDVSA increased its revenues by $4 billion dollars to an annual a year-end total of $46.58 billion dollars.

PDVSA's tax contributions in royalties and income tax climbed to $7.16 billion dollars - $409 million dollars more than in the year 2002. In 2003, on the instructions of the National Executive, PDVSA set its transformation process in motion and started to implement the redistribution of its oil revenues to jumpstart the socioeconomic development of the country by earmarking $547 million dollars for lsocial programs.

Oil regulation » Eight petroleum operators agree to migrate

13 operating agreements to joint ventures

The Venezuelan government, through its Ministry of Energy and Petroleum, has continued to reaffirm national sovereignty over the country's hydrocarbon resources and to strengthen the new strategic vision of its oil business. This was highlighted with the signing of the transitional agreements establishing the migration of operating agreements (service contracts) to joint ventures in which the State will have majority equity in the enterprises engaging in petroleum and gas exploration activities.

The transitional agreements were signed by foreign enterprises Repsol (Spain), CNPC (China), Harvest Vinccler (USA), and Hocol (Great Britain) and by Venezuelan enterprises Vinccler Oil and Gas, Inemaka, Suelopetrol and Open.

It should be mentioned that the agreements are a legal mechanism designed to facilitate the parties (PDVSA and service operators) to negotiate, in good faith and within a period of six months, the legal terms and conditions allowing for the establishment of the joint ventures, as provided by Venezuela's Organic Law on Hydrocarbons.

In signing the agreements, the operators have signaled their willingness to migrate to joint ventures under the terms and conditions laid down by the Ministry of Energy and Petroleum and PDVSA.

With the transitional agreement, Ministry of Energy and Petroleum intends to renegotiate considerations governing the services provided by the operators so that the country will never experience losses.

Likewise, under the transitional agreement, operators pledge to faithfully fulfill their tax obligations to SENIAT (Integrated National Service for Customs and Tax Administration), as required by the Income Tax Law (ISLR).

As will be recalled, the operating agreements, which were signed between 1993 and 1997, were part of the oil opening process and were established for the purpose of facilitating the pro-

From left to right: Venezuela Development and Planning Minister, Jorge Giordani; Minister and President of PDVSA, Rafael Ramírez; Finance Minister, Nelson Merentes; PDVSA's Director, Eudomario Carruyo, with other members of PDVSA's Board.

PDVSA withstood the impact of the sabotage in 2003 and successfully generated revenues of $3.28 billion dollars. Additionally, the enterprise closed with a consolidated equity of $38 billion dollars, reduced its debt and increased its revenues by $4 billion dollars to an annual total of $46.59 billion dollars.

The oil sabotage

These results were possible in spite of the criminal attack, which was perpetrated against the corporation and against the nation as a whole and which led to a 24.9% percent drop in the country's gross national product (GNP) during the first quarter of 2003, to a substantial fall in tax revenues, and to a contraction in international foreign exchange reserve levels and in the Macroeconomic Stabilization Fund (FEM).

As for PDVSA, the incalculable effects that are shown in the notes on the audited financial statements, include the delays experienced in the implementation of projects to remedy damage to the environment; the loss of sensitive information on operational capacity; interruption in information systems; delays in the fulfillment of obligations to creditors; the fall in PDVSA's status as a sure secure and reliable supplier; failure to comply with financial, legal and contractual obligations; loss of markets; delays in the implementation of plans and projects; and loss of human resources.

The damage caused by the sabotage also adversely affected the timely presentation of the of the performance report for 2003. The various causes for this delay include the damage done to the corporation's computerized systems; the weakening of the internal control structure; the loss of key operational and financial information; and the manual tracking of processes and the subsequent transfer of such process to the computerized systems. Added to this was the adoption, by international bodies, of new accounting and auditing regulations, which were also binding on PDVSA.

The 2003 audited financial statement, which was submitted to the Security and Exchange Commission (SEC), attest to PDVSA's strength and to its being a reliable and secure enterprise.

ENTERPRISE	FIELDS
Repsol	Quiriquire *(Monagas State)* Mene Grande *(Zulia State)* Guárico Occidental *(Guárico State)*
CNPC	Intercampo Norte *(Zulia State)* Caracoles *(Anzoátegui State)*
Inemaka	Kaki y Maúlpa *(Anzoátegui State)*
Hocol	B-2X68-79 y B-2-X70-80 *(Zulia State)*
Harvest Vinccler	Monagas Sur *(Monagas State)*
Open	Casma Anaco *(Monagas State)*
Vinccler Oil and Gas	Falcón Este *(Falcón State)*
Suelopetrol	Cabimas *(Zulia State)*

Operators express their willingness to migrate joint ventures under the terms and conditions laid down by the Ministry of Energy and Petroleum.

vision of operation-related services for activities related to the exploration and exploitation of hydrocarbons on behalf of, and at the expense of PDVSA. Under these agreements, the industry was charged on the basis of volumes and market prices, which has sometimes led to enormous losses for the nation.

By migrating these businesses to joint enterprises, the government intends to safeguard the economic interests of the State and to further the country's overall development.

Operating agreements

During the oil opening process, PDVSA signed 32 operating agreements between 1992 and 1997. However, the process was marked by the violation of legal provisions designed to safeguard the interests of the Venezuelan State in the exploitation of oil.

A study carried out by the Venezuelan Ministry of Energy and Petroleum found that PDVSA had awarded third parties contracts for conducting exploration and production activities which, in principle, were reserved for State enterprises.

In accordance with the Nationalization Law, service contracts were not supposed to denaturalize the very essence of the activities that were reserved for the State; nor did they afford any rights over petroleum volumes, reserves, or prices because they cannot govern the very object reserved by the law.

In practice, these companies operated as oil producers and not as service enterprises. In addition, many of them went as far as to enter hydrocarbon reserves in their accounting books, a situation that further confirms the illegal nature of their actions.

Minister Rafael Ramírez in official visit to Beijing

PDVSA China will consolidate the diversification of Venezuela's oil markets in Asia

PDVSA's new internationalization

With the aim of consolidating the market diversification of Venezuelan oil in Asia, Petróleos de Venezuela inaugurated the PDVSA China commercial office in Beijing, a ceremony which took place during the official visit paid by Venezuelan Energy and Mines Minister Rafael Ramírez, President of PDVSA, to China.

" PDVSA China will evaluate business opportunities in the region, both upstream and downstream, and will become the focal point for supporting relations with new strategic partners exclusively on the basis of complementarity and mutual benefit". Additionally, it will "further strengthen the existing China-Venezuela solidarity alliance, to the benefit of the social and economic development both peoples", Ramírez pointed out.

The opening of PDVSA China is being undertaken within the context of efforts aimed at achieving international energy integration, while structuring a multipolar world that is more balanced and just. In this direction, the Venezuelan content of oil production and marketing goods and services offered will continue to be promoted.

PDVSA China is based on the complementary features of both economies. Venezuela has oil reserves sufficient to last more than 285 years, at the current rate of production, and is the world's fifth largest hydrocarbons exporter. On the other hand China, the world's second largest oil importer, seeks to expand its supplier base to meet its growing energy demand.

In this way, PDVSA is taking a step forward in diversifying Venezuela's oil exports, expanding its business vision to promote integration based on equality, reciprocity and mutual benefit.

Minister Ramírez, together with his Energy and Petroleum Ministry and PDVSA entourage, is developing an intense work agenda with government and business representatives. This includes a meeting with Ma Kai, President of the National Commission for the Development and Reform of the Chinese Popular Republic; He Lianzhong, Director of the Commission's Foreign Capital Use section, and the presidents of companies such as Sinopec, China National Petroleum Corporation (CNPC), China National Oil and Gas Development Corporation (CNODC) and Zhenghua Oil, among other senior officials.

Exports

In preliminary terms, potential Venezuelan oil exports to China are estimated at close to 300,000 barrels per day of crude and products; which is to say, some 100 million barrels per year. This implies monthly shipments of at least four very large crude carriers (VLCCs), with an approximate capacity of two million barrels each.

An average of 12,300 barrels per day was shipped to China during 2004, while during the current year to date, this average increased to 68,800 barrels per day, a 560% increase.

China-Venezuela strategic agreements on integral cooperation

The Venezuela-China energy agenda aims at promoting further progress based on the agreements previously set down in the Memorandum of Understanding on Greater Cooperation in the Energy Sector, signed by President Ma Kai and Minister Ramírez during the visit paid by Hugo Chávez Frías, President of the Bolivarian Republic of Venezuela, to Beijing in December 2004 when, together with his opposite number Hu Jintao, agreed to promote integral bilateral cooperation between the two countries.

The oil negotiations being undertaken by both parties include areas such as the long-term supply of crude and products, the migration to joint ventures of the temporary agreements reached for the development of Intercampo Norte (in Lake Maracaibo) and Caracoles (eastern region), the creation of a joint venture for the development of the Zumano area (eastern region), the quantification and certification of reserves, the evaluation of a possible joint development of Block Junín 4 in the Orinoco Oil Belt, the construction of a product pipeline through Colombia to the Pacific Ocean, together with shipping construction, technical assistance and the creation of a fund for the financing of infrastructure construction.

The creation of Petroamérica advances side by side with Petrocaribe and Petrosur

Petroandina to speed up South American integration

Heads of State at the XVI Andean Presidential Council in Peru.

At the Sixteenth Andean Presidential Council, held in Lima Peru in July, 2005. Venezuela proposed the creation of a regional multistate-own enterprise, Petroandina, which will be responsible for meeting the subregion's energy needs and for establishing an agenda for this effort among the member states of the Andean Community (CAN).

The heads of state and government of the countries at the summit pledged to analyze the creation of Petroandina.

Together with Venezuela's allies, which include the Caribbean nations (Petrocaribe), on the one hand, and Paraguay, Uruguay, Brazil and Argentina (Petrosur), on the other, Petroandina emerges as a new integrating structure that seeks to harmonize policies within Petroamerica, with the aim of combating poverty and unequal access to energy resources.

Regional energy plans

In principle, Petroandina will be responsible for coordinating policies and plans within the energy sector. However, a meeting is slated to be held shortly in Caracas between the representatives of the five countries, with a view to assessing and establishing agreements on this issue.

Petroandina is intended to strengthen energy regional integration throughout the continent. Each of these initiatives involves a specific area of the region, but, together, they all form part of Petroamerica, a new geo-economic and geo-political initiative which that is being adopted throughout the hemisphere and which is geared to buttressing both Latin American integration and the structure creation of a multipolar world.

Petrosur, Petrocaribe and Petroandina form part of Petroamerica, a new geo-economic and geo-political initiative, which is geared towards buttressing both Latin American integration and the conformation of a multipolar world.

At the recent Andean Presidential Summit, Venezuelan Head of State Hugo Chávez, stressed that subregional integration might be facilitated through the creation of an "Andean energy cone," based on the supply of Venezuelan oil resources to the region and on the contribution of resources by countries, such as Bolivia, Ecuador, Colombia and Peru, which also produce gas and other hydrocarbons.

New Andean leadership

Venezuelan leader, President Hugo Chávez, on behalf of Venezuela, assumed the presidency of the Andean Community, while the ministers, members, and delegates of the Presidential Council of the Andean Community (CAN) adopted a set of integration-related proposals tabled presented by the Venezuelan government. The most important of these proposals include the expansion of the Milagro Mission, which was sponsored by Venezuela and Cuba are sponsoring, the creation of a Social Solidarity Fund, and the establishment of ties between energy operators. ■

Uruguay recibe con beneplácito propuesta para ingresar a Petrosur

Petrosur forges ahead with energy integration

During the First Bi-national Macro Round between Uruguay and Venezuela, the Bolivarian Republic of Venezuela extended a formal invitation to the southern nation to participate in Petrosur. Uruguayan delegation, led by Daniel Martínez, president of the National Administration of Fuels, Alcohol and Portland Cement (ANCAP), welcomed the proposal.

At the business meeting, both countries set up an Energy Integration Committee, and Uruguayan mission was granted a document outlining the conceptual bases of the Petrosur project.

Petrosur is founded on the concept of complementarity between countries.

It is aimed at boosting socioeconomic development, in line with national plans and with a policy aimed at tapping into synergies that allow for the sharing of risks and costs, for joint projects in such areas as the exploration and production of petroleum, gas, and petrochemicals, and for trade in goods and services.

Energy integration on the move

Supplies to Latin America and the Caribbean **rise by 15%**

The Commerce and Supply Managment Unit of PDVSA has diversified the country's markets and increased the corporation's portfolio with the addition of 10 new clients, while maintaining its traditional markets for crude and products.

Cooperation with the **Dominican Republic**

At the Petrocaribe Meeting of Heads of State and Government, Petróleos de Venezuela (PDVSA) signed a contract with the Dominican Republic's Refinery (REFIDOMSA) to supply 50 thousand barrels per day of crude, refined products and LPG to the Caribbean island. This agreement reaffirms Venezuela's commitment to serve as a secure and reliable supplier of hydrocarbons to its natural market in the Caribbean.

The President of Dominican Republic, Leonel Fernández arriving to Venezuela with the Venezuelan Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez.

Cooperation with **Jamaica**

At the same meeting, the Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez Carreño, signed a Memorandum of Understanding with Jamaica to evaluate the possibility of Venezuela's having a financial stake in Jamaica's state-owned Petroleum Company of Jamaica Limited (PETCOM), as well as in the enhancement of the Petrojam Refinery located in the capital city of Kingston.

The agreement stipulates that Petrojam and PDVSA may jointly undertake testing operation on the Leona 22 crude, at the maximum throughput possible, to assess the performance of the plant.

Minister Rafael Ramírez with Jamaican Commerce Science and Technology Minister, Phillip Paulwell.

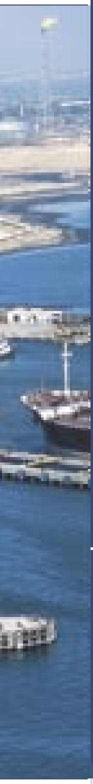
Supply to **Uruguay**

Petróleos de Venezuela recently won the bid to sell one million barrels of crude to ANCAP, Uruguay's state-owned petroleum company, which will lead to savings of two million dollars for this southern nation and will enable it to pay off two-thirds of the volume it acquired, with export products, as established in the Energy Agreement signed on March 2, 2005 between Uruguayan President Tabaré Vázquez and Venezuelan Head of State, Hugo Chávez.

President Hugo Chávez Frías during its visit to Uruguay with President Tabaré Vásquez while both countries singned Memorandum of Understanding to study the participation of Venezuela in the Uruguayan energy sector.

Goals achieved for Commerce and Supply Mgmt. Unit

- Diversification of markets and increase portfolio with 10 new clients.
- Agreements to supply 155 MBPD of crude and products to the Latin American region
- and the Caribbean. Support for the inclusion of Uruguay, Paraguay, Bolivia and the Dominican Republic in the
- San Jose and Caracas Energy
- Agreements. Strengthening of Petroamerica. Supply of Fuel Oil to Argentina, through the current trade cooperation agreement
- More effective control over the clearance of vessels belonging to wholesalers and improved supervision at gasoline terminals.
- Recruitment and training of personnel with the assistance of institutions worldwide specializing in the area of petroleum, as well as workshops at the graduate National Armed Forces School to strengthen the hydrocarbons sectors in such areas as safety and national defense.



PDVSA's market strategies

- Supply the domestic market.
- Supply the natural markets of Latin America and the Caribbean.
- Diversification towards new Markets.
- Maintenance of Traditional Markets.

Transparency of operations

In September 2004, the Commerce and Supply Management Unit of Petróleos de Venezuela decided that forward contracts would be signed for a one-year period, and pricing formulas would be established on the basis of public indicators (Platt's, Argus, etc.) both to reflect the shifts in market trends and guarantee the nation fair prices and income.

To this end, in 2004 the Venezuelan Ministry of Energy and Petroleum set up the Export Pricing Committee (COPEX) which is responsible for setting the prices of exports with a view to guaranteeing the supervision and transparency of the operations conducted. The Ministry also established the Supplies Committee (Comsum), which is responsible for approving forward contracts. With regard to shipments, the Commerce and Supply Management Unit has implemented a procedure, effective as of 2005, which is intended to ensure equity for all buyers by means of electronic sealed bids.

Cooperation with **Argentina**

The supply agreements reached with Argentina in 2004, helped to strengthen the regional integration process and have enabled the southern country to overcome the energy crisis face at that time.

This year, PDVSA has delivered two shipments of 50 million tons (MMT) of fuel oil at the ports of Bahia Blanca (28 MMT) and Central Puerto (22 MMT). These shipments were agreed upon with Argentina's Wholesale Electricity Market Management Company (CAMMESA) .

PDVSA has been working in synergy with Petrobras to deliver products to the Argentinean market, an effort which has helped to optimize the transportation and logistic processes.

Agreement with **Paraguay** ratified

The Paraguayan Parliament approved the agreement signed in November 2004 between Paraguay and Venezuela for PDVSA to supply 18, 600 barrels of crude per day to Petróleos Paraguay (Petropar). The yearly billing for sales will be ninety million dollars per year, and 25% of the invoice will be financed over a period of 15 years at 2% percent interest. The signing of this agreement marks the progressive increase in energy-related trade between the two countries.

To the left, Minister of Energy and Petroleum and President of PDVSA, Rafael Ramírez Carreño, accompaning President Hugo Chávez during its visit to Argentina to sign a fuel oil supply agreement for 2005 and beginning of 2006.

To process Venezuelan heavy crude

Venezuela plans to invest $ 1 billion in Uruguayan refinery

Both countries have moved ahead with energy cooperation agreements as part of the regional integration process.

Venezuela plans to invest some $1 billion dollars to upgrade the La Teja oil refinery located in the Uruguayan capital of Montevideo, according Daniel Martínez, president of Uruguay's National Administration of Fuels, Alcohol, and Portland (ANCAP).

With the planned upgrade, the refinery will be able to process Venezuelan heavy crudes, thereby enabling PDVSA to optimize its exports to Argentina, Brazil, and Paraguay.

The various energy cooperation mechanisms envisaged include a Letter of Intent to be signed by Venezuelan President Hugo Chávez and Uruguayan President Tabaré Vázquez in order to jumpstart the project by mid-August 2005. The letter of intent will outline the bases of the project to upgrade the refinery, which should be completed within a period of four to five years.

Venezuela sends shipment of crude

As part of the agreement between PDVSA and ANCAP, Venezuela sent one million barrels – or one month's consumption - of crude to Uruguay.

PDVSA at the XVI Latin American Petroleum Expo

PDVSA Ratifies Commitment to the Formation of National Capital

Around 200 exhibitors and 800 enterprises involved in the hydrocarbon sector came together at the XVI Latin American Petroleum ShowExpo, which was held in June in Maracaibo, the capital of Zulia state in western Venezuela.

The event was attended by representatives from 50 countries, who were able to establish new links with oil suppliers and buyers, signaling that business opportunities in synergy with local enterprises are in the offing.

National content

Petróleos de Venezuela (PDVSA) reaffirmed the corporation's commitment to assist in the formation of national capital in all areas of the hydrocarbons business, by strengthening both the technological content and the participation of human capital in the provision of goods and services needed by the country's leading industry.

With this end in view, PDVSA's Management Unit for National Capital Formation is now working in close collaboration with the Venezuelan Chamber of Petroleum, private entrepreneurs, and cooperatives. In so doing, it hopes to strengthen the industrial fabric at both the local and national levels and to build human and technological capabilities so as to address the needs of this vital segment of the domestic market and even to compete more effectively in the global marketplace.

The cooperatives present at the event also stood out as an alternative model of production. These businesses have been experiencing exponential growth in Venezuela and have increasingly been providing the industry with petroleum and non-petroleum goods. Meanwhile, the international delegations attending the event willingly exhibited their products and sealed business deals with their Venezuelan counterparts in light of their technology and expertise.

Venezuela's Energy and Petroleum Ministry instructed PDVSA to eliminate lead from gasoline

Green light for ecological gasoline

Lead-free gasoline with 91 and 95 octane ratings will be available at the pump. At the same time, a pilot project for the production of ethanol is going

In compliance with Ministry of Energy and Petroleum directives to eliminate lead content from gasoline, PDVSA guarantees that, by the end of August this year, the use of tetraethyl lead, a gasoline octane booster, will be eliminated from gasoline sold in the country. As Energy and Petroleum Minister Rafael Ramírez pointed out recently, "we are settling a long-standing debt which the Venezuelan oil industry had, not only with the State, but also with our children, our towns and our environment. Venezuela was one of the world's main oil suppliers which, although it exported lead-free gasoline, did not supply it widely within its own country", he stated.

The Venezuelan oil industry is developing a comprehensive plan to adapt its storage facilities in refineries and distribution terminals to handle the new product. At the same time, it is going forward with a National Agricultural Energy Project which includes the planting of 300,000 hectares with sugar cane and the construction of between 9 and 12 processing centers for the production of ethanol, steps which should generate over a million jobs.

Colombia and EE.UU. held fruitful exchange

Macro Rounds strengthen Venezuela's ties within the hemisphere

The holding of the macro business rounds has become a novel and easy way for Venezuela to seal economic deals with its partners. Initiatives of this kind enabled the country's cooperatives and small, medium-sized, and large enterprises to find foreign markets for their goods and services.

Macro Business Round EE.UU. - Venezuela

The holding of the First Bi-national Macro Business Round between the United States and Venezuela in Caracas from June 30th to July 1st was a positive effort to strengthen the historical ties between both countries in the areas of technological exchange and trade.

Representatives from 448 enterprises from the two countries attended the business meeting, which led to the sealing of business deals to the tune of approximately $511 million. At present, USA-Venezuelan trade hovers at around 29 billion dollars.

The United States is the main buyer of Venezuelan crude and derivatives, as well as 40% of the country's non-traditional exports. Meanwhile, Venezuela purchases significant quantities of raw materials and inputs from the United States for its health, plastics, and agro-industrial sectors, as well as machinery and equipment.

Venezuela is the USA's third major Latin American trading partner after Mexico and Brazil, while, internationally, it ranks as the United States' 16th most important trading partner.

Macro Business Round Colombia - Venezuela

The recently held Second Bi-national Macro Business Round between Colombia and Venezuela led to the consolidation of trade in goods and services to the tune of $519 million dollars.

The event was held from the 20th to 22nd of June in Bogota, capital of Colombia, where Petróleos de Venezuela (PDVSA) was able to consolidate an important operation that helped to boost the business figures that had been envisaged. This effort was in keeping with the guidelines issued by the Venezuelan Government with the aim of strengthening economic complementarity in Latin America.

Venezuela sells Colombia some $346 million dollars worth of goods, of which $40 million dollars involve non-traditional products. Meanwhile, Colombia negotiated business deals totaling $23 million dollars.

According to official estimates, the trade round also led to business forecasts to the tune of some $3 billion dollars, a figure that will further help to strengthen Colombian-Venezuelan trade.

New **OPEC** reference basket takes effect

At the 136th Meeting of the Organization of Petroleum Exporting Countries (OPEC) in Vienna, the organization's member states approved the implementation of a new reference basket which, as proposed by Venezuela, includes marker crudes produced by the organization.

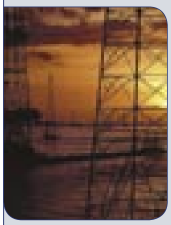
According to Venezuela's Minister of Energy and Petroleum and PDVSA President, Rafael Ramírez Carreño, this new basket better reflects the reality surrounding OPEC production. "The OPEC reference will now more effectively reflect the composition of our crude streams, which include significant volumes of heavy crudes, particularly in Venezuela," he explained.

The new reference basket, which was implemented on a trial basis in June 2005, consists of the main export crudes of each of the member states of the organization and is made up of the BCF 17 (Venezuela) Saharan Blend (Algeria), Minas (Indonesia), Iran Heavy (Iran), Basra Light (Iraq), Kuwait Export (Kuwait), Es Sider (Libya), Bonny Light (Nigeria), Qatar Marine (Qatar), Arab Light (Saudi Arabia) and Murban (United Arab Emirates).

The new reference basket boasts a heavier API gravity of 32.7 degrees in comparison with the previous basket of 7 crudes. In addition, the sulfur content of the new reference basket is sourer at 1.77 percent compared with the previous basket in which it stood at 1.44 percent.

Petrotips

PDVSA achieves historical production record



Petróleos de Venezuela can rely today on a national crude production of 3,336,900 per day, a historical landmark, since a similar figure had not been reached in 25 years, something which should be a source of pride, not only for PDVSA, but for all Venezuelans, according to Exploration and Production Vice-President Luis Vierma

Standard & Poor's rating for PDVSA is upgraded

The financial evaluation firm Standard and Poor's Rating Services yesterday upgraded Petróleos de Venezuela's corporate credit rating to a "B+" from a "B". The firm's forecast for Venezuela was considered as stable. "The ratings for Venezuela and PDVSA have been matched due to the their ownership relation and economic interests", according to Standard and Poor's credit analyst José Coballasi.

Cita del Mes

"We should continue to be aware of oil's decisive importance to the national economy, but we should also be on the lookout to verify any progress made on the road to liberation from this dependency"

Juan Pablo Pérez Alfonzo
Organization of Petroleum Exporting Countries founder

Gas reserves in Plataforma Deltana climb to 4 billion cubic feet

The Plataforma Deltana's estimated non-associated gas reserves increase twofold

Following the drilling of three wells by the American oil company Chevron, the Plataforma Deltana's proven non-associated gas reserves in the areas explored jumped from 2 to 4 trillion cubic feet (TCF), thereby confirming that the country's off-shore basin does possess abundant hydrocarbon reserves.

These discoveries could indicate that the Plataforma Deltana now possesses twice the reserves estimated at the outset of the operations, although expectations are that it may in fact possess something to the tune of 31 trillion cubic feet (TCF).

The Deltana Platform, which is located in the eastern basin of Venezuela and which covers an area of 25 thousand square kilometers, is one of the flagship projects being undertaken by the Venezuelan State. The project involves the exploration and exploitation of non-associated gas found along the Venezuelan continental shelf, or off-shore, within an area covering 6, 500 kilometers and divided into five (5) blocks.

The project includes quantifying reserves between 6 and 10 trillion cubic feet TCF in reserves, while production is earmarked at fulfilling the demands of the domestic market, while excedents would be sold to the international market.

The yield derived from the development of the Plataforma Deltana will be conveyed by a special transportation system to the Gran Mariscal Ayacucho Industrial Complex (CIGMA). At the same time, the CIGMA complex which will continue to play its part in strengthening the gas production capacity of Venezuela, which ranks as the country with the world's eighth largest gas reserves.

PDVSA en cifras*

Proven Reserves	
Crude	77 bn bbls
Gas	150 tr cu ft
Venezuelan Production Capacity	
Crude	3.7 m b/d
Gas	6,900 m cu ft/d
LNG	254,000 b/d
Refining Capacity	
National	1.3 m b/d
International	2.0 m b/d
Total	3.3 m b/d
World Revenue (US$)	
	64.5 bn
Net Income (US$)	
	4.7 bn

* *Preliminary 2004 figures*

PDVSA

OPERATIONAL INDICATORS
Anualized average 2005

CRUDE	GAS	REFINING (Ven.)	EXPORTS	EXPORT BASKET
3.3 m b/d	6.3 bn cu ft	1.2 m b/d	2.2 m b/d	$ 42.25

HDH Plus ® venezuelan technology

In economic terms, HDH Plus is currently the most appealing technology worldwide and one that rivals all other state-of-the-art technologies used in the upgrading of crudes.

The Orinoco Oil Belt is the world's largest reserve of heavy and extra heavy crudes. We are currently in the process confirming and certifying the existence of 225 billion barrels, a figure which that ranks Venezuela as the country with the most abundant oil reserves worldwide.

Coking technology

To date, with the four associations operating in the Orinoco Belt, (Petrozuata, Sincor, Ameriven, and OCN), only 5 percent of these reserves have been exploited. All these associations use the delayed coking technology to produce an upgraded crude of between 19° and 25° API.

With regard to by-products, fourteen thousand tons of coke per day are produced, an amount requiring additional facilities for managing and later for selling the material. For example, with the use of one of these facilities, it is possible to generate 103,000 barrels of upgraded crude from a production of 120,000 barrels per day of heavy crude. Naturally, some 17,000 barrels per day of products are lost in the process but, notwithstanding, 3,500 tons of coke per day is generated.

At the international level, there are other commercial technologies that rival the delayed coking process. Such technologies include H-oil, LC-Fining, Aurabon of UOP, VCC, Canmet, and Shell Hycon, which exhibit greater conversion capabilities than delayed coking. All these technologies also use hydrogen to boost production and the quality of liquid products while substantially reducing the production of coke in the process.

PDVSA technology: HDH Plus®

More than twenty years 20 years of research and development, scaling tests and evaluation with different crudes exploited in the Belt have culminated in the development of HDH Plus technology, which is a process involving the high conversion (90/95%) of heavy crudes and refinery residuals through hydroconversion. This technology produces a high yield in liquids (115%), leading to top-quality products and given its versatility, it may be used to process different charges containing high levels of sulfur and metals. Additionally, it significantly minimizes the handling of solids and by-products in the refinery and, furthermore, it is completely environmentally friendly. HDH Plus is 100% percent PDVSA technology, and it is ready for commercial application.

In economic terms, HDH Plus is currently the most appealing technology worldwide and one that rivals all other state-of-the-art technologies used in the upgrading of crudes. The technology helps to boost the performance of gasoline, middle distillates and fuel oil, products of high commercial value and much lower residual content. That is why PDVSA's Board of Directors recently approved the basic engineering to be used in the execution of a project to refit the Puerto La Cruz Refinery so that it may undertake the deep conversion of 100,000 thousand barrels per day of heavy crudes and residuals by the year 2010.

HDH Plus®: endogenous venezuelan technology

The execution of this project requires an initial investment of $40 million dollars, and by the year 2010, the estimated completion date of the project, this investment is expected to total some 1.680 mbillion dollars. The project is of great technological relevance because it also involves the use of HDH Plus technology. Given that all technological projects implemented in the country must be accompanied by the development of an endogenous project, the Puerto La Cruz project includes a vital endogenous component in the sense that it will help improve the living conditions of Venezuelans living in communities within the vicinity of the refinery complex. These improvements will be implemented on the basis of integral development schemes, which will require an investment of some $200 million dollars.

The new PDVSA continues to finance development projects

Equity: Key to the distribution of petroleum revenues

PDVSA has invested a significant portion of his extraordinary resources in the social programs and infrastructure projects developed by the Bolivarian Government.

Endogenous Development Nucleous Fabricio Ojeda, in Caracas.

In keeping with the guidelines issued by the National Executive, the new PDVSA distributes the resources it obtained from income earned in the petroleum industry in an equitable and transparent manner, with the use of such mechanisms as the Social and Economic Development Fund (Fondespa). These mechanisms help to streamline administrative procedures so that the financing needs of projects may be addressed.

PDVSA contributes some $2.84 billion dollars to Fondespa. Of this total, the National Executive has earmarked $2.34 billion for the execution of 43 strategic development projects.

The redistribution of Venezuela's oil resources is intended to link the country's oil with the national economy in order to foster collective wellbeing.

This sum was allocated to key sectors, such as public transport, which was assigned 24% percent of the resources, and to road construction and electrical energy, which were assigned 26% and 20% percent, respectively.

At the same time, 13% percent of the resources have been earmarked for endogenous development, which involves the implementation of projects associated with the inherent potentials of each region, while the agro-industrial and services sectors, as well as environment and communications, have been allotted 8% percent and 9% percent, respectively.

Social Investment for Development

In addition to Fondespa, PDVSA also contributes directly to the development of large-scale social programs. In the area of education, the state holding firm PDVSA is responsible for the Ribas Mission, a program that allows over 700,000 students to complete their high school studies. Over 200,000 of these students, who belong to the least privileged sectors of Venezuelan society, are granted scholarships.

Amoung the projects for public transportation, PDVSA finances the Caracas-Tuy Medio Railroad that will strenghten industrial and social development in the central area of the country.

The redistribution of the country's oil resources to strategic infrastructure development for the benefit of the nation is backed by Venezuela's Organic Law on Hydrocarbons Organic Law. This Law also promotes productive investment and the allocation of financing for the social sector. It does so with the firm purpose of linking the country's petroleum resources with the national economy in order to foster collective wellbeing.

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