LISTING MEMORANDUM

Bolivarian Republic of Venezuela

U.S.$2,000,000,000 9.00% Bonds due 2023 (the "Bonds due 2023")

U.S.$2,000,000,000 9.25% Bonds due 2028 (the "Bonds due 2028")

The Bonds due 2023 will bear interest at the rate of 9.00% per annum, accruing from May 7, 2008 and will pay interest on May 7 and November 7 of each year, commencing November 7, 2008. The Bonds due 2023 will mature on May 7, 2023.

The Bonds due 2028 will bear interest at the rate of 9.25% per annum, accruing from May 7, 2008 and will pay interest on May 7 and November 7 of each year, commencing November 7, 2008. The Bonds due 2028 will mature on May 7, 2028.

Neither the Bonds due 2023 nor the Bonds due 2028 (each of the Bonds due 2023 and the Bonds due 2028 being referred to herein as a "Series" of Bonds and collectively as the "Bonds") are redeemable prior to maturity or are entitled to the benefit of any sinking fund. The Bonds are direct, unconditional and unsecured obligations of the Bolivarian Republic of Venezuela (the "Republic" or "Venezuela"). Venezuela has applied to list the Bonds on the Official List of the Luxembourg Stock Exchange (the "Exchange") and to trade the Bonds on the Euro MTF market of the Exchange. This Listing Memorandum constitutes a prospectus for the purposes of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

The Bonds are designated Collective Action Securities and, as such, contain provisions regarding future modifications to their terms that differ from those applicable to a substantial portion of Venezuela's outstanding public issues of capital market indebtedness. Under these provisions, which are described in the section entitled "Description of the Bonds—Meetings and Amendments" in this Listing Memorandum, Venezuela may amend the payment provisions and certain other terms of the Bonds with the consent of the holders of 75% of the aggregate principal amount outstanding of the Bonds.

The provisions relating to events of default in the Bonds differ from those contained in the substantial majority of its other outstanding public issues of Venezuela's capital market indebtedness in that the Bonds do not contain an event of default provision that would be triggered if Venezuela were to cease at a future date to maintain its membership in the International Monetary Fund ("IMF") or to cease to be eligible to use the general resources of the IMF.

Issue Price:
Bonds due 2023: 115%
Bonds due 2028: 115%
in each case, plus accrued interest, if any, from May 7, 2008

Delivery of the Bonds is expected to be made on May 7, 2008 through the book-entry facilities of The Depositary Trust Company ("DTC") and its direct and indirect participants including Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg").

See "Risk Factors" beginning on page 5 to read about certain risks you should consider before investing in the Bonds.

You should read this Listing Memorandum carefully before you invest.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to United States tax law requirements. The Bonds are being offered outside the United States in accordance with Regulation S under the Securities Act ("Regulation S") and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons as defined in Regulation S except to persons in offshore transactions in reliance on Regulation S. This Listing Memorandum has been prepared by the Republic solely for use in connection with the offer and sale of the Bonds outside the United States pursuant to Regulation S.

Deutsche Bank Securities **Barclays Capital**

This Listing Memorandum is dated as of May 9, 2008.

You should rely only on the information contained in this Listing Memorandum. The Republic has not authorized anyone to provide you with different or additional information. The Republic is not making an offer of the Bonds in any jurisdiction where the offer or sale is not permitted. You should not assume that the information provided by this Listing Memorandum is accurate as of any date other than the date on the front of this Listing Memorandum. The financial condition and prospects of the Republic may have changed since that date.

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ABOUT THIS LISTING MEMORANDUM

The Republic, having made all reasonable inquiries, confirms that this Listing Memorandum contains all information with respect to the Republic and the Bonds which is material in the context of the issue and offering of the Bonds, that such information is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that, to the best of the Republic's knowledge and belief, there are no other facts the omission of which would make any such information or the expression of any such opinions and intentions materially misleading. The Republic accepts responsibility accordingly.

Neither of Deutsche Bank Securities, Inc. or Barclays Bank PLC (together the "Dealer Managers") makes any representation or warranty, express or implied, as to the accuracy or completeness of this information, and nothing contained in this Listing Memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Dealer Managers have not independently verified any of such information and does not assume any responsibility for its accuracy or completeness. The Dealer Managers do not warrant that no events have occurred that have not yet been publicly disclosed by the Republic and that would affect the accuracy or completeness of the information concerning the Republic included herein. Each person receiving this Listing Memorandum acknowledges that (i) such person has not relied on the Dealer Managers or any person affiliated with the Dealer Managers in connection with its investigation of the accuracy of such information or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Republic or the Bonds other than as contained herein and, if given or made, any such other information or representation by such persons should not be relied upon as having been authorized by or made on behalf of the Republic or the Dealer Managers.

This Listing Memorandum does not constitute an offer of, or an invitation by or on behalf of the Republic or the Dealer Managers to purchase, any of the Bonds. The Listing Memorandum may only be used for the purposes for which it has been published. The distribution of this Listing Memorandum and the offer and sale of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Listing Memorandum comes are required by the Republic and the Dealer Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of the Bonds and distribution of this Listing Memorandum, see "Dealer Managers".

References to the "Republic" or "Venezuela" are to the Bolivarian Republic of Venezuela.

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States against the Republic. See "Enforcement of Civil Liabilities" and "Risk Factors—Legal Status and Enforcement" in this Listing Memorandum.

Effective January 1, 2008, the currency of Venezuela has been converted to the Bolívar Fuerte, each Bolívar Fuerte representing one thousand Bolívares. Unless otherwise specified or the context requires, references to "dollars", "U.S. dollars", "U.S.$" and "US$" are to United States dollars, references to "Bolívares" and "Bs." are to Venezuelan Bolívares, references to "Bolívar Fuerte" and "Bs.F" are to the currency of Venezuela introduced effective January 1, 2008 in replacement of Bolívares; references to "Euro", "EUR" and "€" are to the lawful currency of the European Union, references to "¥" are to Japanese yen, and references to "bpd" are to barrels per day. As used in this Listing Memorandum, the term "billion" means one thousand million, or 1,000,000,000, and the term "trillion" means one thousand billion, or 1,000,000,000,000. Historical amounts translated into Bolívares or U.S. dollars have been converted at historical rates of exchange, unless otherwise stated. Unless otherwise noted herein, all references to Venezuelan Bolívares refer to nominal Bolívares. All references to Bolívares Fuerte refer to nominal Bolívares Fuerte. Certain amounts that appear in this Listing Memorandum have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not represent an arithmetical aggregation of the amounts that precede them.

FORWARD-LOOKING STATEMENTS

This Listing Memorandum contains forward-looking statements. Statements that are not historical facts, including statements about Venezuela's beliefs and expectations, are forward-looking statements. Specifically, words such as "anticipates", "estimates", "expects", "intends", "plans", "seeks", "believes" and "will", and words and terms of similar substance used in connection with any discussion of future economic, social or political developments, identify forward-looking statements. These statements are based on current plans, objectives, estimates and projections and you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and Venezuela undertakes no obligation to update any of them in light of new information or future events. Forward-looking statements include, but are not limited to:

- Venezuela's statements regarding its prospects for continued political stability;
- Venezuela's plans with respect to the implementation of its economic plan;
- Venezuela's outlook for inflation, interest rates and its fiscal accounts; and
- Venezuela's success in the development of the non-petroleum sectors of its economy.

Forward-looking statements involve inherent risks. Venezuela cautions you that many factors could affect the future performance of the Venezuelan economy. These factors include, but are not limited to:

External factors, such as:

- higher international interest rates, which could increase Venezuela's debt service requirements and require a shift in budgetary expenditures toward additional debt service;
- lower oil prices, which could decrease Venezuela's fiscal and foreign exchange revenues and could negatively affect Venezuela's tax receipts, the balance of payments and the level of international reserves;
- recession or low growth in Venezuela's trading partners, which could lead to fewer exports from Venezuela and, therefore, affect Venezuela's growth;
- damage to the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets and the international capital markets generally, which could affect Venezuela's ability to engage in planned borrowing;
- changes in import tariffs and exchange rates of other countries, which could harm Venezuelan exporters and, as a consequence, have a negative impact on the growth of Venezuela's economy;
- changes in the international prices of commodities; and
- a deterioration in relations between Venezuela and other countries in the region or other disruptions to its international relations.

Internal factors, such as:

- the effect of the Venezuelan Government's exchange control regime on the ability of domestic and international businesses to obtain foreign currency to pay for imported goods and raw materials, as well as Venezuela's ability to continue to attract foreign investment;
- the Venezuelan Government's ability to pass legislation in support of Venezuela's economic plan, as well as public support for legislation that has been enacted as part of Venezuela's economic plan;
- the stability of the banking system;
- general economic and business conditions in Venezuela, including a decline in foreign direct and portfolio investment, high domestic inflation, high domestic interest rates and volatile unemployment levels, each of which could lead to lower levels of growth, lower international reserves and diminished access of both the government and Venezuelan businesses to international capital markets;

- the Venezuelan Government’s ability to contain inflationary pressures in the economy;
- foreign currency reserves; and
- the level of domestic debt.

ENFORCEMENT OF CIVIL LIABILITIES

Venezuela is a foreign state. As a result, you may not be able to effect service of process within the United States against Venezuela or enforce against Venezuela judgments in the courts of the United States predicated on the civil liability provisions of the federal or state securities laws of the United States. Venezuela has agreed to submit to the jurisdiction of United States federal and New York state courts located in the Borough of Manhattan, New York, New York, the courts of England located in London and the courts of Venezuela located in Caracas, and has waived some immunities and defenses in actions that might be brought against Venezuela with respect to the Bonds. Under Venezuelan law, neither Venezuela nor any of Venezuela's property have any immunity from the jurisdiction of any court or from set-off or any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution of judgment, execution or otherwise), except that Venezuela, as well as Venezuela's properties located in Venezuela, have immunity from set-off, attachment prior to judgment, attachment in aid of execution of judgment and execution of a judgment in actions and proceedings in Venezuela.

RISK FACTORS

This section describes certain risks associated with investing in the Bonds. You should consult your financial and legal advisors about the risk of investing in the Bonds. Venezuela disclaims any responsibility for advising you on these matters. Investors are urged to read carefully the entirety of this Listing Memorandum and to note, in particular, the following considerations.

Social and Political Risks

In prior years, events in Venezuela produced significant social and political tensions, which could worsen and have a material adverse effect on Venezuela's economic growth and its ability to service its public debt.

Since 2001, the Republic has experienced frequent periods of political and social turmoil involving groups that oppose and those that support the Chávez administration. In April 2002, a group of high ranking military officers publicly refused to recognize President Chávez's authority and detained him in the Presidential Palace, effecting a brief *coup d'etat*. Between December 2001 and February 2003, certain groups opposed to the Chávez administration staged four nationwide work stoppages to protest against actions taken by the Government, the last of which involved the operations of *Petróleos de Venezuela*, *S.A.* (or "PDVSA") and lasted between December 2, 2002 and February 3, 2003. The inclusion of part of the oil sector in this general work stoppage severely crippled oil production but failed to achieve its primary objective of removing President Chávez from power.

The most recent elections for state and local officials were held on October 31, 2004. Candidates supported by President Chávez won 21 of the 23 gubernatorial elections; the two remaining governorships were retained by opposition parties. On December 4, 2005, elections were held for the 167 seats in the *Asamblea Nacional* (the "National Assembly"). On December 1, 2005, the principal opposition parties announced that their candidates would not participate in the elections. The electoral authorities reported that approximately 25% of those eligible to vote participated in the elections. President Chávez's political party, *Movimiento Quinta República*, or MVR, won 121 seats and other parties aligned with the Chávez administration won the remaining seats.

On December 3, 2006, President Chávez was re-elected President for a six-year term, capturing 62.8% of the vote. Upon his re-election, in December 2006 President Chávez proposed to the group of political parties aligned with his administration the creation of a unified socialist political party, *Partido Socialista Unido de Venezuela*, or PSUV. PSUV will be open to new members after the official creation of the party, which is anticipated to occur during the first half of 2008. As of December 2007, six political parties had joined PSUV. PSUV will be one of many political parties in Venezuela.

On August 15, 2007, President Chávez submitted to the National Assembly a proposal to amend certain provisions in a number of articles of Venezuela's existing constitution (the "1999 Constitution") in accordance with procedures contained in the 1999 Constitution. In addition to the proposed amendments to the 1999 Constitution submitted by President Chávez, members of the National Assembly have proposed additional changes. The National Assembly approved the proposed amendments at the requisite three separate discussions and called for a referendum to be held on December 2, 2007 to decide on whether to approve or disapprove of the proposed amendments. According to the figures announced by Venezuela's National Electoral Council, or CNE, approximately 50.8% of the voters rejected the changes to the 1999 Constitution proposed by President Chávez and approximately 51.1% of the voters rejected the reforms proposed by the National Assembly. As a result, under Venezuelan electoral law, neither set of proposals was approved by the voters.

On March 2, 2008, President Chávez announced a movement of troops towards Venezuela's border with Colombia and on March 3, 2008 announced the suspension of diplomatic relations with Colombia as a result of the incursion by the Colombian military into Ecuador and the killing by Colombian military forces of certain members of the *Fuerzas Armadas Revolucionarias de Colombia* - FARC, including one of its leaders. During 2007, Colombia was among Venezuela's largest trading partners. On March 7, 2008, the governments of Venezuela, Colombia and Ecuador announced a resolution of their political disputes and restitution of normal diplomatic and trade relations as part of a diplomatic mission led by the Organization of American States. Any similar or new political disputes between Venezuela and Colombia could have adverse consequences on the Venezuelan economy.

Venezuela's regional elections for mayors and governors of all cities and states are scheduled to take place on November 23, 2008.

There can be no assurance that the significant domestic instability that existed during the periods between 2001 to 2004 will not re-emerge. Such instability could have a material adverse effect on Venezuela's economic growth and its ability to service its public debt.

Economic Risks

Certain economic risks are inherent in any investment in an emerging market.

Investing in an emerging market economy such as Venezuela carries certain economic risks which may be different from that of more developed economies. These risks include economic instability that may affect Venezuela's economic results. Economic instability in Venezuela and in other Latin American and emerging market countries has been caused by many different factors, including the following:

- high levels of inflation;
- exchange controls;
- high interest rates;
- changes in currency values;
- wage and price controls;
- changes in economic or tax policies; and
- the imposition of trade barriers.

Any of these factors, as well as volatility in the markets for securities similar to the Bonds, may adversely affect the liquidity of, and trading markets for the Bonds.

Foreign Exchange Control Regime

A devaluation of the Bolivar Fuerte could have a material adverse effect on the Venezuelan economy and its ability to service its public debt.

The Republic suspended foreign exchange trading on January 23, 2003 in response to a significant decrease in the amount of foreign currency generated from the sale of oil and an extraordinary increase in the demand for foreign currency which combined to produce a decline in the level of the Republic's international reserves. On February 5, 2003, the Government adopted a series of exchange agreements, decrees and regulations establishing a new exchange control regime. The Foreign Currency Administration Commission ("CADIVI"), administers, manages and controls the new exchange control regime. Purchases and sales of foreign currencies are centralized in Banco Central. The Ministry of Popular Power for Finance (the "Ministry of Finance"), together with Banco Central, is in charge of setting the exchange rate with respect to the U.S. dollar and other currencies.

On February 5, 2003, the Ministry of Finance and Banco Central fixed the U.S. dollar exchange rate at Bs.1,596 = U.S.$1.00 for purchase operations and Bs.1,600 = U.S.$1.00 for sale operations. The exchange rate for the payment of the public foreign debt was set at Bs.1,600 = U.S.$1.00 effective February 10, 2003.

On February 9, 2004, the Ministry of Finance and Banco Central changed the U.S. dollar exchange rate to Bs.1,915.20 = U.S.$1.00 for purchase operations and Bs.1,920.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was set at Bs.1,920.00 = U.S.$1.00.

On March 2, 2005, the Ministry of Finance and Banco Central further modified the U.S. dollar exchange rate to Bs.2,144.60 = U.S.$1.00 for purchase operations and Bs.2,150.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was also set at Bs.2,150.00 = U.S.$1.00.

Effective January 1, 2008, the currency of Venezuela has been converted to the Bolívar Fuerte, which represents one thousand Bolívares. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs.F 2.1446 = U.S.$1.00 for purchase operations and Bs.F 2.15 = U.S.$1.00 for sale operations.

Venezuela cannot assure you that the Bolívar Fuerte will not devalue in the future. Depreciation of the Bolívar Fuerte could have a material adverse effect on Venezuelan companies and financial institutions, which could adversely affect the Venezuelan economy and in turn, the Republic's ability to service its public debt and the market price of the Bonds.

Sovereign Credit Rating

Changes in Venezuela's credit ratings may adversely affect the value of the Bonds.

In September 2004, Moody's Investor Services assigned a "B2" rating with a "stable" outlook with respect to the Republic's long-term foreign currency-denominated debt.

In November 2005, Fitch raised its rating for the Republic's foreign currency-denominated debt from "B+" to "BB-" citing improvement in external debt and liquidity as a result of sound oil revenues. In October 2007, Fitch cut its outlook on Venezuela's foreign currency-denominated debt rating from "stable" to "negative" citing an increasingly unsustainable macroeconomic policy framework. In October 2007, Fitch also revised its outlook on PDVSA's long-term foreign and local currency rating to "negative".

In February 2006, Standard & Poor's raised Venezuela's foreign currency debt rating from "B+" to "BB-", citing economic growth and stronger international reserves. In October 2006, Standard & Poor's lifted its outlook on Venezuela's sovereign debt from "stable" to "positive" citing the contribution of high oil prices to the continued improvement in Venezuela's debt indicators. In January 2007, Standard & Poor's modified its outlook on Venezuela's sovereign debt from "positive" to "stable" citing increased uncertainty with respect to government policy.

The information above was obtained from information available on the websites of the rating agencies.

Any actual or anticipated changes or downgrades in Venezuela's credit ratings could affect the market value of the Bonds.

Oil Dependency

Any sustained decline in international petroleum prices, and disputes with former joint venture partners, could have a material adverse effect on the Venezuelan economy and its fiscal accounts.

The Republic, a member of the Organization of the Petroleum Exporting Countries ("OPEC"), is the world's ninth-largest oil producer and fifth-largest oil exporter. The structure of the Venezuelan fiscal system has been highly dependent on petroleum revenues. From 2003 through 2007, petroleum products accounted for an average of approximately 86.0% of the Republic's total exports. During the same period, petroleum revenues accounted for an average of approximately 44.6% of the Republic's total Central Government revenues and the petroleum sector accounted for an average of approximately 15.5% of Venezuela's gross domestic product, or GDP.

The average petroleum export price for the Venezuelan basket in 2007 was U.S.$64.95 per barrel, compared to U.S.$56.40 per barrel for 2006. There can be no assurance that Government revenues from petroleum activities will not experience fluctuations as a result of changes in the international petroleum market. Any sustained decline in international petroleum prices could adversely affect the Government's fiscal accounts and international reserves. Additionally, Venezuelan petroleum production capacity may decrease if the necessary capital expenditures are not allocated to this sector.

In February 2007, President Chávez issued a law-decree under the authority conferred by the 2007 Enabling Law, pursuant to which existing Orinoco Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, were required to be converted into *Empresas Mixtas*, or Mixed Companies, in which *Corporación Venezolana del Petróleo*, or CVP, a PDVSA wholly-owned subsidiary, or another PDVSA subsidiary, holds an equity interest of at least 60% in accordance with the Hydrocarbons Law. Pursuant to this law-decree, operators of the Orinoco Belt project will become Mixed Companies, with PDVSA becoming the majority owner of the operations. The Ministry of Energy and Petroleum is required to make a valuation of each new Mixed Company in order to determine the fair participation of the PDVSA subsidiary and to provide any economic or financial adjustment as necessary. The law-decree also provided that existing profit-sharing agreements for the exploration of the *Golfo de Paria Oeste*, *Golfo de Paria Este* and the blocks known as La Ceiba, as well as *Orifuels Sinovensa, S.A.*, must be converted into Mixed Companies.

In May 2007, CVP completed the acquisition process with respect to the four Orinoco Belt strategic associations, Petrozuata, Sincor, Cerro Negro and Hamaca. In June 2007, Chevron Texaco, Statoil, Total, BP, Eni SpA (ENI), Petroleum & Chemical Corp (Sinopec), and Ineparia agreed to convert their participations in the four Orinoco Oil Belt projects into Mixed Companies controlled by PDVSA, increasing PDVSA's average participation in the projects to 78%. In the same month, Moody's downgraded its credit rating on the Cerro Negro project from B1 to B3, and in June 2007, Moody's

downgraded its credit ratings on the remaining three Venezuelan heavy oil projects (Hamaca, Petrozuata and Sincor) from B1 to B2.

ExxonMobil and ConocoPhillips, the majority partners in the *Cerro Negro* and *Petrozuata* projects, respectively, have failed to reach a financial agreement with PDVSA regarding the required sale of their ownership interests. As a result, an ExxonMobil affiliate filed a request for arbitration with the International Centre for Settlement of Investment Disputes, or ICSID, as a result of it having been unable to successfully negotiate the terms of, or agree on the value of, the assets in the *Cerro Negro* project being transferred to the Republic. Prior to the enactment of the law-decree, ExxonMobil had a 41.7% interest in the *Cerro Negro* project. On January 25, 2008 the ExxonMobil affiliate commenced an additional arbitration under the rules of the International Chamber of Commerce.

On December 27, 2007 and January 8, 2008 the ExxonMobil affiliate obtained from the U.S. District Court for the Southern District of New York an attachment order totaling U.S.$315 million against accounts of a PDVSA affiliate, and on January 25, 2008 the ExxonMobil affiliate obtained a freezing injunction from the High Court of Justice in London preventing the removal or non-ordinary course disposition of up to U.S.$12 billion in assets of PDVSA and its affiliates in the United Kingdom and the non-ordinary course disposition of up to that amount of assets elsewhere in the world. A court in the Netherlands has issued an order relating to the freezing of certain PDVSA assets in the Netherlands and in the Netherlands Antilles. On March 18, 2008 the High Court of Justice in London lifted the U.S.$12 billion freeze order, which decision is subject to appeal by ExxonMobil. There can be no assurance that ExxonMobil will not appeal the London High Court of Justice's decision in order to reinstate the freeze order or that similar orders, attachments or injunctions will not be issued against PDVSA and/or any of its subsidiaries.

Legal Status and Enforcement

Venezuela is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.

Venezuela is a foreign state. As a result, it may not be possible for investors to effect service of process within their own jurisdiction upon the Republic or to enforce against the Republic judgments obtained in their own jurisdictions. Any such restriction might have a negative impact both on the liquidity of an investment in the Bonds and the performance of an investment in the Bonds.

Interest Rate Risks

Fluctuations in interest rates of the currency in which the Bonds are denominated may affect the market value of the Bonds.

Investors in the Bonds should be aware that an investment in the Bonds may involve an interest rate risk insofar as there may be fluctuations in the interest rates of the currency of denomination of the Bonds. Fluctuations in interest rates of the currency in which the Bonds are denominated may affect the market value of the Bonds. Such fluctuations might have a materially adverse impact both on the liquidity of an investment in the Bonds and on the performance of an investment in the Bonds.

Emerging Markets

Venezuela's economy is vulnerable to external shocks that could be caused by significant economic difficulties suffered by its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Venezuela's economic growth and its ability to service its public debt.

Investment in the emerging markets generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

A significant decline in the economic growth of any of Venezuela's major trading partners, including the United States, could have a material adverse impact on Venezuela's balance of trade and adversely affect Venezuela's economic growth. The United States is Venezuela's largest export market. A decline in the United States' demand for imports could have a material adverse effect on Venezuelan exports and Venezuela's economic growth.

In addition, because international investors' reactions to the events occurring in one emerging market country sometimes have demonstrated a "contagion" effect with respect to other emerging market countries, in which an entire region or class

of investment is disfavored by international investors, Venezuela could be affected by negative economic or financial developments in other emerging market countries. In the past, Venezuela has been adversely affected by such contagion effects on a number of occasions, including following the 1997 Asian financial crisis, the 1998 Russian financial crisis and the 1999 devaluation of the Brazilian real. Nevertheless, Venezuela's significant level of international reserves as well as the current worldwide demand for petroleum products can be expected to reduce the effect of these developments on Venezuela in the short and medium terms.

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

Limited Trading Market for the Bonds

There is no established trading market for the Bonds, and the price at which the Bonds will trade in the secondary market is uncertain.

Application has been made to list the Bonds on the Official List of the Exchange and to trade the Bonds on the Euro MTF market of the Exchange. The Republic has been advised by the Dealer Managers that they intend to make a market in the Bonds but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Bonds. If an active market for the Bonds fails to develop or continue, this failure could harm the trading price of the Bonds. Under the provisions of the Bonds, the Republic is permitted to, and may in its discretion, acquire the Bonds through open-market purchase, tender or exchange transactions. If the aggregate principal amount of the Bonds outstanding is reduced, the liquidity of any trading market for the remaining Bonds could be adversely affected.

USE OF PROCEEDS

The net proceeds from the sale of the Bonds, after deduction of the Dealer Managers' commissions and the net expenses payable by the Republic (which are estimated to be U.S.$8,325,000), will be approximately U.S.$4,591,675,000. The Republic will use the net proceeds from the sale of the Bonds for the management of the Republic's debt portfolio, including debt repurchases, the extension of the Republic's maturity profile and the financing of maturities of existing debt.

DESCRIPTION OF THE BONDS

The Bonds are to be issued under a fiscal agency agreement, dated as of July 25, 2001 (as amended by Amendment No. 1 to the Fiscal Agency Agreement dated as of September 19, 2003, Amendment No. 2 to the Fiscal Agency Agreement dated as of March 25, 2005 and Amendment No. 3 to the Fiscal Agency Agreement dated as of December 17, 2007, the "Fiscal Agency Agreement"), among the Republic, Banco Central de Venezuela, as official financial agent of the Republic, and Deutsche Bank AG and Deutsche Bank Trust Company Americas (formerly Bankers Trust Company), as fiscal agents and principal paying agents. The following description summarizes certain terms of the Bonds and the Fiscal Agency Agreement. Such summaries do not purport to be complete and are qualified in their entirety by reference to such exhibits.

The Republic may replace the Fiscal Agent at any time, subject to the appointment of a replacement fiscal agent. The Fiscal Agent is not a trustee for the holders of the Bonds and does not have the same responsibilities or duties to act for such holder as would a trustee. The Republic may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent.

General Terms of the Bonds

The Bonds will:

- be issued in an aggregate principal amount of U.S.$2,000,000,000 in respect of the Bonds due 2023 and U.S.$2,000,000,000 in respect of the Bonds due 2028;

- have an issue date of May 7, 2008;

- have an issue price of 115% of the principal amount plus accrued interest, from May 7, 2008, if any, in respect of the Bonds due 2023 and 115% of the principal amount plus accrued interest, from May 7, 2008, if any, in respect of the Bonds due 2028;

- be designated Type B "Collective Action Securities" under the Fiscal Agency Agreement, and as such, will contain provisions which are described in the sections entitled "—Meetings and Amendments" in this Listing Memorandum. Under these provisions, the Republic may, among other things, amend the payment provisions of each Series of Bonds and certain other terms with the consent of the holders of at least 75% of the aggregate principal amount outstanding of the relevant Series of Bonds;

- not contain an Event of Default provision that would be triggered if Venezuela were to cease at a future date to maintain its membership in the IMF or cease to be eligible to use the general resources of the IMF;

- not be redeemable before maturity and not be entitled to the benefit of any sinking fund;

- upon issuance, be direct, unconditional and general obligations of the Republic and rank equally, without any preference among themselves, with all other indebtedness issued in accordance with the Fiscal Agency Agreement and with all other unsecured and unsubordinated Indebtedness of Venezuela;

- be registered in the name of a nominee of DTC and recorded on, and transferred through, the records maintained by DTC and its direct and indirect participants, including Euroclear Bank SA/NV ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg");

- be issued in fully registered form, without coupons, registered in the names of investors or their nominees in denominations of U.S.$100 and integral multiples of U.S.$100 in excess thereof; and

- be available in definitive form only under certain limited circumstances.

Status

The Bonds constitute Public External Indebtedness of the Republic and (subject to "—Negative Pledge" below) are direct, unconditional, unsecured and general obligations of the Republic and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Republic under the Bonds shall, save for such exceptions as

may be provided by applicable legislation and subject to "—Negative Pledge" below, at all times rank at least equally with all its other payment obligations relating to External Public Debt (as defined below). The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Bonds.

Negative Pledge

So long as any Bond of a particular Series remains Outstanding (as defined in the Fiscal Agency Agreement), if any Lien on Oil or Accounts Receivable (other than a Permitted Lien) is created by the Republic, Banco Central or any Governmental Agency to secure External Public Debt, the Republic will cause such Lien to equally and ratably secure the obligations of the Republic under such Series of the Bonds. For purposes of the Bonds, the following terms shall have the following meanings:

"Accounts Receivable" means accounts payable to the Republic, Banco Central or any Governmental Agency in respect of the sale, lease or other provision of Oil, whether or not yet earned by performance or scheduled to be documented in the future pursuant to a contract in existence on the relevant date.

"Bond Currency" means any of the following currencies: Euros, Deutsche marks, Pounds sterling, U.S. dollars, Swiss francs, Italian lire or French francs.

"Debt" means, with respect to any Person, the following (whether outstanding on the date hereof or at any time thereafter): (a) all indebtedness of such Person for borrowed money, or for the deferred purchase price of property or services if and to the extent that the obligation to pay such purchase price is evidenced by an instrument; (b) all reimbursement obligations of such Person under or in respect of letters of credit or banker's acceptances; (c) all obligations of such Person to repay deposits with or advances to such Person; (d) all obligations of such Person (other than those specified in clauses (a) and (b) above) evidenced by bonds, debentures, notes or other similar instruments; and (e) all direct or indirect guarantees, endorsements and similar obligations of such Person in respect of, and all obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other Person specified in clause (a), (b), (c) or (d) above.

"Export" means any sale of Oil by any Person, including any sales to Persons owned or controlled, directly or indirectly, by any such seller, (i) in connection with which such Oil is transported from the Republic or from storage facilities for Oil held for Export by any such Person outside the Republic and (ii) which has not been preceded by any sale of such Oil which constitutes an Export hereunder.

"External Debt" means any Debt which is denominated or payable, or which at the option of the holder thereof may be payable, in a currency other than Bolívares Fuertes.

"External Public Debt" means, at any time, the External Debt of the public sector entities referred to in Title I of the Organic Law of the Financial Administration of the Public Sector of the Republic, as in effect on May 7, 2008, including principal, interest and other amounts payable in connection therewith.

"Financing Plan" means the Republic of Venezuela 1990 Financing Plan dated June 25, 1990, distributed to the international banking community.

"Governmental Agency" means each agency, department, ministry, authority, statutory corporation or other statutory body or juridical entity of the Republic or any political subdivision thereof or therein, now existing or hereafter created, and any bank, corporation or other legal entity 51% or more of the capital or voting stock or other ownership interest of which is now or hereafter owned or controlled, directly or indirectly, by the Republic, but excluding Banco Central.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance on or with respect to, or any preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligation with or from the proceeds of, any asset or revenues of any kind.

"Oil" means hydrocarbons, their products and derivatives, in each case produced in the Republic, provided, however, that "Oil" shall not include Orimulsion®, products from Orimulsion®, natural gas, coal and petrochemicals.

"Operating Reserves" means, at any time, the value (determined in accordance with the second sentence of this definition) of all of the following assets owned by Banco Central at such time to the extent denominated in units of

exchange other than Bolívares Fuertes (excluding from such assets any assets which are subject to a Lien): (a) currencies other than Bolívares Fuertes (excluding special drawing rights in the International Monetary Fund (the "IMF") and all funds received from the IMF); (b) deposits and credit balances with commercial financial lending institutions, central banks of non-Venezuelan governments or multilateral lending institutions which are payable in any of the Bond Currencies or currencies that are readily convertible into any of the Bond Currencies; and (c) marketable bonds, notes, certificates of deposit and other obligations issued by commercial financial institutions, non-Venezuelan governments or multilateral lending institutions which are payable in any of the Bond Currencies or currencies that are readily convertible into any of the Bond Currencies. For the purposes of this definition: (i) the value of an amount of any currency other than Bolívares Fuertes at any time is the equivalent in U. S. dollars of such amount at such time determined in accordance with the consistently applied accounting practices of Banco Central; (ii) the value of a deposit or credit balance referred to in sub-clause (b) above at any time is the equivalent in U.S. dollars of the face amount of such deposit or credit balance at such time determined in accordance with the consistently applied accounting practices of Banco Central; and (iii) the value of a bond, note, certificate of deposit or other obligation referred to in sub-clause (c) above at any time is the equivalent in U.S. dollars of the fair market value of such obligation at such time determined in accordance with the consistently applied accounting practices of Banco Central.

"Orimulsion®" means a liquid fuel consisting of (i) a natural bitumen of 7-10° API, (ii) water and (iii) a surfactant which is added to stabilize the bitumen in the water emulsion.

"Permitted Lien" means a Lien on Oil or Accounts Receivable, if at the time of the creation of such Lien (the "New Lien"):

(i) Operating Reserves are greater than the sum of (a) two months of imports into the Republic of goods and services (including interest payments with respect to External Public Debt) and (b) two months of principal payments with respect to all of the bonds issued to implement the Financing Plan and any other External Public Debt held by commercial lending institutions (measured in each case on the basis of imports and interest and principal payments during the preceding six months) (the availability of sufficient Operating Reserves to be certified by Banco Central);

(ii) the aggregate principal amount of all External Public Debt secured by Liens on Oil or Accounts Receivable (including the External Public Debt to be secured by the New Lien and other External Public Debt to be simultaneously secured by Liens on Oil or Accounts Receivable) paid, due or scheduled to fall due in the current calendar year, and the aggregate outstanding principal amount of all such External Public Debt scheduled to fall due in each subsequent calendar year, is in each such year less than an amount equivalent to 17.5% of the aggregate revenues from the Export of Oil during the 12-month period preceding the creation of the New Lien (the amount of such External Public Debt to be certified by Banco Central and the amount of such revenues to be certified by the Republic); and

(iii) the aggregate outstanding principal amount of all External Public Debt secured by Liens on Oil or Accounts Receivable (including the External Public Debt to be secured by the New Lien and other External Debt to be simultaneously secured by Liens on Oil or Accounts Receivable) is less than an amount equivalent to 55% of the aggregate revenues from the Export of Oil during the 12-month period preceding the creation of the New Lien (the amount of such External Public Debt to be certified by Banco Central and the amount of such revenues to be certified by the Republic);

provided that no New Lien will constitute a Permitted Lien if such New Lien is created while there is a default in the payment of principal of or interest on a Series of the Bonds or on any bonds issued to implement the Financing Plan, unless the proceeds of the financing secured by such New Lien are used to make or secure on a ratable basis interest and principal payments due with respect to such Series of the Bonds; provided further that, notwithstanding the foregoing, a New Lien will constitute a Permitted Lien if (a) such New Lien arises pursuant to an order of attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, provided that such New Lien is released or discharged within one year of its imposition, or (b) such New Lien arises by operation of law (and not pursuant to any agreement) and has not been foreclosed or otherwise enforced against the Oil or Accounts Receivable to which such New Lien applies.

"Person" means any individual, corporation, partnership, association, joint stock company, joint venture, trust, unincorporated organization or any other juridical entity, or a sovereign state or government or any agency or political subdivision thereof.

"Public External Indebtedness" means any External Debt issued in a public offering or private placement of securities or other instruments of a type offered in capital markets, including, without limitation, any bonds, floating rate notes, commercial paper, certificates of deposit, debentures or other evidence of indebtedness.

Maturity

Bonds due 2023. The Bonds due 2023 will mature on May 7, 2023.

Bonds due 2028. The Bonds due 2028 will mature on May 7, 2028.

Interest

Bonds due 2023. The Bonds due 2023 will bear interest from (and including) May 7, 2008 at the rate of 9.00% per annum, payable semi-annually in arrears on May 7 and November 7 of each year, commencing on November 7, 2008.

Bonds due 2028. The Bonds due 2028 will bear interest from (and including) May 7, 2008 at the rate of 9.25% per annum, payable semi-annually in arrears on May 7 and November 7 of each year, commencing on November 7, 2008.

Each of the Bonds will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. Where interest is to be calculated in respect of a period which is equal to or shorter than one year, it will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

If the Republic shall fail to redeem the Bonds when due, interest shall continue to accrue beyond the due date until actual redemption of the Bonds but not beyond the fourteenth day after notice has been given by the Fiscal Agent that the funds required for redemption have been provided to the Fiscal Agent.

Redemption and Purchase

The Bonds are not redeemable prior to their maturity. Upon maturity, the Bonds will be redeemable at par.

The Republic may at any time purchase Bonds in the open market or otherwise at any price. Bonds purchased by or on behalf of the Republic may, at the discretion of the Republic, be surrendered to the Fiscal Agent for cancellation, held or resold.

Payments and Agents

The principal of the Bonds will be payable in U.S. dollars against surrender of the Bonds at the Corporate Trust Office of the Fiscal Agent or, subject to applicable laws and regulations, upon surrender of the Bonds at the office of any paying agent. Payment of any installment of interest on a Bond will be made to the person in whose name such Bond is registered at the close of business on the Regular Record Date immediately preceding the related Interest Payment Date (as defined on the face of the Bonds). "Regular Record Date" means, with respect to any Interest Payment Date, the fifteenth day prior to such Interest Payment Date (whether or not a business day). Payment of such interest will be made by check mailed to the holder at such holder's registered address or, upon application of any holder of at least U.S.$1,000,000 principal amount of Bonds to the Fiscal Agent or paying agent not later than the relevant Regular Record Date, by transfer to a United States dollar account maintained by such holder with a bank in The City of New York or Western Europe.

Any money that the Republic pays to the Fiscal Agent for payment on any Bond that remains unclaimed for two years will be returned to the Republic. Afterwards, the holder of such Bond may look only to the Republic for payment.

The Republic will agree that so long as any Bond remains outstanding, it will maintain a paying agent in a western European city for payments on the Bonds (which will be Luxembourg if and so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so require), a registrar having a specified office at the Corporate Trust Office of the Fiscal Agent, a paying agent having a specified office in The City of New York and a transfer agent in Luxembourg (if and so long as the Bonds are listed on the Official List of the Luxembourg Stock Exchange

and the rules of such exchange so require). The Republic has initially appointed Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A., as paying agents and transfer agents for the Bonds. Subject to the foregoing, the Republic shall have the right at any time to terminate any such appointment and to appoint any other agents in such other places as it may deem appropriate upon notice in accordance with "—Notices" below and in accordance with the terms and conditions set forth in the Fiscal Agency Agreement.

Payments in respect of the Bonds shall be made in such coin or currency of the United States as at the time of payment shall be legal tender for the payment of public and private debts.

In any case where a payment date shall not be a business day at any place of payment, then the relevant payment need not be made on such date at such place, but may be made on the next succeeding day at such place which is a business day in the applicable jurisdiction, with the same force and effect as if made on the date for such payment, and no additional interest in respect of such payment date shall accrue for the period from and after such payment date.

In acting under the Fiscal Agency Agreement and in connection with the Bonds, the Fiscal Agent and paying agent are acting solely as agents of the Republic and do not assume any obligation toward or relationship of agency or trust for or with the owner or holder of any bond except that any funds held by any such agent for payment of principal of or interest on the Bonds shall be held in trust by it and applied as set forth in the Bonds and Fiscal Agency Agreement, and shall be segregated from other funds held by it. For a description of the duties, immunities and rights of the Fiscal Agent and paying agent under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of the Fiscal Agent and paying agent to the owners or holders of Bonds are subject to such immunities and rights.

Additional Amounts

Any and all payments by the Republic under the Bonds or in respect thereof shall be made free and clear of and without deduction for any present or future taxes, levies, imposts, deductions, charges or withholdings, and all interest, penalties or other liabilities with respect thereto, imposed or levied at any time, excluding (i) in the case of each holder, taxes imposed or measured by its income or capital by the jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) under the laws of which such holder is organized, (ii) in the case of each holder, taxes imposed on or measured by its income or capital by the jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) in which the principal place of business or residence (as the case may be) of such holder is located, including, without limitation, any jurisdiction in which such holder is, through an office or fixed place of business, deemed to be doing business or maintaining a permanent establishment under any income tax treaty and (iii) all other taxes imposed by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) outside the Republic except such taxes which arise as a result of action taken by the Republic (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being called "Taxes" under the Bonds). If the Republic shall be required by law to deduct any Taxes from or in respect of any sum payable under the Bonds or in respect thereof to any holder, (a) the Republic shall pay such additional amounts ("Additional Amounts") as may be necessary so that after making all required deductions for Taxes (including deductions applicable to Additional Amounts payable under this clause (a)) such holder receives an amount equal to the sum it would have received had no such deductions been made, (b) the Republic will make such deductions and (c) the Republic will pay the full amount deducted to the relevant taxing authority or other authority in accordance with applicable law.

Except as otherwise provided in the Bonds, the Republic will pay (i) all stamp or other documentary taxes or duties, if any, which may be imposed by the Republic, the United States of America or any state or political subdivision thereof or taxing authority therein with respect to the original issue of the Bonds or the exchange of interests in the global Bonds for definitive Bonds and (ii) all other excise or property taxes, charges or similar levies which arise in any jurisdiction from any payment made hereunder or from the execution or delivery of, or otherwise with respect to, the Bonds, the Fiscal Agency Agreement, the Banco Central Undertaking or any other document or instrument referred to in the Bonds or in the Fiscal Agency Agreement, excluding (in the case of the preceding sub-clause (ii)) any such taxes imposed by any jurisdiction (or any political subdivision or taxing authority of such jurisdiction or any organization or federation of which such jurisdiction is at any time a member) outside the Republic except those resulting from, or required to be paid in connection with, the enforcement of the Bonds, the Fiscal Agency Agreement, the Banco Central Undertaking or any such other document or instrument following the occurrence of an Event of Default (all such non-excluded taxes, charges or levies described in sub-clauses (i) and (ii) above being called "Other Taxes" under the Bonds).

The Republic will reimburse each holder for the full amount of Taxes or Other Taxes (including without limitation, any Taxes or Other Taxes imposed on amounts paid by such holder or any liabilities (including penalties, interest and expenses)) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. Each holder which wishes to claim reimbursement for any such Taxes, Other Taxes or liabilities arising therefrom or with respect thereto will notify the Republic (through the Fiscal Agent) of its intention to pay the same as promptly as practicable and, if possible, prior to the date of such payment (such notice to describe such Taxes, Other Taxes or liabilities in reasonable detail). Such reimbursement shall be made within 30 days from the date such holder makes demand therefor.

Within 30 days after the date of any payment of Taxes (but in no event later than the date 45 days after the date such Taxes become due), the Republic will furnish to the Fiscal Agent the original (or a certified copy) of a receipt evidencing payment thereof. The obligations of the Republic described in this section shall survive the payment of the Bonds.

Whenever there is mentioned, in any context, the payment of the principal of or interest on, or in respect of, a Bond, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the provisions of this Section, and express mention of the payment of Additional Amounts (if applicable) in any provisions hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Events of Default

If any of the following events ("Events of Default") shall occur and be continuing:

(a) the Republic fails to pay the principal amount of any Bond of a particular Series when due and such failure continues for a period of 30 days; or

(b) the Republic fails to pay interest or other amounts due on any Bond when due and such failure continues for a period of 30 days; or

(c) the Republic fails duly to perform or observe any term or obligation contained in either Series of the Bonds or the Fiscal Agency Agreement (other than those described in (a) or (b) above) and such failure shall continue unremedied for 90 days after written notice thereof shall have been given to the Republic at the specified office of the Fiscal Agent by any holder; or

(d) Banco Central fails to duly perform or observe any of its obligations contained in the Banco Central Undertaking to remit (as and to the extent provided therein) U.S. dollars in the amount of each payment of principal of, and interest on, either Series of the Bonds upon payment by the Republic to Banco Central of the necessary Bolívares Fuertes amount to make such payment, as provided in the Banco Central Undertaking, or on the occurrence and continuation of such a failure, Banco Central shall make any withdrawal of any amounts held on deposit with any holder or the Fiscal Agent that has notified Banco Central of its intention to set off from such amounts any amounts owed to such holder or the Fiscal Agent, and any such failure shall continue unremedied for 30 days after written notice thereof shall have been given Banco Central and the Republic by the Fiscal Agent or any holder at the Corporate Trust Office of the Fiscal Agent; or

(e) Banco Central shall fail to duly perform or observe any term or obligation contained in the Banco Central Undertaking or the Fiscal Agency Agreement on its part to be performed or observed (other than those specified in (d) above) and such failure shall continue unremedied for 90 days after written notice thereof shall have been given to the Republic and Banco Central at the specified office of the Fiscal Agent by any holder; or

(f) as a result of any default or event of default contained in any agreement or instrument related to any Public External Indebtedness (other than the Bonds due 2023, in the case of the Bonds due 2023, or the Bonds due 2028, in the case of the Bonds due 2028) of the Republic, Banco Central or any Governmental Agency guaranteed by the Republic, any party to such agreement or instrument accelerates or declares to be due and payable any such Public External Indebtedness prior to the stated maturity thereof; or

(g) the Republic or Banco Central fails generally to pay or perform its obligations under Public External Indebtedness as they become due, or a moratorium on the payment or performance of such obligations shall be declared by the Republic or Banco Central; or

(h) there shall have been entered against the Republic or Banco Central a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made, for the payment of money in excess of U.S.$100,000,000 or its equivalent and 30 days shall have passed since the entry of any such order without it having been satisfied or stayed; or

(i) the validity of a particular Series of the Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking is contested by the Republic, Banco Central or any legislative, executive or judicial body or official of the Republic authorized in each case by law to do so, or the Republic or Banco Central denies any of its obligations thereunder to any of the holders of such Series of the Bonds (the "Bondholders") (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), or any constitutional provision, treaty, convention, law, regulation, official communiqué, decree, ordinance or policy of the Republic, or any final decision by any court in the Republic having jurisdiction purports to render any provision of such Series of the Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking invalid or unenforceable or purports to prevent or delay the performance or observance by the Republic or Banco Central of any of their respective obligations thereunder to any of the holders; or

(j) any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other authority necessary to enable the Republic or Banco Central to make or perform its obligations under a particular Series of the Bonds, the Fiscal Agency Agreement or the Banco Central Undertaking (as the case may be), or for the validity or enforceability thereof, expires, is withheld, revoked, terminated or otherwise ceases to remain in full force and effect, or is modified in a manner which adversely affects, or may reasonably be expected to affect, any rights or claims of any of the holders;

then holders of 25% or more in aggregate outstanding principal amount of such Series of the Bonds may, by notice in writing given to the Fiscal Agent at its specified office, declare such Series of the Bonds immediately due and payable whereupon the entire unpaid principal amount of such Series of the Bonds, all interest accrued and unpaid thereon and all other amounts payable in respect of such Series of the Bonds shall become and be forthwith due and payable, without presentation, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Republic. Upon such declaration, the Fiscal Agent shall give notice thereof in the manner provided in the Fiscal Agency Agreement to the Republic (by facsimile with transmission confirmed) and to the holders of such Series of the Bonds in accordance herewith. After any such declaration, if all amounts then due with respect to such Series of the Bonds are paid (other than amounts due solely because of such declaration) and all other defaults with respect to such Series of the Bonds are cured, such declaration may be annulled and rescinded by holders of more than 50% in aggregate principal amount of such Series of the Outstanding Bonds by written notice thereof to the Republic at the specified office of the Fiscal Agent.

Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made within a period of ten years in the case of principal and three years in the case of interest from the Relevant Date, to the extent permitted by applicable law. "Relevant Date" means whichever is the later of (i) the date on which any such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders.

Replacement, Exchange and Transfer

If any Bond is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or any paying agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, a Bond or Bonds may be exchanged for a Bond or Bonds of equal aggregate principal amount in such same or different authorized denominations as may be requested by the holder, by surrender of such Bond or Bonds at the office of the Fiscal Agent, or at the office of any transfer agent, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the restrictions on transfer set forth on the face of the Bond, a Bond may be transferred in whole or in part in an authorized denomination by the holder or holders surrendering the Bond for registration of transfer at the Corporate Trust Office of the Fiscal Agent or at the office of any transfer agent, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory

to the Republic and the Fiscal Agent or any such transfer agent, as the case may be, duly executed by, the holder or holders thereof or its attorney-in-fact or attorneys-in-fact authorized in writing.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Republic.

Notwithstanding the foregoing, the Fiscal Agent shall not register the transfer or exchange of Bonds for a period of 15 days preceding the due date for any payment of principal of or interest on the Bonds.

Meetings and Amendments

A meeting of holders of a Series of the Bonds may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or such Series of the Bonds to be made, given or taken by holders of such Series of Bonds or to modify, amend or supplement the terms of such Series of the Bonds or the Fiscal Agency Agreement as provided in such Series of the Bonds. The Republic may at any time call a meeting of holders of such Series of the Bonds for any such purpose to be held at such time and at such place as the Republic shall determine. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of such Series of the Bonds, not less than 30 nor more than 60 days prior to the date fixed for the meeting. In case at any time the Republic or the holders of at least 10% in aggregate principal amount of such Series of the Outstanding (as defined in the Fiscal Agency Agreement) Bonds shall, after the occurrence and during the continuance of any Event of Default under such Series of the Bonds, have requested the Fiscal Agent to call a meeting of the holders of such Series of the Bonds for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of a Series of the Bonds, a person shall be a holder of such Series of Outstanding Bonds or a person duly appointed by an instrument in writing as proxy for such a holder. The persons entitled to vote a majority in principal amount of such Series of the Outstanding Bonds shall constitute a quorum. In the absence of a quorum within two hours of the time fixed for any such meeting, the meeting shall be adjourned for a period of not less than 10 days as determined by the chairman of the meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting shall be further adjourned for a period of not less than 10 additional days as determined by the chairman of the meeting. Notice of the reconvening of any adjourned meeting shall be given as provided above except that such notice need be published only once, but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened. Subject to the foregoing, at the reconvening of any meeting further adjourned for lack of a quorum, the persons entitled to vote 35% in aggregate principal amount of such Series of the Bonds at the time outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Notice of the reconvening of an adjourned meeting shall state expressly the percentage of the aggregate principal amount of such Series of the outstanding Bonds which shall constitute a quorum. Any holder of Bonds of such Series who has executed an instrument in writing appointing a person as proxy shall be deemed to be present for the purposes of determining a quorum and be deemed to have voted; provided that such Bondholder shall be considered as present or voting only with respect to the matters covered by such instrument in writing (which may include authorization to vote on any other matters as may come before the meeting). Notwithstanding the foregoing, at any meeting for the purpose of voting on matters referred to in (a)(A) through (K) below, the persons entitled to vote 75% in aggregate principal amount of the Outstanding Bonds shall constitute a quorum.

The Fiscal Agent may make such reasonable and customary regulations consistent with the Fiscal Agency Agreement as it shall deem advisable for any meeting of holders of a Series of Bonds with respect to the proof of the holding of such Series of the Bonds, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

(a) At any meeting of holders of a Series of the Bonds duly called and held as specified above, upon the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66⅔% in aggregate principal amount of such Series of the Bonds then Outstanding represented at such meeting (or of such other percentage as may be set forth in such Series of the Bonds with respect to the action being taken), or (b) with the written consent of the owners of not less than 66⅔% in aggregate principal amount of such Series of the Bonds then Outstanding (or of such other percentage as may

be set forth in such Series of the Bonds with respect to the action being taken), the Republic and the Fiscal Agent (and, in the case of the Banco Central Undertaking, with the agreement of Banco Central), upon agreement between themselves, may modify, amend or supplement the terms of such Series of the Bonds or, insofar as respects such Series of the Bonds, the Fiscal Agency Agreement, in any way, and the holders of such Series of the Bonds may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or by the Fiscal Agency Agreement to be made, given or taken by the holders of such Series of the Bonds; provided, however, that no such action may, without the consent or affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 75% in aggregate principal amount of such Series of the Bonds then Outstanding, (A) change the due date for the payment of the principal of (or premium, if any) or any installment of interest on any Bond of that Series, (B) reduce the principal amount of any Bond of a particular Series, the portion of such principal amount that is payable upon acceleration of the maturity of such Bond of that Series, the interest rate thereon or the premium payable upon redemption thereof, (C) change the coin or currency in which or the required place or places at which payment with respect to interest, premium or principal in respect of such Series of the Bonds is payable, (D) shorten the period during which the Republic is not permitted to redeem such Series of the Bonds, or permit the Republic to redeem such Series of the Bonds if, prior to such action, the Republic is not permitted to do so, (E) reduce the proportion of the principal amount of such Series of the Bonds the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of such Series of the Bonds or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided thereby or hereby to be made, taken or given, (F) change the obligation of the Republic to pay Additional Amounts, if any, pursuant hereto, (G) amend the definition of “Outstanding” with respect to such Series of the Bonds, (H) change the governing law provisions of such Series of the Bonds, (I) change the Republic’s appointment of an agent for the service of process or the Republic’s agreement not to claim and to waive irrevocably any immunity in respect of any Related Proceeding, (J) except as contemplated in clause (C) of the immediately following sentence, change the ranking of such Series of the Bonds as set forth in such Series of the Bonds or (K) in connection with an offer to acquire all or any portion of such Series of the Bonds where the consideration consists of either cash, new securities to be issued by the Republic, Banco Central or any Governmental Agency, or any combination of the foregoing, amend any Event of Default.

The Republic and the Fiscal Agent (and, in the case of the Banco Central Undertaking, with the agreement of Banco Central) may, upon agreement among themselves, without the vote or consent of any holder of the Bonds, modify, amend or supplement the Fiscal Agency Agreement or the Bonds for the purpose of (A) adding to the covenants of the Republic for the benefit of the holders of Bonds, (B) surrendering any right or power conferred upon the Republic, (C) securing the Bonds pursuant to the requirements of the Bonds or otherwise, (D) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement, the Banco Central Undertaking or in the Bonds or (E) amending the Fiscal Agency Agreement or the Bonds in any manner that the Republic, Banco Central and the Fiscal Agent, as the case may be, may determine and that shall not be inconsistent with the Bonds and that shall not adversely affect the interest of any holder of Bonds in any material respect.

It shall not be necessary for the vote or consent of the holders of a particular Series of the Bonds to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action, but it shall be sufficient if such vote or consent shall approve the substance thereof.

For purposes of determining whether the required percentage of holders of a particular Series of Bonds is present at a meeting of holders for quorum purposes or has approved any amendment, modification or change to, or waiver of, such Series of the Bonds or the Fiscal Agency Agreement, or whether the required percentage of holders has delivered a notice of acceleration of such Series of the Bonds, Bonds of such Series owned, directly or indirectly, by Venezuela or any public sector instrumentality of Venezuela will be disregarded and deemed not to be “Outstanding”, except that in determining whether the Fiscal Agent shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only Bonds of such Series that the Fiscal Agent knows to be so owned shall be so disregarded. As used in this paragraph, “public sector instrumentality” means Banco Central, any department, ministry or agency of the federal government of Venezuela or any corporation, trust, financial institution or other entity owned or controlled by the federal government of Venezuela or any of the foregoing, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

Any instrument given by or on behalf of any holder of a Bond of a particular Series in connection with any consent to or vote for any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Bond or

any Bond issued directly or indirectly in exchange or substitution therefor or in lieu thereof. Any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action will be conclusive and binding on all holders of Bonds, whether or not they have given such consent or cast such vote or were present at any meeting, and whether or not notation of such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action is made upon the Bonds. Notice of any modification or amendment of, supplement to, or request, demand, authorization, direction, notice, consent, waiver or other action with respect to a Series of the Bonds or the Fiscal Agency Agreement (other than for purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision hereof or thereof) shall be given to each holder of Bonds affected thereby, in all cases as provided in such Series of the Bonds.

Notices

Notices will be mailed to holders of Bonds at their registered addresses and shall be deemed to have been given on the date of such mailing. DTC, Euroclear and Clearstream, Luxembourg will communicate such notices to their participants in accordance with their standard practices. In addition, all notices to holders of either Series of the Bonds will be published, if and for so long as such Series of the Bonds are listed on the Official List of the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg or by publication on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. It is expected that such publication, if required, will be made in *Luxemburger Wort*. If any publication in a leading newspaper or on the website at http://www.bourse.lu is not practicable, notice will be given in another way consistent with the rules of the Luxembourg Stock Exchange.

Judgment Currency

U.S. dollars are the sole currency of account and payment for all sums payable by the Republic under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment, order of a court of any jurisdiction or for any other reason) by any Bondholder in respect of any sum expressed to be due to it from the Republic under any Bond shall only constitute a discharge to the Republic to the extent of the U.S. dollar amount which the recipient is able to purchase in accordance with normal banking procedures with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Republic shall indemnify it against any loss sustained by it as a result. If that U.S. dollar amount is more than the U.S. dollar amount expressed to be due to the recipient under the Bond, each such recipient shall reimburse the Republic the amount of the excess. In any event, the Republic shall indemnify the recipient against the cost of making any such purchase. For the purposes of this provision, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Republic's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

Governing Law, Jurisdiction and Waiver of Immunity

The Fiscal Agency Agreement and the Bonds are governed by, and shall be construed in accordance with, the laws of the State of New York.

The Republic agrees that any suit, action or proceeding against it or its properties, assets or revenue with respect to the Bonds (a "Related Proceeding") shall be brought exclusively in the courts of England that sit in London; in the Supreme Court of the State of New York, County of New York; in the United States District Court for the Southern District of New York; or in the courts of the Republic that sit in Caracas, as the person bringing such Related Proceeding may elect in its sole discretion, provided that if none of the courts specified above located in the country in which such person has elected to bring such Related Proceeding is a court that has jurisdiction of the subject matter or is otherwise competent under applicable law to hear and determine such proceeding, such Related Proceeding may be brought in such other court located in such country as shall have jurisdiction of the subject matter or be otherwise competent under applicable law to hear and determine such Related Proceedings, or if such Related Proceeding seeks relief or a judgment that is enforceable only against any of its properties, assets or revenues that are subject to the jurisdiction of any other court located in the countries listed above and is limited to the value of such properties, assets or revenues, such Related Proceeding may be brought in any such court (all such courts described in this sentence being referred to as "Specified Courts"). The Republic also agrees that any judgment obtained in any of the Specified Courts arising out of any Related Proceeding may be enforced or

executed in any Specified Court or any other court of competent jurisdiction whatsoever, and any judgment obtained in any such other court as a result of such enforcement or execution may be enforced or executed in any such other court of competent jurisdiction (all courts other than Specified Courts being referred to as "Other Courts"), by means of a suit on the judgment or in any other manner provided by law. The Republic hereby irrevocably submits to the exclusive jurisdiction of each of the Specified Courts for the purpose of any Related Proceeding and, solely for the purpose of enforcing or executing any judgment referred to in the preceding sentence (a "Related Judgment"), of each Specified Court and each Other Court. The agreement made by the Republic in this Section with respect to jurisdiction is made solely with respect to Related Proceedings and the enforcement or execution of Related Judgments and under no circumstances shall it be interpreted as a general agreement by the Republic with respect to proceedings unrelated to the Bonds.

The Republic agrees that service of all writs, process and summonses in any Related Proceeding or any suit, action or proceeding to enforce or execute any Related Judgment brought against it in England may be made upon the officer in charge of the department of consular affairs at the Embassy of the Republic, presently located at One Cromwell Road, London SW7 2HW, England (the "London Process Agent") and service of all writs, process and summonses in any Related Proceeding or any suit, action or proceeding to enforce or execute any Related Judgment brought against it in the State of New York may be made upon the Consul General of the Republic or, in his or her absence or incapacity, any official of the Consulate of the Republic, presently located at 7 East 51st Street, New York, New York 10022, U.S.A. (the "New York Process Agent" and, together with the London Process Agent, the "Process Agents"), and the Republic appoints each Process Agent as its agent to receive such service of any and all such writs, process and summonses, and agrees that the failure of any of the Process Agents to give any notice to it of any such service of process shall not impair or affect the validity of such service or of any judgment based thereon. The Republic agrees to maintain at all times an agent with offices in London to act as its London Process Agent, and an agent with offices in New York to act as its New York Process Agent as aforesaid (each such agent to be appointed by a power of attorney granted before a Venezuelan notary public, and the Republic hereby agrees that each such power of attorney shall provide that it may not be revoked unless an alternative agent for service of process with an office in New York or London, as the case may be, shall have been appointed and the holders shall have been given notice thereof). Nothing in the Bonds shall in any way be deemed to limit the ability to serve any such writs, process or summonses in any other manner permitted by applicable law.

The Republic irrevocably consents to and waives any objection which it may now or hereafter have to the laying of venue of any Related Proceeding brought in any of the Specified Courts or to the laying of venue of any suit, action or proceeding brought solely for the purpose of enforcing or executing any Related Judgment in any of the Specified Courts or Other Courts, and further irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Related Proceeding or any such suit, action or proceeding in any such court.

To the extent that the Republic or any of its revenues, assets or properties shall be entitled, with respect of any Related Proceeding at any time brought against the Republic or any of its revenues, assets or properties in any jurisdiction in which any Specified Court is located, or with respect to any suit, action or proceeding at any time brought solely for the purpose of enforcing or executing any Related Judgment in any jurisdiction in which any Specified Court or Other Court is located, to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process or remedy, and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Republic irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction (including, without limitation, the Foreign Sovereign Immunities Act of 1976 of the United States) and consents generally for the purposes of the State Immunity Act of 1978 of the United Kingdom to the giving of any relief or the issue of any process in connection with any Related Proceeding or Related Judgment, provided that such agreement and waiver, insofar as it relates to any jurisdiction other than a jurisdiction in which a Specified Court is located, is given solely for the purpose of enabling the holders of the Bonds to enforce or execute a Related Judgment. In addition, to the extent that the Republic or any of its revenues, assets or properties shall be entitled, in any jurisdiction, to any immunity from set-off, banker's lien or any similar right or remedy, and to the extent that there shall be attributed, in any jurisdiction, such an immunity, the Republic hereby irrevocably agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction with respect to any claim, suit, action, proceeding, right or remedy arising out of or in connection with the Bonds; provided, however, that under the laws of Venezuela, the Republic and its properties located in Venezuela have immunity from set-off, attachment prior to judgment, attachment in aid of execution and execution of a judgment in actions and proceedings in Venezuela.

Further Issues

The Republic may from time to time without the consent of the holders of the Bonds, create and issue additional Bonds that may be consolidated and form a single series with either Series of the outstanding Bonds; *provided* that such additional Bonds do not have, for purposes of U.S. federal income taxation (regardless of whether any holders of such additional Bonds are subject to the U.S. federal tax laws), a greater amount of original issue discount than the Bonds of such Series have as of the date of the issue of such additional Bonds.

Listing

The Republic has applied to list the Bonds on the Official List of the Exchange and to trade the Bonds on the Euro MTF market of the Exchange.

PRINCIPAL ECONOMIC INDICATORS

	As of or For the Year Ended December 31,				
	2003	2004	2005[1]	2006[1]	2007[1]
	(percentage change)				
Real GDP Growth (Decline)[2]	(7.8)%	(18.3)%	10.3%	10.4%	8.4%
Petroleum Sector	(1.9)	13.7	(1.5)	(2.1)	(4.2)
Non-petroleum Sector	(7.4)	16.1	12.2	11.7	9.5
Consumer Prices					
End of Period	27.1	19.2	14.4	17.0	22.5
Average	31.1	21.7	16.0	13.7	18.7
Wholesale Prices					
End of Period	48.9	22.4	14.2	15.9	17.2
Average	53.1	30.0	16.9	12.9	16.4
Unemployment (in %)	16.8%	13.9%	11.4%	9.3%	7.5%
	(in millions of U.S. dollars, except where noted)				
Balance of Payments					
Exports (f.o.b.)	$27,230	$39,668	$55,716	$65,210	$69,165
Imports (f.o.b.)	(10,483)	(17,021)	(24,008)	(32,498)	(45,463)
Trade Balance	16,747	22,647	31,708	32,712	23,702
Current Account Surplus (Deficit)	11,796	15,519	25,447	27,149	20,001
Overall Balance	5,443	1,900	5,454	5,138	(5,742)
International Reserves					
Gross Banco Central Reserves	$20,666	$23,498	$29,636	$36,672	$33,477
Liquid Banco Central Operating Reserves	15,546	17,867	23,453	28,933	23,686
Net International Reserves at Banco Central	15,506	17,572	23,191	28,731	23,094
Other International Monetary Assets[3]	532	598	313	430	97
Stabilization Fund	700	710	732	768	809
Average Petroleum Export Price (U.S.$/barrel)	25.8	32.9	46.0	56.5	65.0
Imports Coverage[4]	22.6	16.6	15.0	13.7	9.4
	(in billions of 1997 Constant Bolívares)				
Central Government					
Total Revenues	Bs.8,911.5	Bs.11,912.1	Bs.16,841.2	Bs.20,762.0	Bs.18,769.4
Total Expenditures	10,587.3	12,853.0	15,847.9	20,749.5	16,794.4
Overall Surplus (Deficit)	(1,675.8)	(940.8)	993.3	12.5	1,974.9
(as percentage of GDP)	(4.4)%	(1.9)%	1.6%	0.0%	3.0%
	(percentage change in real terms)				
Monetary Aggregates[5]					
Money Supply (M2)	24.0%	26.1%	33.5%	44.8%	4.4%
Monetary Base	15.2%	23.0%	22.2%	65.9%	17.0%

(1) Preliminary figures.
(2) Based on constant Bolívares of 1997 purchasing power, referred to as 1997 Constant Bolívares. Calculation of Real GDP Growth figures include certain import rights that are not itemized as components of petroleum or non-petroleum Real GDP Growth.
(3) Other than amounts in the Stabilization Fund.
(4) Number of months of Imports (Fob) covered by Gross Banco Central Reserves.
(5) Calculated by dividing Money Supply (M2) and Monetary Base nominal levels by Consumer Price Index in 1997 Constant Bolívares.

Sources: Banco Central, Ministry of Finance and National Institute of Statistics, referred to as INE.

COUNTRY DESCRIPTION

Political Developments

In April 2002, a group of high-ranking military officers publicly refused to recognize President Chávez's authority and detained him in the Presidential Palace, effecting a brief *coup d'etat*. This event was preceded by a period of intense political and social turmoil which had begun in December 2001, involving groups that opposed and those that supported the government of President Hugo Chávez Frías, referred to as the Government. Shortly thereafter, President Chávez was restored to power through the support of massive popular demonstrations and loyal military units that went to the streets to demand the release of President Chávez, surrounding the Presidential Palace and expelling the group that staged the *coup d'etat*. After this event, opposition demonstrations and protests continued. In December 2002, a business federation led a nation-wide work stoppage that lasted two months and crippled oil production. Although the December 2002 work stoppage failed to achieve its primary objective of removing President Chávez from power, the Government and opposition groups signed an agreement in May 2003 that established a constitutional solution to the political instability facing Venezuela in the form of a potential referendum on the rule of President Chávez. On August 15, 2004, a recall referendum was held in which approximately 59% of the votes cast were against recalling President Chávez.

The Chávez administration contends that a major political shift based on popular participation is occurring, which it has called a "Bolivarian Revolution". In 1999, under the Chávez administration, a new Constitution was approved by a significant majority of Venezuelans in a popular referendum. The 1999 Constitution contains provisions designed to benefit the poorest sectors of the population, modify the structure of the branches of Government and introduce significant advances in human rights. The Government has introduced further social and economic reforms aimed at benefiting the poor.

The last elections for state and local officials were held on October 31, 2004. Candidates supported by President Chávez won 21 of the 23 gubernatorial elections; the two remaining governorships were retained by opposition parties. On December 4, 2005, elections were held for the 167 seats in the National Assembly. On December 1, 2005, the principal opposition parties announced that their candidates would not participate in the elections. The electoral authorities reported that approximately 25% of those eligible to vote participated in the elections. President Chávez's political party, MVR, won 121 seats and other parties aligned with the Chávez administration won the remaining seats.

Presidential Election

On December 3, 2006, President Chávez was re-elected President for a six-year term, capturing 62.8% of the vote. Upon his re-election, in December 2006 President Chávez proposed to the group of political parties aligned with his administration the creation of a unified socialist political party, PSUV. These parties are not obligated to join PSUV and can remain independent at their discretion. This means that affiliation with the party has been voluntary. The PSUV will be open to new members after the official creation of the party which is anticipated to occur during the first half of 2008. As of December 2007, six political parties had joined PSUV. The PSUV will be one of many political parties in Venezuela.

Constitutional Amendment

On August 15, 2007, President Chávez submitted to the National Assembly, in accordance with procedures contained in the 1999 Constitution, a proposal to amend the 1999 Constitution. In addition to the proposed amendments to the 1999 Constitution submitted by President Chávez, members of the National Assembly proposed additional changes. The National Assembly approved the proposed amendments at the requisite three separate discussions and called for a referendum to be held on December 2, 2007 to decide on whether to approve or disapprove of the proposed amendments. According to the figures announced by CNE, on approximately 50.8% of the voters rejected the changes to the 1999 Constitution proposed by President Chávez and approximately 51.1% of the voters rejected the amendments proposed by the National Assembly. As a result, neither set of proposals was approved by the voters.

Domestic and Regional Initiatives

President Chávez's administration is developing a number of social, health, education, and other initiatives aimed at transforming Venezuelan society within a model that is broadly referred to as "Socialism for the 21st Century", in which the concepts of political participation and social inclusion are the cornerstone. At the same time, the administration is developing a variety of economic integration agreements under the "Bolivarian Alternative for the Americas". These

initiatives are designed to strengthen economic, financial and technical cooperation among Latin American and Caribbean countries.

Domestic Initiatives

Given the profound economic disparities found in the social structure of the country, the domestic initiatives are focused on the need to redirect economic resources to the poorer segments of society in order to create the proper conditions for sustainable growth and the highest level of welfare for the inhabitants of Venezuela. In addition, the initiatives seek to give a greater voice to workers in business enterprises. The following initiatives, among others, are being undertaken:

- the reallocation of unproductive business assets to productive activities in order to promote job creation;
- the creation of new ministries with responsibility for housing, nutrition and financial aid;
- the mandatory allocation of portions of commercial banks' credit portfolios to pivotal economic areas such as housing, agriculture, tourism and manufacturing;
- the strengthening of existing, and creation of new, national development and social funds to provide specific resources to major infrastructure projects and massive social programs;
- the introduction of diverse initiatives of co-management and self-management among workers, employers and supervisors, as options to reshape either state companies and/or abandoned manufacturing facilities, as a fast-track measure to activate these entities and to promote stable job generation;
- the creation of Government-owned entities to provide low-cost commercial services with a high level of social impact, such as airlines, telecommunications and food chain distribution; and
- the purchase, at market prices, of all companies in the electric sector and *Compañía Anónima Nacional Teléfonos de Venezuela*, referred to as CANTV, Venezuela's largest telephone carrier, to secure stability in service rates and minimize their impact of inflation.

Regional Initiatives

The Chávez administration is pursuing regional initiatives to build regional relationships and strengthen the economic, financial and technical cooperation among Latin American and Caribbean countries. Among the initiatives are the following:

- **Mercosur-** to become a full member of Mercosur and establish a trade policy with Argentina, Brazil, Paraguay and Uruguay;
- **Petroamerica-** promoting the regional integration of state energy companies, divided into "Petrosur", comprising the southern cone and Bolivia, and "Petrocaribe" comprising the Caribbean. The stated purpose of the regional arrangement is to strengthen Venezuela's presence in the international markets by eliminating trade barriers, increasing its refining infrastructure and reducing costs;
- **Regional Economic Assistance-** assisting governments in the region by purchasing financial instruments and supplying petroleum products under favorable trading conditions;
- **Intensified Relations with Latin American and Caribbean countries -** strengthening economic ties with Argentina, Colombia, Cuba, Ecuador, Nicaragua and other nations and receiving additional support from those countries in connection with the development of the social agenda of the Chávez administration;
- **Bilateral and Multilateral Agreements-** entering into bilateral trade and development agreements with countries in the region, such as: (1) the agreements with Brazil covering energy, mining, military cooperation and the development of an offshore natural-gas project; (2) the agreement among Venezuela, Bolivia and Cuba signed on April 29, 2006 that covers initiatives in trade, health and energy, among other matters; and (3) the agreements to construct gas pipelines from Venezuela to such other countries as Colombia, Brazil, Argentina, Uruguay, Paraguay and Bolivia; and

- **Banco del Sur-** promoting the creation and operation of an institution for development financing in the region and which will serve to foster regional integration through the financing of major integration projects in South American countries. The bank was established in 2007 through a treaty signed by six countries: Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela and began operations on January 1, 2008.

2007 Enabling Law

On January 31, 2007, the National Assembly passed the 2007 Enabling Law, granting President Chávez the power to legislate and approve laws by decree for a period of 18 months in a number of areas, including nationalizations, hydrocarbons, electric utilities, telecommunications, taxes, social security and public finance.

During the course of 2007, President Chávez issued law-decrees governing the following areas, among others:

- the establishment of the Bolivar Fuerte, which represents one thousand Bolívares, effective January 1, 2008;
- the amendment of the law governing the regulation of the administration of public sector finances and the annual budget;
- the establishment of a new Financial Transactions Tax, or *Impuesto sobre las Transacciones Financieras*, which levies a 1.5% tax on bank debits and other transactions;
- the reduction of the value-added tax, referred to as the VAT, from 14% to 11%, effective March 1, 2007, and then a further reduction to 9%, effective July 1, 2007; and
- the establishment of mechanisms to prevent food hoarding and speculation.

Nationalization of Heavy Oil Projects

In February 2007, President Chávez issued a law-decree under the authority conferred by the 2007 Enabling Law, pursuant to which the existing four Orinoco Belt heavy oil projects that had been established in the 1990s as joint ventures controlled by private sector petroleum companies, *Petrozuata, Sincor, Cerro Negro* and *Hamaca*, would be mandatorily converted into *Empresas Mixtas*, or Mixed Companies, in which CVP, a PDVSA wholly-owned subsidiary, or another PDVSA subsidiary, will hold an equity interest of at least 60% in accordance with the Hydrocarbons Law. The Ministry of Popular Power for Energy and Petroleum was required to make a valuation of each new Mixed Company in order to determine the fair value of the participation of the PDVSA subsidiary in each Mixed Company and to provide any economic or financial adjustment as necessary. The law-decree also provided that existing profit-sharing agreements for the exploration of the *Golfo de Paria Oeste*, *Golfo de Paria Este* and the blocks known as La Ceiba, as well as *Orifuels Sinovensa, S.A.*, must be converted into Mixed Companies.

In May 2007, CVP completed the acquisition process with respect to the four Orinoco Belt strategic associations, *Petrozuata, Sincor, Cerro Negro* and *Hamaca*. In June 2007, Chevron Texaco, Statoil, Total, BP, Eni SpA (ENI), Petroleum & Chemical Corp (Sinopec), and Ineparia agreed to convert their participations in the four Orinoco Oil Belt projects into Mixed Companies controlled by PDVSA, increasing PDVSA's average participation in the projects to 78%.

ExxonMobil and ConocoPhillips, the majority partners in the *Cerro Negro* and *Petrozuata* projects, respectively, have failed to reach a financial agreement with PDVSA regarding the required sale of their ownership interests. As a result, an ExxonMobil affiliate filed a request for arbitration with ICSID as a result of it having been unable to successfully negotiate the terms of, or agree on the value of, the assets in the *Cerro Negro* project being transferred to the Republic. Prior to the enactment of the law-decree, ExxonMobil had a 41.7% interest in the *Cerro Negro* project. On January 25, 2008 the ExxonMobil affiliate commenced an additional arbitration under the rules of the International Chamber of Commerce.

On December 27, 2007 and January 8, 2008 the ExxonMobil affiliate obtained from the U.S. District Court for the Southern District of New York an attachment order totaling U.S.$315 million against accounts of a PDVSA affiliate and on January 25, 2008 the ExxonMobil affiliate obtained a freezing injunction from the High Court of Justice in London preventing the removal or non-ordinary course disposition of up to U.S.$12 billion in assets of PDVSA and its affiliates in the United Kingdom and the non-ordinary course disposition of up to that amount of assets elsewhere in the world. A court in the Netherlands has issued an order relating to the freezing of certain PDVSA assets in the Netherlands and in the Netherlands Antilles. On March 18, 2008 the High Court of Justice in London lifted the U.S.$12 billion freeze order, which decision is subject to appeal by Exxon Mobil.

Other Nationalizations

In addition to the nationalizations of the Heavy Oil projects, in January 2007 President Chávez announced a plan to nationalize various strategic areas of the economy in order to further state control of the development of these sectors in Venezuela. During the first six months of 2007, the Government acquired majority interests in certain electricity and telecommunications companies that had been operated and controlled by the private sector through a process of negotiated acquisitions with the controlling shareholders of those entities. As a result, the Government, through PDVSA, controls approximately 93% of *C.A. La Electricidad de Caracas*, referred to as EDC, formerly the largest private sector electricity company in Venezeuela, and 86% of CANTV, Venezuela's largest telephone carrier. As a result of these nationalizations, the Government intends to facilitate access to efficient and reliable energy and communication services at an affordable price.

On April 16, 2008, *Ternium, S.A.*, *Consorcio Siderurgia Amazonia, Ltd.* and *Siderúrgica del Orinoco, C.A.* ("SIDOR") signed an agreement referred to as "Agreement Relating to the Transfer of SIDOR to the Venezuelan State" under which they agreed to establish a Transition Commission composed of eleven persons designated by the Ministry of Popular Power for Basic Industry and Mines to liaise with SIDOR's Board of Directors in connection with the transfer of the shares and operations of SIDOR to the Venezuelan Government. This Commission will have oversight powers over SIDOR's activities to ensure the protection of the Venezuelan Government's interests. Under the agreement, SIDOR's Board of Directors will continue to perform its duties relating to SIDOR's ordinary course of business until the transfer of a majority of SIDOR's shares to the Venezuelan Government has been completed. The agreement also contemplates that the Venezuelan Government will undertake the negotiation of a new collective bargaining agreement with SIDOR's workers' union.

On April 29, 2008, the National Assembly declared the Orinoco Steel Production Center (C*entro de Producción Siderúrgica del Orinoco*) where SIDOR is located, SIDOR's shares of capital stock and SIDOR's real property, machinery and equipment as public utility and social interest assets. The government and SIDOR's majority shareholder are undergoing negotiations in connection with the Government's acquisition of a majority stake in SIDOR.

In the cement sector, the Venezuelan Government has announced its intention to nationalize *Cemex Venezuela, S.A.C.A.* (*Vencemos*), Holcim (Venezuela) C.A. and *Fabrica Nacional de Cementos, S.A. C.A.* (Lafarge Group). The transactions are in a preliminary discussion phase.

Recent Economic Developments

Due in significant part to an economic policy focused on sustaining the growth of domestic economic activity, in 2006, Gross Domestic Product, or GDP, totaled approximately Bs.51.3 trillion in 1997 Constant Bolívares, registering a 10.3% rate of growth for the year as compared to 2005. In 2007, GDP totaled approximately Bs.55.7 trillion in 1997 Constant Bolívares, registering an 8.4% rate of growth for the year as compared to 2006. The continued economic growth, which has increased in 17 consecutive quarters through December 31, 2007, is largely due to non-petroleum activities. The domestic aggregate demand has responded to increased levels of public spending and bank financing, along with a drop in unemployment, a reduction of the informal sector, an increase in real wages and an improved standard of living for the population.

For the year ended December 31, 2006, the rate of inflation, as measured by the consumer price index (*Indice de Precios al Consumidor*) (CPI), stood at 17.0% and averaged 13.7% for the whole of 2006. For the year ended December 31, 2007, the rate of inflation, as measured by the CPI, stood at 22.5% and averaged 18.7% for the whole of 2007. The Government has adopted a policy of containing inflationary pressures in the economy and is taking a number of actions to reverse the inflationary trends. These actions include avoiding the monetization of PDVSA's income by direct contributions of income to the National Development Fund, referred to as the *Fondo de Desarollo Nacional*, or FONDEN, and the retention of foreign exchange for direct payment of foreign currency expenditures, increasing the amount of foreign currency made available to providers of domestic goods and services and increasing investment in areas of the economy most prone to inflationary pressures, including the agro-industrial sector.

During the first quarter of 2007, the National Executive Branch announced additional policies intended to control inflation. These measures were primarily aimed at stimulating the aggregate supply, both internally and externally, to minimize inflationary expectations and to increase price control efficiency by strengthening and expanding the public food distribution networks. Furthermore, the VAT was removed from certain goods and services categorized as basic necessities in addition to the three percentage point reduction in the VAT for all other taxable goods and services, effective March 1, 2007 and a further two percentage point reduction, effective July 1, 2007.

On April 3, 2008, INE, in affiliation with the Ministry of Popular Power for Planning, and the Central Bank issued Resolution No. 08-04-01 regulating the National Consumer Price Index or INPC (Indice Nacional de Precios al Consumidor) effective as of January 1, 2008. INPC covers the same items as CPI with national geographic scope. The previous system only covered the Caracas and Maracaibo metropolitan areas.

Inflation figures from January 1, 2008 will be calculated using INPC. Figures prior to January 1, 2008 will not be re-calculated. INPC will have as its base period December 2007 and be published monthly within the first ten days of each month. For the first three months of 2008, the published figures were as follows: January 3.1%, February 2.1% and March 1.7%.

Under the previous calculation method, for the 12-month period ended February 29, 2008, CPI was 24.4%.

At December 31, 2006, the unemployment rate was 9.3%, compared to 11.4% in 2005. The unemployment rate at December 31, 2007 was 7.5%.

Gross international reserves stood at approximately U.S.$36.7 billion at December 31, 2006 (excluding amounts deposited in the Macroeconomic Stabilization Fund, referred to as the Stabilization Fund), representing an increase of approximately U.S.$7.0 billion since December 31, 2005. The 23.7% increase in gross international reserves was primarily due to a current account surplus during such period. At December 31, 2006, the balance in the Stabilization Fund was U.S.$768 million, an increase of U.S.$36 million from year-end 2005. At December 31, 2007, gross international reserves totaled approximately U.S.$33.5 billion (excluding amounts deposited in the Stabilization Fund), and the balance in the Stabilization Fund was approximately U.S.$809 million. The decrease in the gross international reserves from 2006 to 2007 was due to the transfer of funds made by the Central Bank to FONDEN as required by applicable regulation.

Relations with Multilateral Institutions

In April 2007, President Chávez indicated the possibility that Venezuela would separate itself from the IMF and the World Bank, stating that the country had paid back all of its obligations to both multilateral lenders and did not concur in the policy objectives the institutions were pursuing with respect to the poorest nations. It was later announced that any decision on this matter would be subject to appropriate evaluation and analysis. To date, Venezuela's Government has not taken any formal steps to withdraw its membership in the IMF and the World Bank.

Ratings Developments

In October 2006, Standard & Poor's lifted its outlook on Venezuela's sovereign "BB-" debt from "stable" to "positive", citing the contribution of high oil prices to the continued improvement in Venezuela's debt indicators. In January 2007, Standard & Poor's modified its outlook on Venezuela's sovereign debt from "positive" to "stable", citing increased uncertainty with respect to Government policy. In October 2007, Fitch modified its outlook on Venezuela's "BB-" foreign currency-denominated debt rating from "stable" to "negative", citing an increasingly unsustainable macroeconomic policy framework. The information above was obtained from information available on the websites of the rating agencies.

Amendments to Central Bank Law and Enhancement of FONDEN

In July 2005, the National Assembly approved an amendment to the new Central Bank Law. The reform maintains the "revolving account" of PDVSA, pursuant to which PDVSA is entitled to maintain its oil and gas export proceeds in offshore accounts in amounts sufficient to cover its foreign currency-denominated investments and expenses. Any proceeds not required to cover capital or operating expenses, taxes and dividends must be contributed by PDVSA to FONDEN.

Under the amended law, Banco Central is required to determine the optimum level of international reserves and update the National Assembly on an annual basis. The optimum level of international reserves currently is stated to be U.S.$31.9 billion. All amounts of foreign exchange above this level are excluded from being deposited by PDVSA in Banco Central, and instead are redirected to FONDEN. The reform also requires that Banco Central make a one-time special contribution to FONDEN of U.S.$6.0 billion from Venezuela's foreign currency reserves. This deposit was completed on November 7, 2005, and since that date through December 31, 2007, approximately U.S.$17.0 billion have been added by Banco Central and approximately U.S.$15.1 billion have been contributed by PDVSA.

Amounts deposited in FONDEN are being used for major infrastructure projects such as bridges, highways, intra-city trolleys, subway lines, railroads, electricity generation, rural irrigation systems, hospitals, educational facilities, as well as for the purchase of Brady bonds as part of a liability management program put in place in 2006.

As of December 31, 2007, FONDEN had allocated approximately U.S.$25.7 billion, or approximately 83% of the funds available, to the various projects financed by FONDEN. As of December 31, 2007, approximately U.S.$4.4 billion has been allocated to 26 infrastructure projects, approximately U.S.$1.3 billion has been allocated to 16 mining projects, approximately U.S.$6.0 billion has been allocated to 42 energy and petroleum projects, approximately U.S.$2.3 billion has been allocated to 16 housing projects, approximately U.S.$1.0 billion has been allocated to nine agriculture projects, approximately U.S.$176 million has been allocated to two science and technology projects and approximately U.S.$316 million has been allocated to 12 environmental projects.

Other Public Sector Indebtedness

On February 23, 2007, PDVSA entered into two credit facilities with the Japan Bank for International Cooperation, Marubeni Corporation, Mitsui & Co., Ltd and private banks in Japan in the aggregate amount of U.S.$3.5 billion to finance oil development projects in Venezuela. The credit facilities have a term of 15 years. In connection with the credit facilities, it is contemplated that PDVSA will enter into contracts for the supply of crude oil and refined petroleum products with affiliates of Marubeni and Mitsui and that the proceeds of such sales will be applied to pay amounts due under the credit facilities.

On April 4, 2007, PDVSA issued (i) U.S.$3,000,000,000 5.25% Notes due 2017, (ii) U.S.$3,000,000,000 5.375% Notes due 2027, and (iii) U.S.$1,500,000,000 5.50% Notes due 2037.

Loan Agreement with China Development

In November 2007, *Banco de Desarrollo Económico y Social de Venezuela*, or BANDES, entered into a credit facility with the China Development Bank in the aggregate amount of U.S.$4.0 billion in connection with the creation of a Sino-Venezuelan Joint Fund between the Governments of Venezuela and China to finance development and infrastructure projects in Venezuela. The credit facility has a term of three years, extendible for a total of 15 years. In connection with the credit facility, PDVSA has entered into a supply agreement for crude oil and refined products with China National United Oil Corporation. The proceeds of sales under the supply agreement will be applied to pay amounts due under BANDES's loan with the China Development Bank.

BOLIVARIAN REPUBLIC OF VENEZUELA

Geography and Population

Geography

Venezuela is situated on the northern coast of South America. It has a coastline of approximately 2,813 kilometers on the Caribbean Sea and the Atlantic Ocean. Colombia borders it on the west, Brazil on the south and Guyana on the east. Venezuela's national territory of approximately 916,445 square kilometers includes 72 islands in the Caribbean. The Venezuelan territory varies from tropical to mountainous to Amazonian regions. Environmentally-protected areas comprise approximately 40% of the land.

Caracas, Venezuela's capital and largest city, is Venezuela's political, financial, commercial, communications and cultural center. As of year-end 2006, the population of the metropolitan area of Caracas was approximately 2.8 million. As of the same date, Maracaibo, the nation's second-largest city, which is located near Venezuela's most important petroleum fields and richest agricultural areas, had an estimated population of 1.8 million.

Part of the eastern border with Guyana is subject to a border dispute. Venezuela has claimed that certain territory occupied by Guyana should be considered part of Venezuela's national territory. The area of dispute is currently under the control of Guyana. Under international accords, Venezuela and Guyana have agreed to seek a settlement of the territorial dispute. Since the signing of the accords, Venezuela and Guyana have periodically undertaken negotiations regarding the status of the territory. Nevertheless, the negotiations to date have not resulted in a final accord. The accords do not contain any final date by which the parties must resolve the dispute.

Drug traffickers, guerrilla incursions from Colombia and other incidents present a continuing problem in Venezuela/Colombia relations. Venezuelan armed forces have been stationed on the sparsely-populated western border to control incursions and to provide protection to Venezuelan ranchers residing in this area. Among other measures taken by Venezuela, the army has deployed more troops along its border to boost security.

On March 2, 2008, President Chávez announced a movement of troops towards Venezuela's border with Colombia and on March 3, 2008 announced the suspension of diplomatic relations with Colombia as a result of the incursion by the Colombian military into Ecuador and the killing by Colombian military forces of certain members of FARC, including one of its leaders. During 2007, Colombia was among Venezuela's largest trading partners. On March 7, 2008, the governments of Venezuela, Colombia and Ecuador announced a resolution of their political disputes and restitution of normal diplomatic and trade relations as part of a diplomatic mission led by the Organization of American States.

Population

Venezuela had an estimated population of approximately 26.4 million as of year-end 2007, of which approximately 64% were between the ages of 15 and 64. The estimated Venezuelan labor force was approximately 12.4 million at December 31, 2007.

The Government has implemented a number of programs called Missions to improve the social welfare of poor and extremely poor Venezuelans. According to INE, at December 31, 2007, the poor and extremely poor represented approximately 33.1% of the Venezuelan population.

The following table sets forth, for the year 2005, comparative GDP figures and selected other comparative social indicators for Venezuela and other selected Latin American countries:

	Venezuela	Argentina	Brazil	Chile	Colombia	Mexico	Peru
				(in U.S. dollars)			
GDP (billions)[(1)]	$140.2	$183.2	$796.1	$115.2	$122.3	$768.4	$79.4
GDP per capita[(1)]	$6,632	$14,280	$8,402	$12,027	$7,304	$10,751	$6,039
Life expectancy at birth (years)	73.2	74.8	71.7	78.3	72.3	75.6	70.4
Infant mortality rate (per 1,000 births)	18	15	31	8	17	22	23
Adult literacy rate (%)	93.0	97.2	88.6	95.7	92.8	91.6	87.9

(1) The United Nations calculates GDP and its components as adjusted for purchasing power parity.

Source: United Nations Development Program Human Development Report, 2007.

Form of Government and Political Parties

Venezuela is divided into 23 states, a capital district and various federal dependencies.

Venezuela has had a democratically-elected Government since 1958, following the overthrow of a military dictatorship. The current Constitution, adopted in 1999, establishes the structure of the Venezuelan Government, including the division of powers among the executive, legislative, judicial, civic and electoral branches, as well as individual and collective rights and duties.

Political Parties

Prior to the mid 1990s, the two largest political parties in Venezuela had been *Acción Democrática*, referred to as AD, and *Partido Social Cristiano*, referred to as COPEI. These parties attracted support from a wide spectrum of political interests. Between 1958 and 1993, representatives of AD held the presidency five times, and representatives of COPEI held the presidency twice. Commencing with the presidential election in 1993, AD and COPEI suffered from voter dissatisfaction, and several new coalition parties recorded electoral victories. In 1993, Rafael Caldera was elected President on the *Convergencia* party ticket. Mr. Caldera had previously served as President between 1974 and 1979 as the COPEI candidate.

In December 1998, Mr. Hugo Chávez Frías was elected President for a five-year term, capturing 56.5% of the vote. His inauguration took place on February 2, 1999. A candidate from MVR, President Chávez was supported during his candidacy by a coalition called the *Polo Patriótico*, which included members of MVR, *Movimiento al Socialismo*, referred to as MAS, and *Patria para Todos*, among others. President Chávez's election was perceived as a reflection of the Venezuelan population's disenchantment with the traditional political parties and concern over allegations of public mismanagement and corruption within the previous administrations. President Chávez was among the leaders of an attempted *coup d'etat* against then President Carlos Andrés Pérez in 1992. Once the new Constitution became effective in December 1999, new elections were scheduled. On July 30, 2000, President Chávez was re-elected President for a six-year term, capturing 59% of the vote.

The April 2002 Coup d'Etat

Early in February 2002, President Chávez appointed, in accordance with PDVSA bylaws and as it had regularly been done every two years, a new board of directors of PDVSA, that included long term executives of PDVSA. A number of PDVSA management politically connected to the opposition protested the appointments and were joined by the opposition controlled labor union named *Confederación de Trabajadores de Venezuela*, or CTV.

A group of high-ranking military officers participating in an already launched *coup d'etat* publicly blamed President Chávez for the civilian deaths, refused to recognize his authority, detained him in the Presidential Palace and transferred him to Caracas' military garrison. On April 12, 2002, opposition groups gathered at the Presidential Palace and appointed Pedro Carmona, at the time the president of the leading business federation, *Fedecámaras*, as transitional President. On the following morning, April 13, 2002, after a night of demonstrations and the regrouping of military officers supporting President Chávez, the group supporting Mr. Carmona fled the Presidential Palace. Mr. Carmona was later detained by military officers loyal to President Chávez and a few hours later, President Chávez returned to office.

The Referendum

Since 2001, there have been street demonstrations and rallies both in support of and against President Chávez. Some civic groups, the media, the local business sector, CTV, a labor union that represents close to 15% of the unionized labor force in Venezuela, and current and former military officers have led opposition protests. The most recent and damaging nation-wide work stoppage began on December 2, 2002 and ended on February 3, 2003. It was called by the *Coordinadora Democrática*, or the Democratic Coordinating Committee, a civilian political organization, CTV and Fedecámaras and it was joined by managers and key PDVSA employees, certain officers of Venezuela's oil tankers and merchant fleet, banks, the media, private and public universities and other sectors of the country.

The December 2002 work stoppage failed to achieve its primary objective of removing President Chávez from power. After that date, pro-Government and opposition groups took steps towards resolving the political crisis through the electoral process. The Government and the opposition signed an agreement on May 29, 2003, mediated by the Organization of American States, referred to as the OAS, which established the political principles for a constitutional, democratic, peaceful and electoral solution to the political instability facing Venezuela. The parties to the agreement acknowledged that such a solution could be achieved by a potential referendum on the rule of President Chávez, which could only occur after August 19, 2003. That date marked the midpoint of President Chávez's six-year term, when the Venezuelan Constitution allows for a legally-binding referendum.

On June 8, 2004, the National Electoral Council stated that the opposition had collected approximately 2.5 million signatures demanding the recall of President Chávez, which was sufficient to initiate the recall referendum. On August 15, 2004, a recall referendum was held in which approximately 59% of the votes cast were against recalling President Chávez.

Recent Elections

State and local officials are elected for four-year terms. The last elections for state and local officials were held on October 31, 2004. Candidates supported by President Chávez won 21 of the 23 gubernatorial elections.

On December 3, 2006, President Chávez was re-elected President for a six-year term, capturing 62.8% of the vote, which, in turn, significantly lowered political and social tensions.

The 1999 Constitution

After his election as President in December 1998, President Chávez proposed a series of important political changes in early 1999. After a popular referendum was held on April 25, 1999, the *Asamblea Nacional Constituyente*, or the Constituent Assembly, was created for the purpose of drafting a new constitution. The members of the Constituent Assembly were elected on July 25, 1999 and assumed legislative functions until the adoption of the new Constitution.

On December 15, 1999, the Constituent Assembly presented a constitution for approval by the Venezuelan electorate. The proposed constitution was approved by approximately 70% of those persons who voted and was adopted effective December 30, 1999. Under the new Constitution, a unicameral national legislature, the National Assembly, was created to undertake legislative functions.

The 1999 Constitution, among other things:

- expanded the role of the Government with respect to social security, health care and education;
- created the civic and electoral branches of the Government;
- created the office of the Vice President;
- allowed active military officers to vote; and
- forbade the privatization of PDVSA. This prohibition was not extended to PDVSA's subsidiaries or strategic associations.

The 1999 Constitution guarantees Venezuelan citizens a broad array of social benefits which significantly exceed those provided under the previous Constitution. Among other social benefits, the 1999 Constitution provides that:

- the Government is required to ensure the well-being of its citizens through the creation of a national public healthcare system up to the standards prevailing in the private sector, the financing for which must be ensured by the Government;

- education is an absolute right of all citizens, and the Government must ensure that all citizens are afforded the opportunity to free education (through secondary school) in Venezuela's public education system;

- the Government is required to provide assistance to its citizens in the event of illness, incapacity, unemployment, maternity, paternity, old age and other special circumstances; and

- all citizens are entitled to live in a home with adequate security, comfort, hygienic conditions and basic services; to that end, the Government must ensure that measures are implemented to provide families with access to financing for the construction and the acquisition of residential homes.

On August 15, 2007, President Chávez submitted to the National Assembly, in accordance with procedures contained in the 1999 Constitution, a proposal to amend the 1999 Constitution. In addition to the proposed amendments to the 1999 Constitution submitted by President Chávez, members of the National Assembly proposed additional changes. The National Assembly approved the proposed amendments at the requisite three separate discussions and called for a referendum to be held on December 2, 2007 to decide on whether to approve or disapprove of the proposed amendments. According to the figures announced by CNE, approximately 50.8% of the voters rejected the changes to the 1999 Constitution proposed by President Chávez and approximately 51.1% of the voters rejected the reforms proposed by the National Assembly. As a result, under Venezuelan electoral law, neither set of proposals was approved by the voters

Organization of the Venezuelan Government

Under the 1999 Constitution, the Government is comprised of five branches at the national level, as well as state and local governments. The following is a description of the role of the various branches of Government:

The Executive Branch. Executive power is vested in the President and the Vice President, who is appointed by the President. Under the 1999 Constitution, the President is elected for a term of six years and may be re-elected for a second consecutive term. The 1999 Constitution provides that the public can call for a legally-binding recall referendum at any time after the midpoint of the President's six-year term. Ministers are also appointed by the President and head the various executive departments. These Ministers together constitute the Council of Ministers. Under the 1999 Constitution, the President is the commander-in-chief of Venezuela's armed forces. The different services within Venezuela's armed forces report to the Minister of Defense.

The Legislative Branch. National legislative power is vested in the National Assembly. National Assembly members are elected by universal suffrage for terms of five years and can be re-elected for two additional consecutive terms. The number of members of the National Assembly is determined by the National Electoral Council on the basis of proportional representation by state.

The Judicial Branch. Judicial power is vested in the Supreme Court and various lower tribunals. The Supreme Court is the final court of appeals. It has the power to declare null and void laws, regulations and other acts of the executive or legislative branches that conflict with the Constitution. The 1999 Constitution provides that the National Assembly will appoint the justices of the Supreme Court for twelve-year terms. Initially, the Supreme Court Law provided for 20 justices of the Supreme Court. In May 2004, the National Assembly approved an amendment to the Supreme Court Law which increased the number of justices to 32. An absolute majority of the National Assembly can fill the new positions created by the amendment and can also remove a justice from the Supreme Court. In December 2004, 17 new justices were appointed by an absolute majority.

The Civic Branch. The civic branch, which was created under the 1999 Constitution, is responsible for preventing, monitoring and sanctioning ethical and moral violations in connection with public administration. This branch is comprised of three entities: the *Defensoría del Pueblo*, which promotes and monitors the protection of human rights; the *Fiscalía General de la República*, which promotes the fair administration of justice and judicial processes; and the *Contralor General de la República*, which monitors and controls the administration of the Government's assets, revenues and public debt. The heads of these entities are appointed by the National Assembly. Candidates are evaluated and qualified by a committee of the National Assembly based on various criteria, such as education level and experience. Appointments are for seven-year terms.

The Electoral Branch. The electoral branch, which was created under the 1999 Constitution, is responsible for promulgating rules and regulations concerning elections. The electoral branch also monitors electoral processes, campaign financing and campaign advertising. The electoral branch operates through the National Electoral Council. The head and board of directors of the National Electoral Council are appointed by the National Assembly.

The State Governments. State executive power is exercised by a governor who is elected by universal suffrage within each state. State legislative power is vested in state assemblies whose members are also elected by universal suffrage within each state.

National Assembly

On December 4, 2005, elections were held for the 167 seats in the National Assembly. Three days before that, on December 1, 2005, the principal opposition parties announced that their candidates would not participate in the elections. The electoral authorities reported that approximately 25% of those eligible to vote participated in the elections. President Chávez's political party, MVR, won 121 seats and other parties aligned with the Chávez administration won the remaining seats. The next election for the National Assembly is scheduled for 2011.

While a three-fifths majority is required to enact enabling laws *(Leyes Habilitantes)*, a two-thirds majority is required to pass organic laws *(Leyes Orgánicas)*. Enabling laws are those that grant the President the power to issue law-decrees having the same effect as statutes without further approval by the legislature. Historically, MVR has been able to enter into coalitions with MAS and several other small parties in order to garner the specific majority required for the passage of legislation. Currently, MVR has enough seats on the National Assembly to pass legislation that requires a simple majority.

The following table sets forth the number and party affiliations of the National Assembly as of September 2007:

Political Party	No. of Seats
Movimiento Quinta República	121
Podemos	16
Others	30
Total	167

In order to have a direct link to his closest followers, in December 2006, President Chávez proposed the creation of a unified political party, PSUV, which is comprised of those political parties that support the President. Parties that supported the President are not obligated to join PSUV and can remain autonomous. As of December 2007, six political parties had joined PSUV.

Enabling Laws

In April 1999, in accordance with Article 190 of the Constitution, President Chávez requested the Venezuelan Congress to pass a special law, referred to as the 1999 Enabling Law. The 1999 Enabling Law granted the President the power to issue law-decrees that would have the same effect as statutes, without the need for any further approval by the National Assembly. Under the 1999 Enabling Law, the President was authorized to issue law-decrees relating to national public administration, public finance, taxation and social security. The President issued a number of law-decrees in furtherance of the *Programa Económico de Transición 1999-2000*, referred to as the Economic Plan. The enacted law-decrees included the approval of a broadly-based 15.5% value-added tax, referred to as the VAT, to replace the *Impuesto al Consumo Suntuario y Ventas al Mayor*, referred to as the LWT, and the approval of a temporary 0.5% tax on bank debits, referred to as BDT, which expired in May 2000 (and was effectively replaced by a new bank debit tax promulgated in March 2002).

On November 13, 2000, at President Chávez's request, the National Assembly enacted a new enabling law, granting the President the power to issue a number of new law-decrees, referred to as the 2000 Enabling Law. The 2000 Enabling Law authorized the President to issue law-decrees in the areas of banking, agriculture, hydrocarbons, personal security, the conversion of *Fondo de Inversiones de Venezuela*, known as FIV, into BANDES, and the organization and functioning of the executive branch, among others.

The 2000 Enabling Law expired on November 13, 2001. However, immediately prior to the expiration of the 2000 Enabling Law, President Chávez issued an additional 49 new law-decrees governing numerous areas, the most important of which were:

- a new Hydrocarbons Law, the *Ley Orgánica de Hidrocarburos*, governing royalty payments on oil extraction and control over petroleum sector projects (for more information, refer to "Principal Sectors of the Venezuelan Economy—Petroleum and Natural Gas—New Hydrocarbons Law");
- a Lands and Agricultural Development Law, referred to as the Lands Law, introducing land and agricultural reform (for more information, refer to "Principal Sectors of the Venezuelan Economy—Agriculture and Livestock—Lands and Agricultural Development Law-Decree"); and
- a new General Law of Banks and Other Financial Institutions (for more information, refer to "The Financial System—Financial Institutions").

On January 31, 2007, the National Assembly passed a new enabling law, or the 2007 Enabling Law, granting President Chávez the legislative power to govern by decree with the force of law for 18 months in several areas, including nationalizations, hydrocarbons, electric utilities, telecommunications, taxes, social security and public finance, among others areas.

During the course of 2007, President Chávez issued law-decrees governing the following areas, among others:

- the establishment of the Bolivar Fuerte, effective January 1, 2008;
- the requirement that the existing Orinoco Belt projects be converted into *Empresas Mixtas*, or Mixed Companies, in which PDVSA or PDVSA's subsidiaries hold an equity interest of at least 60%;
- the amendment of the law governing the regulation of the administration of public sector finances and the annual budget;
- the reduction of the VAT from 14% to 11%, effective March 1, 2007, and then a further reduction to 9%, effective July 1, 2007; and
- the establishment of mechanisms to prevent food hoarding and speculation.

Domestic Initiatives

Redistribution of Idle Production Facilities

The Government has embarked on a program to identify, acquire, reorganize and make operative unproductive manufacturing properties in the private sector. Idle productive capacity will be used by the state to create new opportunities for employment and increase local production. The Government is required by law to pay fair value for the assets taken.

Social Programs

Beginning in 2002, the Government designed social programs, called Missions, with the objective of providing social services in the areas of health, education and employment, among others. Bs.517 billion were allocated in the 2003 national budget to fund these social programs and, in 2004, Bs.5.4 trillion were allocated for that purpose. In 2005, Bs.7.0 trillion were allocated in the national budget to fund the Missions, while in 2006 such amount increased to Bs.14.9 trillion. In 2007, Bs.11.9 trillion were allocated in the national budget to fund the Missions.

In August 2004, President Chávez adopted measures to create three new social ministries to oversee housing, nutrition and small business. The Ministry of Housing is focused on providing affordable homes to Venezuelans, the Ministry of Nutrition will work to guarantee low-cost food to Venezuelans in need, while the Ministry of Popular Economy is in charge of developing cooperatives, small business enterprises as well as assisting residents in rural areas to develop their own businesses.

In spite of the fact that the Missions were created to improve literacy, provide primary health care in the country's poorest neighborhoods and develop employment opportunities, many of these programs came under criticism from the political opposition for being considered as a short-term mechanism for gaining support for President Chávez in the revocatory referendum process in 2004 and for allegations of political indoctrination attributed to the participation of Cuban medical staff in the implementation of such programs. As of September 2007, three years later, the number of missions have increased to 19 nationwide and the Government believes that they have proven to be a successful mechanism to help and relieve the major problems of those most in need.

Additionally, President Chávez's administration has created state-owned entities to provide low-cost commercial services and to stimulate domestic production. Among the initiatives are a state-owned telephone company, CVG-Telecom, a state-owned international airline, *Conviasa* and *VeneMóvil*, which was created to regulate the production and distribution of low-cost automobiles by offering tax incentives to car manufacturers as long as at least 27% of the parts used to assemble such vehicles are manufactured in Venezuela.

Broadcasting Guidelines

In December 2004, the Government enacted a law setting forth broadcasting guidelines for television and radio stations in Venezuela and establishing social responsibilities among television and radio service providers, announcers, independent producers and users. Among other matters, the law establishes a rating system based on the type of programming and the levels of violence, sex, profanity and certain socially unacceptable behavior it contains. Television and radio stations are required to broadcast certain types of programming during defined hours of the day, based on the ratings assigned to the programming.

The law also requires that television and radio stations allow the Government to broadcast messages deemed relevant and valuable by the Government through their facilities free of charge, subject to certain time limits and restrictions as to content and requires television and radio stations to contribute a percentage of their gross revenues to a fund to be established for the financing of projects to develop national production and training of television producers. Television and radio stations that fail to comply with the provisions of such law may be sanctioned. These sanctions could include the imposition of fines, the suspension of operations and the revocation of operating concessions.

In addition, in March 2005, the National Assembly enacted reforms to the Venezuelan Criminal Code that incorporate new crimes, revise the penalties for certain crimes and consolidate certain special penal laws into the code. Included in such reforms are amendments that increase the severity of criminal penalties for statements that disparage public officials and expand the list of public officials protected by such provisions. The opposition to President Chávez's administration has alleged that the legislative reforms were in response to the media's perceived partiality against his administration and that they may restrain the press from criticizing the Government.

On May 27, 2007, Radio Caracas Television, referred to as RCTV, ceased transmissions after the Government decided not to extend its concessions. On May 28, 2007, the released television frequency was allocated to a new public-service channel, TVES, whose main objective is the broadcasting of entertainment and educational programs and to promote the national production of programs that suit the current needs of the population. In July 2007, RCTV began broadcasting on cable and satellite television.

TELESUR

In July 2005, TELESUR, the Latin American television network sponsored by the governments of Venezuela, Argentina, Cuba and Uruguay, began broadcasting on a limited schedule. By October 31, 2005, TELESUR, based in Caracas and originally owned by the Venezuelan Government, began a full-time broadcasting that can now be seen in at least 15 countries. TELESUR was designed to spur Latin American integration by creating a new communication paradigm that serves as an alternative to large media conglomerates. The network was funded with U.S.$10 million provided by the countries that jointly owned the network at the time of funding: Venezuela (51% ownership), Argentina (20% ownership), Cuba (19% ownership) and Uruguay (10% ownership). Afterwards, in April 2006, Bolivia agreed to buy a 5% stake in TELESUR. Other Latin American countries may join in the future.

Mandatory Allocations of Bank Credits

In August 2005, the National Assembly passed a resolution that requires private commercial banks to allocate a minimum of 2.5% of their loan portfolio to finance tourism projects, while the public sector banks and non-banking institutions have to allocate 5.0%. The Venezuelan banking industry currently has a total of five mandatory credit allocations, including 21.0% for the farming sector, 10.0% for mortgage loans, 3.0% for microloans, 3.0% for tourism and 10.0% for the manufacturing sector. As a result, private and public sector banks must contribute 47.0% of their total loan portfolio, respectively, to defined essential segments of the economy.

Social Production Companies

In September 2005, President Chávez issued a law-decree creating the *Empresas de Producción Social*, or Social Production Companies, also referred to as EPSs. The EPSs are community-based, socially-minded economic entities financially assisted by the Government, dedicated to generating and providing goods and services necessary to satisfy the

basic needs of the community. EPSs were established to provide the Venezuelan labor force with opportunities to participate in a variety of sectors of the economy, including the petroleum and mining sectors. As of March 31, 2007, CVG was operating 216 EPSs and spent approximately Bs.19.1 billion to finance 173 of such entities. As of June 30, 2007, PDVSA was operating 1,785 EPSs and spent approximately Bs.14.5 billion to finance 23 of them.

Nationalization of Private Companies

In January 2007, President Chávez announced a plan to nationalize various areas of the economy in order to hold assets that were considered strategic for the development of Venezuela. As of May 2007, the Government controlled approximately 93% of EDC, and controlled approximately 86% of CANTV, Venezuela's largest telephone carrier. As a result of these nationalizations, the Government intends to facilitate access to efficient and reliable energy and communication services at an affordable price.

On April 16, 2008, *Ternium, S.A.*, *Consorcio Siderurgia Amazonia, Ltd.* and SIDOR signed an agreement referred to as "Agreement Relating to the Transfer of SIDOR to the Venezuelan State" under which they agreed to establish a Transition Commission composed of eleven persons designated by the Ministry of Popular Power for Basic Industry and Mines to liaise with SIDOR's Board of Directors in connection with the transfer of the shares and operations of SIDOR to the Venezuelan Government. This Commission will have oversight powers over SIDOR's activities to ensure the protection of the Venezuelan Government's interests. Under the agreement, SIDOR's Board of Directors will continue to perform its duties relating to SIDOR's ordinary course of business until the transfer of a majority of SIDOR's shares to the Venezuelan Government has been completed. The agreement also contemplates that the Venezuelan Government will undertake the negotiation of a new collective bargaining agreement with SIDOR's workers' union.

On April 29, 2008, the National Assembly declared the Orinoco Steel Production Center (C*entro de Producción Siderúrgica del Orinoco*) where SIDOR is located, SIDOR's shares of capital stock and SIDOR's real property, machinery and equipment as public utility and social interest assets. The government and SIDOR's majority shareholder are undergoing negotiations in connection with the Government's acquisition of a majority stake in SIDOR.

In the cement sector, the Venezuelan Government has announced its intention to nationalize *Cemex Venezuela, S.A.C.A.* (*Vencemos*), Holcim (Venezuela) C.A. and *Fabrica Nacional de Cementos, S.A. C.A.* (Lafarge Group). The transactions are in a preliminary discussion phase.

External Affairs and Membership in International Organizations

Venezuela is a member of the United Nations and a founding member of the Organization of American States. It is also a member of OPEC, the International Monetary Fund, or IMF, the International Bank for Reconstruction and Development, referred to as the World Bank, the Inter-American Development Bank, referred to as the IADB, the General Agreement on Tariffs and Trade, or GATT, the World Trade Organization, or the WTO, and *Corporación Andina de Fomento*, a multilateral development bank headquartered in Caracas referred to as the CAF, as well as other significant international organizations.

Venezuela has traditionally consulted and discussed with various international agencies such as the IADB, the World Bank and the IMF its economic programs, objectives, projections and policies. In particular, Venezuela complies with Article IV of the IMF Articles of Agreement, which requires that member countries carry out annual consultations with the IMF.

In 1973, Venezuela became a member of the Andean Community, an Andean regional integration alliance, whose members include Bolivia, Ecuador, Colombia and Peru. In April 2006, President Chávez announced that Venezuela would withdraw from the Andean Community. Despite this announcement, Venezuela has yet to formally complete all of the necessary withdrawal procedures, a process that can take up to five years to complete. In August 2006, Venezuela and the Andean Community signed an agreement to keep the trade advantages fully and reciprocally effective, despite the April 2006 announcement.

In 2004, Venezuela became an associate member of Mercosur. In May 2006, Venezuela agreed to the protocol for admission as a full member, including a timetable for bringing down mutual trade barriers, and a final deadline of January 1, 2014 for full liberalization among all members. Under the protocol, Venezuela has agreed to adhere to all key Mercosur codes and adopt Mercosur's common external tariffs by no later than June 2010.

Venezuela is also a member of a number of other multilateral trading groups, including the Caribbean Community and Common Market, known as CARICOM. Venezuela was also a party of the G-3 Group, which includes Mexico and Colombia.

In April 2007, President Chávez indicated the possibility that Venezuela would separate itself from the IMF and the World Bank, stating that the country had paid back all of its obligations to both multilateral lenders and did not concur in the policy objectives the institutions were pursuing with respect to the poorest nations. It was later announced that any decision on this matter would be subject to appropriate evaluation and analysis. To date, Venezuela's Government has not taken any formal steps to withdraw its membership in the IMF and the World Bank.

In June 2007, Venezuela along with Bolivia, Cuba and Nicaragua entered into an agreement establishing the Bank of the Bolivarian Alternative for the Americas, referred to as the Bank of the ALBA. The Bank of the ALBA was created primarily to enhance the economic and social integration of the member nations with an emphasis on contributing to sustainable economic and social development by reducing poverty, strengthening integration and promoting economic exchange equitably among the members.

THE VENEZUELAN ECONOMY

Overview

Venezuela has been a major petroleum exporter since the early twentieth century. According to the *BP Statistical Review of World Energy 2007*, Venezuela is the ninth-largest oil producer in the world. From 2003 through 2007, petroleum products accounted for an average of approximately 86.0% of Venezuela's total exports. During the same period, petroleum revenues accounted for an average of approximately 44.6% of Venezuela's total Central Government revenues and the petroleum sector accounted for an average of approximately 15.5% of GDP. In 2007, petroleum activities accounted for approximately 12.2% of GDP, compared to approximately 13.8% in 2006.

Venezuela's economy is diversified, with non-petroleum activities generating an average of approximately 74.9% of GDP between 2003 and 2007. Major non-petroleum components of GDP in 2007 included manufacturing (16.5%), financial institutions (14.4%), transportation (7.9%) and trade (12.4%). The Government anticipates that petroleum will continue to be the main source of export earnings and fiscal revenues for the foreseeable future.

Through PDVSA and *Corporación Venezolana de Guayana*, referred to as CVG, the Government controls significant proportions of GDP in the petroleum, electricity, telecommunications, mining and basic industries sectors of the economy. The Government, through PDVSA, accounts for the bulk of Venezuela's total exports. The Government also supplies the majority of basic public services, such as water, electricity, health and education. The private sector owns and operates businesses with respect to most other economic activities.

Economic Performance in 2007

The Venezuelan economy has experienced a continued rate of growth during the past four years. A significant part of such growth is due to an economic policy focused on sustaining the growth of domestic economic activity, through which the GDP in 2007 amounted to approximately Bs.55.7 trillion in 1997 Constant Bolívares, representing an 8.4% growth as compared to 2006. The continued economic growth, which has increased in 17 consecutive quarters as of December 31, 2007, is primarily due to non-petroleum activities.

In 2007, the non-petroleum sector expanded by 9.5%, while the petroleum sector contracted by 4.2%. The domestic aggregate demand has responded to increased levels of public spending and bank financing, along with a drop in unemployment, a reduction of the informal sector and an increase in average real wages, private consumption and investment.

For the year ended December 31, 2007, the rate of inflation, as measured by the CPI, stood at 22.5%, approximately 5.5% higher than 2006, despite the significant expansion in the aggregate demand. The abundance of international reserves provided macroeconomic managers with the resources to face these structural imbalances through a mid-term strategy based on the expansion of domestic production. Additionally, the inflationary pressures were partly tempered by increased levels of imported goods and services at a stable nominal exchange rate, a strong level of international reserves and liquidity regulatory operations undertaken by Banco Central. In addition, price controls and the expansion of distribution networks providing low-cost food assisted in curbing inflationary pressures affecting low-wage households.

On April 3, 2008, INE, in affiliation with the Ministry of Popular Power for Planning, and the Central Bank issued Resolution No. 08-04-01 regulating the National Consumer Price Index or INPC (Indice Nacional de Precios al Consumidor) effective as of January 1, 2008. INPC covers the same items as CPI with national geographic scope. The previous system only covered the Caracas and Maracaibo metropolitan areas.

Inflation figures from January 1, 2008 will be calculated using INPC. Figures prior to January 1, 2008 will not be re-calculated. INPC will have as its base period December 2007 and be published monthly within the first ten days of each month. For the first three months of 2008, the published figures were as follows: January 3.1%, February 2.1% and March 1.7%.

Under the previous calculation method, for the 12-month period ended February 29, 2008, CPI was 24.4%.

During the fourth quarter of 2007, short-term interest rates of commercial bank loans averaged 19.5%, compared to 15.8% for the fourth quarter of 2006. The deposit rate on 90-day certificates of deposit averaged 11.7% for the fourth quarter of 2007, compared to 10.1% for the fourth quarter of 2006.

As of December 31, 2007, the Central Government's revenues totaled Bs.18.8 trillion in 1997 Constant Bolívares and the Central Government's expenditures totaled Bs.16.8 trillion in 1997 Constant Bolívares. As a result, the Central Government accounts recorded a surplus of Bs.1.9 trillion in 1997 Constant Bolívares, or 3.0% of GDP, for 2007.

Gross international reserves stood at approximately U.S.$33.5 billion at December 31, 2007 (excluding amounts deposited in the Macroeconomic Stabilization Fund, referred to as the Stabilization Fund), representing a decrease of approximately U.S.$3.2 billion since December 31, 2006. The 8.7% decrease in gross international reserves was primarily due to transfers to FONDEN. At December 31, 2007, the balance in the Stabilization Fund was U.S.$809 million, an increase of U.S.$41 million from year-end 2006.

The Foreign Currency Administration Commission, referred to as CADIVI, has allocated additional amounts of foreign exchange to address the needs of a surging domestic economy. Accordingly, imports continued their upward trend. Imports of goods related to capital formation registered a notable growth, followed by increases in imports of goods for final and intermediate consumption.

During 2007, the capital account recorded a deficit of U.S.$23.3 billion. The deficit in the capital account in 2007 was primarily due to external transfers made by FONDEN.

Economic Plan

Introduction and Overview

In May 2007, the Government released an outline of a six-year Economic and Social Development Plan, referred to as the Development Plan. The Development Plan called for the Government to seek sustained economic growth while concentrating on advancing social strength. The Development Plan contemplated economic proposals to achieve price stability, including establishing a more efficient system of tax collection and consolidating public debt. The Development Plan called for the Government to use the increased revenue generated from the improved tax collection towards social development programs, focusing on overcoming poverty and social exclusion.

The economic plan for 2008 builds on the economic recovery and improvements achieved in 2007. The plan includes the following goals:

- sustaining economic growth achieved in recent years in order to reduce poverty levels;
- optimizing public expenditures in key areas, including health, education and infrastructure;
- reducing public debt in order to increase the capacity for public investment and in order to increase such investment;
- establishing a more efficient system of tax collection;
- continuing the investment in social development programs and strengthening the social economy;
- contributing to the control of monetary liquidity by requiring PDVSA to pay petroleum royalties, income tax and dividends in U.S. dollars; and
- decreasing inflation.

Economic Policy and Legislation

Fiscal Policies

The Government's fiscal policies have combined a macroeconomic stabilization program with structural reforms that are intended to strengthen public finances for the future and reduce volatility in the fiscal accounts.

In 1999 the Government replaced the LWT with the more broadly-based New VAT, referred to as the VAT, commenced the modernization of its customs duty collection procedures with financial assistance from the IADB and approved a

temporary tax on bank debits, referred to as the TBD, which expired in May 2000 but was effectively re-instituted in March 2002 through a new TBD which was further amended in March 2003.

In 2003, the VAT generated revenues of Bs.6.6 trillion (4.9% of GDP), and the TBD generated revenues of Bs.2.0 trillion (1.5% of GDP). During 2004, the VAT generated revenues of approximately Bs.13.4 trillion (6.5% of GDP), while the TBD generated Bs.1.9 trillion (0.9% of GDP). In 2005, the VAT generated revenues of Bs.20.0 trillion (7.4% of GDP), and the TBD generated Bs.2.7 trillion (0.9% of GDP). While the VAT generated revenues in 2006 of Bs.20.8 trillion, the Government eliminated the TBD in February 2006. The VAT was reduced from 14% to 11%, effective March 1, 2007, and was further reduced to 9% effective July 1, 2007. In 2007, the VAT generated revenues of approximately Bs.28.1 trillion.

The Public Finance Law

On September 5, 2000, the Government enacted the *Ley Orgánica de la Administración Financiera del Sector Público*, referred to as the LOAFSP, an organic law designed to regulate the administration of public sector finances, which are defined as the set of systems, administrative bodies and procedures involved in the collection of public revenues and their application to implement the Government's objectives. The LOAFSP addresses the creation and the administration of the budget, as well as the administration of public credit and the treasury, accounting systems, taxes and Government assets.

Through the LOAFSP, the Government expects to attain greater efficiency, transparency, integrity and solvency in the administration of public funds. To achieve these goals, the LOAFSP establishes a basic framework for new accounting standards designed to record and report the financial performance of the public sector more accurately and reliably than in the past. Once the Office of Public Audit is created under the LOAFSP, it will have the responsibility of auditing the public accounts. The LOAFSP reaffirms the role of the Ministry of Popular Power for Finance, referred to as the Ministry of Finance, together with *Oficina Central de Presupuesto*, or the Central Budget Office, as the entities responsible for coordinating the administration of the public finance system.

The Budget and the Pluriannual Framework

The LOAFSP establishes two budgetary documents, the *Marco Plurianual*, or the Pluriannual Framework, and the *Presupuesto Anual*, or the Annual Budget.

The Pluriannual Framework, which serves as the basis for the Annual Budget and which is prepared every three years, projects expected fiscal results and places maximum limits on the amount of public expenditures and debt that may be authorized over a three-year period. It also contains the economic policy targets for the three fiscal years which it covers. Under the terms of the original LOAFSP, the Government could not spend funds or incur debt in excess of the amounts authorized by the Pluriannual Framework, except in the event of a national emergency and with the approval of the National Assembly. Also, the Pluriannual Framework could not be amended by the President, pursuant to enabling laws or otherwise, without the approval of the National Assembly.

In March 2007, President Chávez amended the LOAFSP by law-decree within the legislative power conferred by the 2007 Enabling Law. Although the first Pluriannual Framework legally approved by the National Assembly will correspond to the period 2011 through 2013, the LOAFSP contains transitory provisions which are applicable from 2005 through 2010. Beginning with the period 2011 through 2013, the Pluriannual Framework will be enacted by the National Assembly and will cover three-year periods in the manner contemplated by the LOAFSP. Until that time, in accordance with the law-decree, the Government will submit the Pluriannual Framework to the National Assembly for the periods of 2005 through 2007 and 2008 through 2010; however, they will be for informational purposes only and will not be formally enacted. In 2007, the Government submitted the Pluriannual Framework for the period 2008 though 2010 under the informative conditions set forth in the law-decree.

The Annual Budget projects revenues and expenditures for the forthcoming fiscal year. Before the National Assembly approves the Annual Budget, the Ministry of Finance must submit to the National Assembly a projected budget and financial information related to estimated pension expenditures and other contingent liabilities. The LOAFSP requires the President to submit a report evaluating the execution of the Annual Budget during the previous year to the National Assembly by July 15 of each year. If the National Assembly does not approve the Annual Budget for the forthcoming year by December 15, the then current Annual Budget will continue to apply.

In November 2006, the National Assembly approved the budget for 2007. The 2007 budget, as approved, projected total revenues of approximately U.S.$49.6 billion (30.3% of GDP), and total expenditures of approximately U.S.$52.3 billion (31.9% of GDP). The 2007 budget also contemplates a legal limit on borrowing by the Republic of U.S.$3.9 billion (2.4%

of GDP). The budget for 2007 was based on certain assumptions, including real GDP growth of 5.0%, an average price for the Venezuelan oil basket of U.S.$29.00 per barrel, an average exchange rate of Bs.2,150.00 = U.S.$1.00 and an average inflation at a rate of 12.0%.

In November 2007, the National Assembly approved the budget for 2008. The 2008 budget, as approved, projects total revenues of approximately U.S.$59.1 billion (25.2% of GDP), and total expenditures of approximately U.S.$63.9 billion (27.3% of GDP). The 2008 budget also contemplates a legal limit on borrowing by the Republic of U.S.$7.6 billion (3.3% of GDP). The budget for 2008 is based on certain assumptions, including real GDP growth of 6.0%, an average price for the Venezuelan oil basket of U.S.$35.00 per barrel, an average exchange rate of Bs.2,150.00 = U.S.$1.00 (the current exchange rate as of January 1, 2008 is Bs.F 2.15 = U.S.$1.00) and an average inflation at rate of 11.0%.

National Treasury and Public Accounting

The National Treasury manages the Government's finances, supervises and records the payment of expenditures authorized in the Annual Budget, retains custody of the funds and securities belonging to the Republic, records all Treasury revenues and evaluates opportunities for the issuance of Treasury bonds.

The LOAFSP seeks to increase the integrity of the Treasury function in the management of public monies. To that end, the LOAFSP prohibits those civil servants who are responsible for determining and recording the amount of revenues owed to the Government, such as taxes and royalties, from participating in the collection and custody of such revenues. In addition, it requires that civil servants held liable for mismanagement of public monies must indemnify the Government, in addition to any other criminal or administrative actions that may be taken against such persons.

The LOAFSP provides that public monies must be maintained in a single account, known as the Single Account, in order to centralize the collection of revenues and the making of payments. The Single Account is administered by the Ministry of Finance through Banco Central and domestic and foreign commercial banks. The LOAFSP permits the establishment of subaccounts for the administration of the Single Account.

The LOAFSP establishes the National Office of Public Accounts as the office responsible for the establishment of public sector accounting standards. The National Office of Public Accounts is also responsible for the preparation of the General Report of the Treasury, which the Ministry of Finance must present to the National Assembly every year. In addition, it sets forth guidelines with respect to the accounting treatment given to expenditures and revenues. For instance, expenditures may not be accounted for until they are actually incurred, although they may have been approved in a prior year. Equally, revenues are to be recorded only after they have been collected. All accounts close on December 31 of each year.

The LOAFSP was amended on January 9, 2003. Under the terms of the amended LOAFSP, the President must submit an annual borrowing law to the National Assembly for approval each year. This borrowing law must set forth the maximum amount of public credit that the Republic may contract and the maximum amount of net indebtedness that the Republic may incur for that fiscal year. As originally drafted, the LOAFSP had provided that, after the annual borrowing law had been approved by the National Assembly, the President would have the ability to enter into public credit operations when he was able to obtain favorable financial conditions for the Republic. He would then periodically inform the National Assembly of such transactions. As amended, the LOAFSP now requires the President to obtain approval from the *Comisión Permanente de Finanzas de la Asamblea Nacional* (the Permanent Finance Committee of the National Assembly) prior to undertaking each public credit operation. Additionally, each such request for approval must be accompanied by an opinion from Banco Central. Approval is granted if the National Assembly does not deny such request within 10 days.

Macroeconomic Coordination

The LOAFSP requires that the Minister of Finance and the President of Banco Central execute an Annual Coordination Agreement. The Annual Coordination Agreement is designed to harmonize the fiscal, monetary and financing policies of Banco Central and the Central Government in order to achieve macroeconomic stability. The Annual Coordination Agreement must specify the economic objectives of Banco Central and the Ministry of Finance. The LOAFSP expressly prohibits the inclusion of provisions that may be interpreted to infringe upon Banco Central's independence from the Government. Both the Minister of Finance and the President of Banco Central are accountable to the National Assembly with respect to performance under the Annual Coordination Agreement.

The Annual Coordination Agreement for 2007 was executed by the Ministry of Finance and Banco Central on October 10, 2006. The agreement, entitled the Annual Economic Policy Agreement 2007, set forth the following objectives: (1)

maintenance of the positive economic growth experienced in recent years, demonstrated by an annual increase in GDP; (2) the achievement of price stabilization, demonstrated by a decrease in the rate of inflation; and (3) the maintenance of a positive balance in the current account of balance of payments.

Through this Agreement, the Ministry of Finance and Banco Central agreed to work together to coordinate and execute fiscal, monetary and exchange policy consistent with the objectives set forth above. To that end, the parties agreed as follows: (1) with respect to fiscal policy, the Ministry of Finance would implement measures aimed at optimizing expenditures to achieve a fiscal surplus of the Central Government; (2) with respect to monetary policy, Banco Central would utilize interest rates and other mechanisms to stimulate economic growth and to maintain price stability; and (3) with respect to the exchange policy, Banco Central would establish policies and procedures that promote efficiency in the exchange market and keep the exchange rate stable, while approving currencies consistent with the projected level of economic activity and maintaining the right to intervene in the market when circumstances warrant.

Intergenerational Savings Fund

The LOAFSP contemplates the creation of a fund, referred to as the Intergenerational Savings Fund, designed to promote public development policies, such as investment in education, healthcare and the non-petroleum sectors of the economy. Deposits into the Intergenerational Savings Fund may not be used for any purpose for a period of at least twenty years from the date of its establishment. The mechanisms for contributions to be made into the Intergenerational Savings Fund are to be established in the implementing legislation. As of December 31, 2007, this implementing legislation remained pending.

Reforms to the Stabilization Fund

The Stabilization Fund was designed to ensure that fluctuations in oil income do not have a substantial economic effect on the country. Under the original terms of the regulations governing the Stabilization Fund, PDVSA and the Government, acting on its own behalf as well as on behalf of the various state and local governments, contributed royalties, dividends, tax revenues and transfers related to the petroleum sector in excess of the average of such royalties, dividends, tax revenues and transfers for the previous five years. The amount contributed was calculated after subtracting prior allocations to state and local governments and, in those years in which the scheduled debt service exceeded 20% of budgeted revenues for such year, to the Debt Rescue Fund.

Contributions to the Stabilization Fund are to be deposited with Banco Central, which maintains a separate account for each of the Central Government, the various state and local governments and PDVSA. The Stabilization Fund contemplated that funds would be distributed among its contributors during years in which each such contributor's royalties, dividends, tax revenues or transfers related to the petroleum sector were less than the average of such royalties, dividends, tax revenues or transfers for the previous five years. In such cases, contributors to the Stabilization Fund were only able to draw up to the amount required to cover the difference with respect to the average royalties, dividends, tax revenues or transfers for the previous five years. The law also provided that the disbursements made by the Stabilization Fund during a fiscal year may not exceed two thirds of the balance of the Stabilization Fund at the end of the prior fiscal year. However, this restriction was not applicable during the five years ended November 2003.

Distributions from the Stabilization Fund can also be made in years when contributions to the Stabilization Fund exceeded 80% of the average of petroleum revenues for the previous five years. In those cases, monies distributed to the Central Government were required to be used: (1) 40% for the *Fondo Unico Social*, a fund designed to provide financing for the implementation of Government programs under the Economic Plan; (2) 35% for BANDES; and (3) 25% for the Debt Rescue Fund. Monies distributed to state or local governments must be used for investment purposes, except that during fiscal year 2002 and until June 2003, up to 20% of such distributions could be used by state or local governments to cover budget deficits. Monies contributed by PDVSA may be redistributed to it and may be expended for any purpose authorized by the Council of Ministers, with the consent of the National Assembly.

The Stabilization Fund also contemplated that funds above a minimum required level may be distributed in cases of emergency or budgetary need, upon the approval of the President in consultation with the Council of Ministers, with the consent of the National Assembly. However, the minimum level that must be achieved in order to authorize the use of the Stabilization Fund under these circumstances was not a requirement during the first five years after the creation of the Stabilization Fund.

All contributing entities to the Stabilization Fund must calculate within a month after the end of each quarter the amount of any contributions that must be deposited for the preceding quarter and must make all deposits within 90 days after the end of such quarter.

Effective November 27, 2003, the National Assembly enacted a new Stabilization Fund Law. The most significant reforms to the Stabilization Fund included the following: (1) the Ministry of Finance became responsible for the administration of the Stabilization Fund, although Banco Central maintained control over the day-to-day operations and investment policies; (2) the board of directors of the Stabilization Fund was composed of representatives appointed by each of the Minister of Finance, the Minister of Planning and Development, the states and local municipalities and PDVSA; (3) the purpose of the Stabilization Fund became to achieve budgetary stability at both the national and state levels; (4) in addition to the sources of funding set forth in the previous Stabilization Fund Law, the new law included as an additional source of funding amounts raised from the privatization of government-owned companies, concessions and certain joint venture operations; and (5) the Republic was required to contribute to the fund, net of mandatory appropriations as determined by the Constitution, the surplus (if any) calculated as the difference between the aggregate oil revenues for each calendar year, calculated in U.S. dollars, and the average of aggregate oil revenues for the three preceding calendar years. Oil revenues included tax revenues levied on oil companies operating in Venezuela, royalty revenues and dividends paid by PDVSA. Additionally, PDVSA was required to contribute to the fund 50% of the surplus (if any) calculated as the difference between oil export revenue for each calendar year, calculated in U.S. dollars, and the average of oil export revenue for the three preceding calendar years, net of taxes. PDVSA remained the owner of amounts it contributed to the Stabilization Fund. The amounts were required to be allocated in separate accounts for each of the Republic, PDVSA and states and local governments.

In October 2005, the Stabilization Fund was reformed. The most significant reforms to the Stabilization Fund included the following: (1) *Banco del Tesoro* is now responsible for the administration of the Stabilization Fund; (2) the board of directors of the Stabilization Fund is composed of representatives appointed by the President in consultation with the Council of Ministers; (3) PDVSA is no longer required to contribute funds to the Stabilization Fund; and (4) withdrawals from the fund are less discretionary in nature.

Withdrawals from the fund will be made through the National Treasury, which will apply the Bolivar amounts resulting from U.S. dollar transfers from the Stabilization Fund to meet shortfalls in fiscal revenue and special financing needs arising from a state of "economic emergency" decreed in accordance with Venezuelan law. Annual withdrawals from the fund may not exceed 50% of the balance of the accumulated resources from the preceding fiscal year.

The amended Stabilization Fund Law caps the amounts to be deposited for each participating entity as follows: (1) amounts deposited for the Republic may not exceed 20% of the average value of oil exports of the three preceding calendar years; and (2) amounts deposited for states and local governments may not exceed 10% of the average value of oil exports of the three preceding calendar years. Under the amended Stabilization Fund Law, PDVSA is no longer required to contribute to the Stabilization Fund.

The funds will be managed by *Banco del Tesoro*. These funds will not constitute part of the Republic's international reserves nor part of *Banco del Tesoro*'s assets. *Banco del Tesoro* will be required to submit a description of the status of the Fund and its investments to the Permanent Finance Commission of the National Assembly each month.

The balance in the Stabilization Fund as of December 31, 2004 was approximately U.S.$710 million, an increase of approximately U.S.$10 million from year-end 2003. The balance in the Stabilization Fund was approximately U.S.$732 million as of December 31, 2005, and approximately U.S.$768 million as of December 31, 2006. The balance in the Stabilization Fund as of December 31, 2007 was approximately U.S.$809 million.

Financing Policy

The Government's primary financing efforts are being directed at tapping local resources and financial bases in order to use national savings generated by individuals and corporations, as evidenced by increased levels of monetary liquidity. This enables the Government to minimize external exposure and reduce the cost of debt in comparison to international debt. In order to reduce the cost of debt, global bonds have been issued locally that are purchased in Bolívares but denominated in U.S. dollars, obtaining lower coupons.

To optimize the debt balance, the Republic initiated the retirement of approximately U.S.$3.9 billion of its Par and Discount Brady Bonds in February 2006 which was completed by May 2006. Additionally, optimization efforts were undertaken with respect to bilateral and multilateral debt. Also, there have been efforts aimed at reducing yearly debt service, including achieving net interest savings through prepayment and refinancing, and extending the profile of certain maturities.

The Government's current financing policy contemplates access to the domestic and international capital markets in order to extend its debt payment profile. The Government's financing policy also contemplates the strengthening of medium- and long-term benchmarks in the domestic and international capital markets.

Monetary and Exchange Policies

In 2001, Banco Central undertook a more active role in monetary policy than had been pursued in previous years in order to provide stability in the foreign exchange market. Banco Central placed bonds held in its portfolio in the open market through the use of repurchase agreements and took other measures to stem capital flight and to relieve pressure on the value of the Bolivar and its international reserves.

Banco Central's actions in 2001, combined with the weak global economy, resulted in exchange rate stability for most of the fourth quarter of 2001. However, during the last two weeks of December 2001, the demand for foreign currency suddenly increased, and Banco Central was forced to reopen its money desk operations and increase the discount rate in order to provide stability to the foreign exchange market and prevent rapid devaluation of the Bolivar. At December 31, 2001, the Bolivar traded at Bs.758 = U.S.$1.00.

In January 2002, Banco Central widened the currency exchange band and allowed the Bolivar to depreciate against the U.S. dollar at a slightly greater rate. This change, however, failed to lessen the pressure on the Bolivar, and Banco Central continued to spend large amounts of its international reserves to defend the value of the Bolivar. On February 13, 2002, President Chávez announced that the Bolivar would float freely, with no protective band and minimal intervention from Banco Central. Banco Central continued to participate actively in the exchange markets in 2002 in an attempt to slow the depreciation of the Bolivar. Despite the intervention by Banco Central in the exchange markets, the free-floating exchange system put a considerable amount of pressure on the Bolivar, which led to a significant devaluation of the Bolivar with respect to the U.S. dollar in 2002. On December 31, 2002, the Bolivar/U.S. dollar exchange rate, as calculated by Banco Central, was Bs.1,403 = U.S.$1.00, reflecting a depreciation of 85.1% since December 31, 2001.

Exchange Control Regime

In addition to the devaluation of the Bolivar during 2002 described under "—Economic Policy and Legislation—Monetary and Exchange Policies" above, the general work stoppage that began in December 2002 resulted in a significant decrease in the availability of foreign currency generated from the sale of oil. This decrease was coupled with an extraordinary increase in the demand for foreign currency, resulting in a significant decline in the level of the Republic's international reserves and a substantial depreciation of the Bolivar against the U.S. dollar during the first few weeks of 2003. The substantial reduction of oil exports resulting from the work stoppage also damaged the country's trade balance. These problems disrupted Venezuela's economy and threatened to affect negatively the Republic's ability to service its external debt. In response to those developments, and in an attempt to achieve monetary stability as well as to ensure the Republic's future ability to continue to meet its external debt obligations, the Republic suspended foreign exchange trading on January 21, 2003. On February 5, 2003, the Government adopted a series of exchange agreements, decrees and regulations establishing a new exchange control regime.

CADIVI, was created in February 2003 for the administration, control and establishment of the new exchange control regime. CADIVI is composed of five members who are appointed by the President. CADIVI is only responsible for approving private sector imports; public and oil imports are not handled by CADIVI.

From its inception through December 31, 2007, a total of U.S.$108.2 billion in foreign exchange had been approved for imports under the exchange control regime. In 2007, CADIVI approved approximately U.S.$43.0 billion in foreign exchange. For the five years leading up to the introduction of the exchange control regime, Venezuela spent an average of approximately U.S.$1.2 billion per month on imports.

The exchange control regime centralized the purchase and sale of foreign currencies in Banco Central. The Ministry of Finance, together with Banco Central, is in charge of setting the exchange rate with respect to the U.S. dollar and other currencies. On February 5, 2003, the Government fixed the U.S. dollar exchange rate at Bs.1,596 per U.S.$1.00 for purchases and Bs.1,600 per U.S.$1.00 for sales. The exchange rate for the payment of the public foreign debt was set at Bs.1,600 per U.S.$1.00 effective February 10, 2003. On February 5, 2004, the Government changed the U.S. dollar exchange rate to Bs.1,915.20 = U.S.$1.00 for purchase operations and Bs.1,920.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was also set at Bs.1,920.00 = U.S.$1.00. On March 2, 2005, the Government set the U.S. dollar exchange rate to Bs.2,144.60 = U.S.$1.00 for purchase operations and Bs.2,150.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was also set at Bs.2,150.00 =

U.S.$1.00. Effective January 1, 2008, the currency of Venezuela was converted to the Bolívar Fuerte. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs.F 2.1446 = U.S.$1.00 for purchase operations and Bs.F 2.15 = U.S.$1.00 for sale operations.

The exchange control regime provides that all foreign currency generated through public or private sector operations must be sold to Banco Central at the exchange rate established thereunder. Banco Central and any other institution authorized to exchange foreign currency is granted a commission of 0.25% for each U.S. dollar purchased or sold. In instances where transactions are made in cash, the commission can be up to 2% of the total amount.

Unless otherwise expressly authorized, the obligation of the public sector to sell foreign currency to Banco Central includes any foreign currency: (1) introduced into Venezuela through BANDES, the *Fondo de Garantía de Depósitos*, or FOGADE, and other public financial institutions; (2) obtained by the Republic through public credit operations or otherwise; or (3) obtained by other public sector entities by any other means. In turn, the private sector must sell to Banco Central any foreign currency: (1) generated from the export of goods and services; (2) introduced into Venezuela for investment purposes; (3) generated by companies incorporated to develop the activities regulated by the Hydrocarbons Law; or (4) generated from transportation services, travel and tourism operations, bank transfers, investment, lease agreements and other commercial, industrial, professional or personal services or activities. Additionally, all foreign currency that enters the country must be registered through banks and financial institutions authorized by CADIVI.

With respect to the purchase of foreign currency, the exchange control regime provides that Banco Central must approve the Republic's foreign currency budget. This budget may be adjusted in accordance with the level of international reserves and the flow of foreign currency. Banco Central will sell foreign currency only if it determines that there are sufficient international reserves.

Public sector entities must request foreign currency directly from Banco Central for the following: (1) payments of external public debt; (2) transfers required for the Republic's foreign service representatives abroad or delegations of the executive, legislative, judicial, civic or electoral branches participating in special missions abroad; (3) international commitments of the Republic; (4) payments related to national security; (5) urgent health and food provisions; (6) the provision of foreign currency to BANDES and *Banco de Comercio Exterior*; and (7) payments resulting from imports occurring prior to February 5, 2003. The exchange control regime contains provisions that are specific to PDVSA which effectively allow PDVSA and its affiliates to maintain offshore accounts up to a specified dollar amount approved by Banco Central.

The acquisition of foreign currency by private sector individuals or entities must be approved by CADIVI. To request approval for a certain operation, an individual or entity must first be registered with CADIVI. This requires proof that social security contributions and tax payments are up to date, in addition to other requirements that CADIVI may set forth in the future. Any authorization granted by CADIVI will be valid for 120 days. The foreign currency that is purchased must be used in accordance with the request made to CADIVI for such currency.

Private sector individuals or entities must request approval from CADIVI for: (1) the purchase of foreign currency for transfers of money abroad, payments of imported goods and services and payments of interest or principal on external indebtedness; (2) the purchase of foreign currency for the payment of dividends, capital gains and interest that are the product of foreign investment in Venezuela, as well as for payments of service contracts, technology contracts or royalties; and (3) the acquisition of foreign currency for payments under ADS, ADR, GDS and GDR programs implemented prior to February 5, 2003.

On March 14, 2003, the Ministries of Production and Commerce, Agriculture and Land, and Health and Social Development issued a joint resolution which attached a list of materials and goods which are used for the production of essential goods and services. Operations involving the materials listed in those attachments, as well as those involving medical equipment and materials, will receive preferential treatment from CADIVI.

In addition to the implementation of the exchange control regime, the Government has implemented price controls on a broad array of basic goods and food staples in an effort to minimize inflationary pressures on the poorer segments of the Venezuelan population. Items covered by the price controls, and the levels of maximum permitted prices, have been adjusted from time to time by the Government.

Gross Domestic Product

In 2003, GDP totaled Bs.35.7 trillion in 1997 Constant Bolívares, representing a contraction of 7.8% in real terms compared to 2002. The contraction was primarily due to the general work stoppage which temporarily halted economic activity. During this period, the petroleum sector contracted by 1.9% and the non-petroleum sector contracted by 7.4%. The contraction in the non-petroleum sector in 2003 resulted primarily from decreases of 39.5% in the construction sector, 6.8% in the manufacturing sector and 9.8% in the trade sector compared to 2002.

In 2004, GDP totaled Bs.42.2 trillion in 1997 Constant Bolívares, registering an 18.3% rate of growth for the year compared to 2003. The significant increase was primarily due to high oil prices, which led to an increase in Government spending and accelerated dollar disbursements. During this period, the petroleum sector expanded by 13.7% and the non-petroleum sector expanded by 16.1%. The growth in the non-petroleum sector in 2004 resulted primarily from growth of 25.1% in the construction sector, 28.1% in the trade sector and 21.4% in the manufacturing sector, compared to 2003.

In 2005, GDP totaled approximately Bs.46.5 trillion in 1997 Constant Bolívares, registering a 10.3% rate of growth for the year compared to 2004. The increase was primarily due to high oil prices and an increase in public expenditure, which expanded domestic aggregate demand and led to an increase in the national supply. During this period, the petroleum sector contracted by 1.5% but the non-petroleum sector expanded by 12.2%. The growth in the non-petroleum sector in 2005 resulted primarily from growth of 21.5% in the trade sector, 20.0% in the construction sector and 18.4% in the transportation sector, compared to 2004.

In 2006, GDP totaled approximately Bs.51.3 trillion in 1997 Constant Bolívares, registering a 10.3% rate of growth for the year compared to 2005. The increase was primarily due to the same factors that led to the increase in 2005, including high oil prices and an increase in public expenditures, which expanded domestic aggregate demand and led to an increase in the national supply. During this period, the petroleum sector contracted by 2.0% but the non-petroleum sector expanded by 11.7%. The growth in the non-petroleum sector in 2006 resulted primarily from growth of 18.5% in the trade sector, 35.6% in the construction sector, 17.2% in the financial institutions sector and 16.5% in the transportation sector, compared to 2005.

In 2007, GDP totaled approximately Bs.55.7 trillion in 1997 Constant Bolívares, registering a 8.4% rate of growth for the year compared to 2006. The increase was primarily due to the same factors that led to the increase in 2006, including high oil prices and an increase in public expenditures, which expanded domestic aggregate demand and led to an increase in the national supply. During this period, the petroleum sector contracted by 4.2% but the non-petroleum sector expanded by 9.5%. The growth in the non-petroleum sector in 2007 resulted primarily from growth of 16.9% in the trade sector, 16.9% in the transportation sector and 13.3% in the construction sector, compared to 2006.

The following tables set forth Venezuela's GDP in 1997 Constant Bolívares for each of the periods indicated:

	Year Ended December 31,									
	2003		2004[1]		2005[1]		2006[1]		2007[1]	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
	(in billions of 1997 Constant Bolívares and as percentage share of GDP)									
Aggregate Global Demand	Bs.35,652.7	100.0%	Bs.42,172.3	100.0%	Bs.46,523.6	100.0%	Bs.51,337.6	100.0%	Bs.55,650.1	100.0%
Aggregate Internal Demand	32,776.6	91.9	42,007.7	99.6	49,846.9	107.1	59,858.8	116.6	71,420.4	128.3
Gross Capital Formation	5,715.9	16.0	8,559.4	20.3	11,847.1	25.5	15,000.3	29.2	18,805.8	33.8
Consumption	27,190.0	76.3	31,318.7	74.3	35,901.7	77.2	41,505.9	80.8	48,194.3	86.6
Public	5,844.8	16.4	6,676.2	15.8	7,387.3	15.9	7,878.7	15.3	8,282.2	14.9
Private	21,345.1	59.9	24,642.5	58.4	28,514.5	61.3	33,627.2	65.5	39,912.2	71.7
Variation of Stock	(129.3)	(0.4)	2,129.6	5.0	2,098.1	4.5	3,352.5	6.5	4,420.3	7.9
Net External Demand[2]	2,876.1	8.1	164.7	0.4	(3,323.2)	(7.1)	(8,521.2)	(16.6)	(15,770.3)	(28.3)
Gross Domestic Product	35,652.7	100.0	42,172.3	100.0	46,523.6	100.0	51,337.6	100.0	55,650.1	100.0
Petroleum Activities	6,472.2	18.2	7,360.8	17.5	7,251.7	15.6	7,103.4	13.8	6,802.1	12.2
Non-petroleum Activities	26,649.8	74.7	30,934.1	73.4	34,704.7	74.6	38,763.5	75.5	42,450.4	76.3
Agriculture	2,115.9	5.9	2,208.6	5.2	2,425.8	5.2	2,403.0	4.7	2,449.1	4.4
Mining	282.1	0.8	322.2	0.8	332.0	0.7	347.1	0.7	354.1	0.6
Manufacturing	5,791.7	16.2	7,033.5	16.7	7,813.7	16.8	8,574.3	16.7	9,192.6	16.5
Water and Electricity	941.1	2.6	1,021.5	2.4	1,136.4	2.4	1,201.9	2.3	1,230.4	2.2
Construction	1,654.1	4.6	2,069.0	4.9	2,483.0	5.3	3,367.8	6.6	3,815.3	6.9
Trade[3]	3,190.7	8.9	4,085.7	9.7	4,965.8	10.7	5,886.0	11.5	6,879.8	12.4
Transportation[4]	2,305.1	6.5	2,736.6	6.5	3,238.9	7.0	3,774.3	7.4	4,413.5	7.9
General Government	4,692.6	13.2	5,211.6	12.4	5,629.0	12.1	5,851.3	11.4	6,145.9	11.0
Financial Institutions[5]	4,714.4	13.2	5,463.1	13.0	6,220.2	13.4	7,292.6	14.2	8,007.4	14.4
Other[6]	962.2	2.7	782.3	1.9	460.0	1.0	65.2	0.1	(37.8)	(0.1)
Other Net Taxes on Products	2,530.6	7.1	3,877.5	9.2	4,567.2	9.8	5,470.7	10.7	6,397.6	11.5

(1) Preliminary figures.
(2) Exports minus imports.
(3) Includes commerce, repair services, restaurants and hotels.
(4) Includes transport, storage and communications.
(5) Includes financial institutions, insurance, real estate and rental services.
(6) Includes community, social and personal services and private non-profit services and financial intermediation services indirectly measured.

Source: *Banco Central.*

	Year Ended December 31,				
	2003	2004[1]	2005[1]	2006[1]	2007[1]
	(percentage change in real terms)				
Aggregate Global Demand	(7.8)%	18.3%	10.3%	10.3%	8.4%
Aggregate Internal Demand	(10.2)	28.2	18.7	20.1	19.3
Gross Capital Formation	(37.0)	49.7	38.4	26.6	25.4
Consumption	(2.3)	15.2	14.6	15.6	16.1
Public	5.7	14.2	10.7	6.7	5.1
Private	(4.3)	15.4	15.7	17.9	18.7
Gross Domestic Product	(7.8)	18.3	10.3	10.3	8.4
Petroleum Activities	(1.9)	13.7	(1.5)	(2.0)	(4.2)
Non-petroleum Activities	(7.4)	16.1	12.2	11.7	9.5
Agriculture	(1.3)	4.4	9.8	(0.9)	1.9
Mining	(4.4)	14.2	3.0	4.5	2.0
Manufacturing	(6.8)	21.4	11.1	9.7	7.2
Water and Electricity	(0.5)	8.5	11.2	5.8	2.4
Construction	(39.5)	25.1	20.0	35.6	13.3
Trade[2]	(9.8)	28.1	21.5	18.5	16.9
Transportation[3]	(6.5)	18.7	18.4	16.5	16.9
General Government	4.9	11.1	8.0	3.9	5.0
Financial Institutions[4]	(3.3)	15.9	13.9	17.2	9.8
Other[5]	(13.2)	(18.7)	(41.2)	(85.8)	(157.9)
Adjustments	(22.5)	53.2	17.8	19.8	16.9

(1) Preliminary figures.
(2) Includes commerce, repair services, restaurants and hotels.
(3) Includes transport, storage and communications.
(4) Includes financial institutions, insurance, real estate and rental services.
(5) Includes community, social and personal services and private non-profit services and financial intermediation services indirectly measured.

Source: *Banco Central.*

Inflation

For the year ended December 31, 2003, the rate of inflation, as measured by the CPI, stood at 27.1% and averaged 31.1% for the whole of 2003. The decrease in inflation was primarily due to the Government's implementation of price controls on certain basic goods and food staples.

The rate of inflation, as measured by the CPI, decreased to 19.2% for year-end 2004 and averaged 21.7% for the whole of 2004. The decrease in inflation was primarily due to the controlled devaluation of the exchange rate and the increase in imports supported by the positive international reserves position.

For the year ended December 31, 2005, the rate of inflation, as measured by the CPI, stood at 14.4% and averaged 16.0% for the whole of 2005. The decrease in inflation was primarily due to increased domestic production of goods combined with the fixed exchange rate and the price controls imposed on certain basic goods.

The rate of inflation, as measured by the CPI, increased to 17.0% for year-end 2006 and averaged 13.7% for the whole of 2006. The increase in inflation was primarily due to the insufficient response in the internal supply to the significant expansion experienced in the aggregate demand. The inflationary pressures were partly tempered by increased levels of imported goods and services at a stable nominal exchange rate, a strong level of international reserves and liquidity regulatory operations undertaken by Banco Central. Furthermore, the price controls and the expansion of distribution networks providing low-cost food assisted in curbing inflationary pressures affecting low-wage households.

The Government has adopted a policy of containing inflationary pressures in the economy and is taking a number of concrete actions to reverse the inflationary trends. Among these actions are avoiding the monetization of PDVSA's income by direct contributions of income to FONDEN and retention of foreign exchange for direct payment of foreign currency expenditures, increasing the amount of foreign currency given to providers of domestic goods and services and increasing investment in areas of the economy most prone to inflationary pressures, including the agro-industrial sector.

During the first quarter of 2007, the National Executive announced additional policies intended to control inflation. These measures were primarily aimed at stimulating the aggregate supply, both internally and externally, to minimize inflationary expectations and to increase price control efficiency by strengthening and expanding the public food distribution networks. Furthermore, the VAT was removed from certain goods and services categorized as basic necessities in addition to the three percent reduction in the VAT for all other taxable goods and services, effective March 1, 2007 and the further two percent reduction, effective July 1, 2007.

The rate of inflation, as measured by the CPI, increased to 22.5% for year-end 2007 and averaged 18.7% for the whole of 2007.

The Government is presently working on a series of measures aimed at continuing the reduction of inflation. These measures are expected to be implemented throughout 2008 and include subsidies to importers and producers, better management of local currency liquidity through an increase of the legal reserve requirement for banks, an increase in CADIVI approvals for food imports, the creation of a PDVSA subsidiary, *PDV Alimentos*, to help the food distribution network, and the sale in the local markets of dollar-denominated debt instruments.

On April 3, 2008, INE, in affiliation with the Ministry of Popular Power for Planning, and the Central Bank issued Resolution No. 08-04-01 regulating the National Consumer Price Index or INPC (Indice Nacional de Precios al Consumidor) effective as of January 1, 2008. INPC covers the same items as CPI with national geographic scope. The previous system only covered the Caracas and Maracaibo metropolitan areas.

Inflation figures from January 1, 2008 will be calculated using INPC. Figures prior to January 1, 2008 will not be re-calculated. INPC will have as its base period December 2007 and be published monthly within the first ten days of each month. For the first three months of 2008, the published figures were as follows: January 3.1%, February 2.1% and March 1.7%.

Under the previous calculation method, for the 12-month period ended February 29, 2008, CPI was 24.4%.

The following table sets forth five price indices for the periods indicated:

	2003 Quarters				2003 Full Year	2004 Quarters				2004 Full Year	2005 Quarters				2005 Full Year	2006 Quarters				2006 Full Year	2007 Quarters				2007 Full Year
	I	II	III	IV		I	II	III	IV		I	II	III	IV		I	II	III	IV		I	II	III	IV	
Producer Price Index[1]:																									
Manufacturing Goods[2]:																									
Average	12.4	7.9	5.0	3.7	41.7	8.5	9.9	3.4	2.7	27.8	3.6	5.8	2.7	1.2	16.5	2.6	2.9	3.3	3.0	11.3	3.1	2.4	2.6	5.1	12.6
End of Period[3]	17.5	5.1	4.7	3.5	33.8	12.9	6.4	1.7	3.2	26.0	5.2	4.7	1.9	0.9	13.4	3.0	3.3	3.1	2.7	12.7	2.7	3.1	2.8	5.6	14.9
Raw Materials for Construction:																									
Average	15.6	10.8	3.0	2.7	49.2	10.4	14.6	6.8	1.3	43.2	3.9	6.7	2.9	0.1	19.1	3.3	4.8	5.1	2.2	13.8	6.7	2.8	1.7	4.3	17.0
End of Period[3]	24.5	3.6	3.0	2.4	35.5	17.0	10.9	3.8	1.7	37.0	7.8	3.1	2.3	0.3	14.1	4.8	4.8	3.8	2.0	16.4	6.9	3.5	0/8	5.0	17.0
Wholesale Price Index[4] [6]:																									
Domestic Goods[1]:																									
Average	14.5	11.9	6.5	7.9	51.1	8.1	5.8	4.9	3.3	30.5	5.0	5.7	3.5	1.1	18.8	3.3	3.9	5.5	3.6	14.6	5.5	3.9	2.0	4.6	18.1
End of Period	22.5	7.1	6.6	8.1	51.9	8.1	4.6	3.9	4.3	22.4	5.5	5.6	1.9	1.5	15.3	3.3	6.2	3.6	3.8	18.0	5.1	4.5	1.5	5.8	18.0
Imported Goods[1]:																									
Average	19.0	7.3	6.5	2.9	42.3	12.3	8.0	1.7	(0.1)	28.5	3.1	5.9	1.6	0.3	11.5	2.1	2.1	1.2	2.6	7.6	3.6	2.3	1.9	5.0	11.0
End of Period	26.4	1.6	8.6	2.0	56.4	17.3	3.7	(0.1)	0.8	22.5	5.3	3.9	1.2	0.2	10.9	3.0	1.7	1.5	2.7	9.2	2.5	3.5	1.1	6.8	14.6
Consumer Price Index[5] (Caracas Metro Area):																									
Average	8.2	6.1	4.9	4.9	31.1	6.3	4.7	4.1	3.1	21.7	4.1	4.1	3.2	2.9	16.0	1.7	2.8	6.4	4.3	13.7	4.4	3.1	3.4	7.9	18.7
End of Period[3]	9.4	5.5	4.6	5.4	27.1	6.4	4.4	3.3	3.9	19.2	3.3	4.5	3.3	2.5	14.4	1.3	4.1	6.6	3.9	17.0	2.6	5.0	2.9	10.4	22.5

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(1) The Wholesale Price Index and the Producer Price Index include the General Wholesale Tax.
(2) The percentage changes refer to the Producer Price Index for manufactured goods (Caracas Metropolitan Area and Central Region of Venezuela Base 1997 = 100).
(3) This index is calculated with quarterly information collected at mid-term.
(4) The percentage changes refer to the Wholesale Price Index for manufactured goods (Caracas Metropolitan Area and Central Region of Venezuela Base 1984 = 100).
(5) The Consumer Price Index (CPI) has been calculated on the basis of 1997 Constant Bolívares.
(6) The Wholesale Price Index has been calculated on the basis of 1997 Constant Bolívares.

Source: *Banco Central*

Foreign Trade and Balance of Payments

Foreign Trade

Foreign trade plays a vital role in the Venezuelan economy. Venezuela traditionally has experienced a favorable balance of trade. Average annual exports for the five years ended 2006 were U.S.$42.9 billion. During the same period, average annual imports were U.S.$19.4 billion.

In 2006, Venezuela's total exports were U.S.$65.2 billion. Petroleum products represent the most significant exports for Venezuela, totaling U.S.$58.4 billion during 2006. During the same period, total imports, consisting mainly of raw materials, machinery, equipment and manufactured goods, were U.S.$32.2 billion.

Trade Policy

The basic goals of Venezuela's trade policy are to generate sustainable growth and macroeconomic stability by diversifying production and promoting Venezuelan products in the international market. The policy contemplates increasing the number of small and medium sized companies with export capabilities, promoting nontraditional exports, reinforcing current trade alliances and developing new trade alliances with an emphasis on South American and Caribbean countries. In addition, Venezuela has entered into a number of bilateral, regional and multilateral free trade agreements. It is an active member of the GATT and the WTO.

The Government has entered into agreements with a number of countries, including countries in South America, North America and the Caribbean basin, as well as countries in the European Union, Africa, the Middle East and Asia, regarding the promotion of bilateral trade and economic and technological development, as well as the facilitation of purchases of petroleum and refined petroleum products. In this connection, Venezuela entered into several agreements with the Caribbean countries within the framework of Petrocaribe to supply oil and products under preferential financing conditions similar to those established by other agreements between Venezuela and Central America and South American states, such as Argentina, Bolivia, Ecuador and Uruguay. In exchange, these countries supply goods and services in several areas as well as technical assistance to Venezuela, including agricultural advising and medical personnel.

In December 2004, President Chávez and China's President Hu Jintao signed a total of eight energy, agricultural and technical cooperation agreements. During President Chávez's visit to China, the Ministry of Energy and Petroleum, referred to as MEP, and the Chinese National Petroleum Corporation, or CNPC, also agreed to develop an oil field in eastern Venezuela. In 2006, Venezuela and China signed additional oil agreements, and by September 2006, Venezuela was shipping approximately 200,000 barrels of crude and products per day to China. In 2007, the two countries signed additional agreements which provided for the construction of three refineries in China to process Venezuelan crude oil, and explored building a refinery to upgrade heavy crude oil to lighter quality using Chinese technology and to process crude oil from the Orinoco Belt.

In November 2007, BANDES entered into a credit facility with the China Development Bank in the aggregate amount of U.S.$4.0 billion in connection with the creation of a Sino-Venezuelan Joint Fund between the Governments of Venezuela and China to finance development and infrastructure projects in Venezuela. The credit facility has a term of three years, extendible for a total of 15 years. In connection with the credit facility, PDVSA has entered into a supply agreement for crude oil and refined products with China National United Oil Corporation. The proceeds of sales under the supply agreement will be applied to pay amounts due under BANDES's loan with the China Development Bank.

Between 2004 and 2006, Venezuela entered into agreements with numerous countries which focused on the delivery of oil, the fight against terrorism and drugs, poverty and other matters. The Government is pursuing a variety of regional initiatives known as the Bolivarian Alternative for the Americas, or ALBA, and the South American Union of Nations, or UNASUR. These initiatives are designed to strengthen cooperation among Latin American and Caribbean countries. In this connection, the Transoceanic Pipeline, an important energy integration project between Colombia and Venezuela, is under development. In 2004, Venezuela became an associate member of Mercosur. Venezuela has encouraged these countries to take part in numerous energy integration projects such as the Great Southern Pipeline and the Petrosur initiative, as well as building and expanding refineries in Brazil, Uruguay and Paraguay. In April 2006, Venezuela, Cuba and Bolivia entered into the Peoples' Trade Treaty, which is a political,

social and economic cooperation agreement that covers initiatives in trade, health, social services and energy, among other matters.

Trading Partners

Foreign trade plays a vital role in the Venezuelan economy, the United States being Venezuela's most important trading partner. As of December 31, 2006, Venezuela was the fourth-largest exporter of crude and petroleum products to the United States. In addition to the United States, Venezuela's significant trading partners include China, Colombia, Brazil and Japan.

The following tables set out the geographical distribution of Venezuela's imports and exports, including in the petroleum sector, for the periods indicated:

	Imports				
	Year Ended December 31,				
	2003	2004	2005(1)	2006(1)	2007(4)
	(as a percentage of total)				
Brazil	5.1%	7.0%	8.4%	9.6%	9.8%
Colombia	6.8	10.0	10.1	10.0	12.4
France	1.9	1.1	1.1	1.3	1.2
Germany	3.1	3.1	2.6	2.4	2.3
Italy	1.9	2.5	2.1	2.1	2.3
Japan	1.7	2.9	3.0	3.2	2.8
United States	25.8	28.7	29.0	29.0	27.4
Others	53.7	44.7	43.7	42.4	41.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%

	Exports				
	Year Ended December 31,				
	2003	2004(1)	2005(1)(2)(3)	2006(1)(2)(3)	2007(1)(2)(3)(5)
	(as a percentage of total)				
Brazil	1.0%	0.4%	0.4%	2.7%	1.4%
Colombia	2.4	2.7	2.0	12.0	5.8
France	0.2	0.1	0.5	0.8	0.2
Germany	0.5	0.5	0.7	1.5	1.2
Italy	0.5	0.4	0.6	2.2	6.0
Japan	0.5	0.5	0.4	4.3	2.3
United States	42.5	42.3	48.4	26.4	60.1
Others	52.4	53.1	47.0	50.1	23.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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(1) Preliminary figures.
(2) Information for PDVSA is unavailable. Accordingly individual country information for 2004, 2005, 2006 and 2007 does not reflect geographical distribution of petroleum exports.
(3) Information for iron ore is unavailable.
(4) For the period January-September 2007.
(5) For the period January-April 2007.

Sources: *Banco Central, INE, PDVSA and Ferrominera del Orinoco.*

Development of Non-Petroleum Exports

Venezuela's principal non-petroleum exports include steel, iron ore, chemical products, aluminum, fish and shellfish, cement, paper products, ceramics and tropical fruits. Venezuela has taken steps to increase its non-petroleum exports as part of its plan to diversify its sources of foreign exchange earnings and fiscal revenues. Nonetheless, in the short and medium term, petroleum exports (including natural gas) are expected to continue to comprise the substantial majority of Venezuela's exports in dollar value. In 2002, non-petroleum exports totaled U.S.$5.2 billion, representing 19.6% of total exports. During 2003, non-petroleum exports totaled U.S.$5.2 billion, representing 19.1% of Venezuela's total exports during that period. In 2004, non-petroleum exports totaled

U.S.$6.8 billion, representing 17.1% of Venezuela's total exports during that period. During 2005, non-petroleum exports totaled U.S.$7.4 billion, representing 13.3% of Venezuela's total exports during that period. During 2006, non-petroleum exports totaled U.S.$6.8 billion, representing 10.4% of Venezuela's total exports during that period.

Balance of Payments

CADIVI has allocated some amounts of foreign exchange to address the needs of a surging domestic economy. Accordingly, imports continued their upward trend. Imports of goods related to capital formation registered notable growth, followed by increases in imports of goods for final and intermediate consumption.

Because Venezuela is a major oil producer and exporter, it has historically recorded trade and current account surpluses. In 2003, the current account surplus was U.S.$11.7 billion, and in 2004, the current account surplus was U.S.$15.5 billion. The increase in the current account surplus in 2003 was attributable to a favorable trade balance due to a decrease in the level of imports as a result of the implementation of the exchange controls and decreased economic activity. In 2004, the increase in the current account surplus was primarily due to an increase in exports and the prices of certain commodities, including oil and oil derivatives. In 2005, the current account surplus was U.S.$25.4 billion. The substantial increase in the current account surplus was due primarily to a favorable trade balance caused mainly by an increase in the price received for petroleum exports.

For 2006, the overall balance of payments recorded a surplus of approximately U.S.$5.1 billion and the current account surplus was U.S.$27.2 billion. The increase in the current account surplus was due primarily to the high levels of prices for petroleum products. The current account surplus reflected the positive evolution of oil exports, which, benefiting from recent increases in prices, increased to U.S.$58.4 billion, or 89.6% of total exports. Non-oil exports, estimated at U.S.$6.7 billion, showed a slight drop which could be related to the repositioning of the domestic production of certain basic products towards satisfying the domestic market, in which the demand showed an expansionary trend.

For 2007, the overall balance of payments recorded a deficit of approximately U.S.$5.9 billion and the current account had a total surplus of U.S.$21.7 billion. The deficit in the 2007 overall balance of payments is primarily due to FONDEN transfers and PDVSA maintaining increased levels of foreign currency holdings offshore.

The capital account recorded a deficit of U.S.$5.5 billion for 2003 and U.S.$11.1 billion for 2004. The capital account deficit in 2003 was due to a reduction of capital outflows stemming from the exchange control regime, a reduction in net portfolio investment payments and an increase in direct investment. The increased capital account deficit in 2004 was primarily due to an increase in foreign assets and payments of external debt obligations. During 2005, the capital account recorded a deficit of U.S.$16.4 billion. The deficit in the capital account in 2005 was due primarily to an increase in public sector external assets.

During 2006, the capital account recorded a deficit of U.S.$19.1 billion. The deficit in the capital account in 2006 was due primarily to the operations of the public sector with an emphasis on the acquisition of portfolio assets, the reduction of sovereign debt and the financing granted by the petroleum industry to its clients and affiliates. During 2007, the capital account recorded a deficit of U.S.$24.8 billion. The increase in the capital account deficit was mainly due to the issuance of debt in the local markets by PDVSA which totaled U.S.$7.5 billion. PDVSA purchased the debt locally in Bolívares and used the funds to purchase U.S. dollars from Banco Central to pay obligations abroad.

In 2003, foreign direct investment increased to approximately U.S.$899 million. In 2004, foreign direct investment totaled U.S.$864 million, and in 2005, foreign direct investment totaled U.S.$1.4 billion. In 2006, foreign direct investment totaled U.S.$854 million, and foreign direct investment in 2007 totaled U.S.$217 million. The decrease in foreign direct investment was due to increased uncertainty over the proposed amendments to the 1999 Constitution.

The following table sets forth Venezuela's balance of payments for the periods indicated:

	Year Ended December 31,				
	2003	2004	2005[1]	2006[1]	2007[1]
	(in millions of U.S. dollars)[2]				
Current Account	$ 11,796	$ 15,519	$ 25,447	$ 27,149	$ 20,001
Trade Balance	16,747	22,647	31,708	32,712	23,702
Oil Exports (f.o.b.)	22,029	32,871	48,143	58,438	62,555
Non-oil Exports (f.o.b.)	5,201	6,797	7,573	6,772	6,610
Imports (f.o.b.)	(10,483)	(17,021)	(24,008)	(32,498)	(45,463)
Services	(2,634)	(3,383)	(3,997)	(4,433)	(5,851)
Transportation	(954)	(1,384)	(1,810)	(2,360)	(3,315)
Travel	(528)	(576)	(626)	(461)	(577)
Communications	(10)	(13)	7	56	61
Insurance	(113)	(163)	(221)	(295)	(415)
Government	(174)	(142)	(72)	(105)	(160)
Other	(855)	(1,105)	(1,275)	(1,268)	(1,445)
Investment Income	(2,337)	(3,673)	(2,202)	(1,092)	2,565
Inflows	1,729	2,050	4,150	7,934	10,114
Public Sector Interest	300	337	456	1,190	1,501
Private Sector Interest	34	35	102	269	385
Other	1,395	1,678	3,592	6,475	8,228
Outflows	(4,066)	(5,723)	(6,352)	(9,026)	(7,549)
Public Sector Interest	(1,801)	(1,723)	(1,995)	(2,142)	(2,252)
Private Sector Interest	(269)	(298)	(349)	(359)	(345)
Other	(1,996)	(3,702)	(4,008)	(6,543)	(4,952)
Current Transfers	20	(72)	(62)	(38)	(415)
Capital and Financial Account	(5,558)	(11,116)	(16,400)	(19,147)	(23,304)
Inflows	9,242	8,984	13,317	13,685	21,289
Direct Investment	899	864	1,422	854	960
Public Debt (long-term)	3,201	3,353	2,544	1,680	9,271
Bonds	1,378	2,436	1,454	0	3,995
Loans and Trade credits	1,823	917	1,090	1,680	5,276
Private Debt (long-term)	61	22	228	0	0
Bonds	0	0	0	0	0
Loans	61	22	228	0	0
Imports Financing	878	435	2,198	96	802
Other	4,203	4,310	6,925	11,055	10,256
Outflows	(14,800)	(20,100)	(29,717)	(32,832)	(44,593)
Direct Investment	(177)	0	0	(3,520)	(2,551)
Public Debt (long-term)	(5,448)	(5,704)	(2,982)	(6,222)	(2,609)
Bonds	(3,288)	(3,774)	(1,186)	(4,188)	(563)
Loans and Trade credits	(2,160)	(1,930)	(1,796)	(2,034)	(2,046)
Private Debt (long-term)	(703)	(759)	(938)	(794)	(620)
Bonds	0	(26)	(42)	(62)	(115)
Loans	(703)	(733)	(896)	(732)	(505)
Imports Financing	(90)	(195)	(733)	0	0
Other	(8,382)	(13,442)	(25,064)	(22,296)	(38,813)
Net Errors and Omissions	(795)	(2,503)	(3,593)	(2,864)	(2,439)
Overall Balance	5,443	1,900	5,454	5,138	(5,742)
Change in Reserves (Increase)	(5,443)	(1,900)	(5,454)	(5,138)	5,742
Assets	(5,454)	(2,155)	(5,424)	(5,078)	5,357
Banco Central[3]	(7,604)	(2,146)	(5,402)	(5,042)	5,398
BANDES	0	0	0	0	0
Stabilization Fund	2,150	(9)	(22)	(36)	(41)
Obligations	11	255	(30)	(60)	385
Banco Central[3]	11	255	(30)	(60)	385

(1) Preliminary figures.
(2) Figures without parentheses indicate a diminution of the assets or increase of the corresponding liabilities. Figures within parentheses indicate an increase of the assets or diminution of the corresponding liabilities.
(3) Excludes changes in valuation.

Source: *Banco Central*

International Reserves

Gross international reserves stood at U.S.$20.7 billion at December 31, 2003 (excluding funds in the Stabilization Fund), representing an increase of U.S.$8.7 billion since December 31, 2002. At the same date, the balance in the Stabilization Fund was U.S.$700 million. As a result of the implementation of exchange controls in 2003 and the establishment of CADIVI's procedures for allocation and approval of foreign exchange purchases, the year-end balance of gross international reserves at Banco Central at December 31, 2003 included amounts approved for conversion to U.S. Dollars, but not disbursed, substantially higher than in subsequent periods.

Gross international reserves at Banco Central increased by U.S.$2.8 billion between December 31, 2003 and December 31, 2004, rising to U.S.$23.5 billion at year-end 2004. At December 31, 2004, international monetary assets stood at U.S.$24.8 billion, liquid operating reserves at Banco Central totaled U.S.$17.9 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$23.2 billion. At the same date, the balance in the Stabilization Fund was U.S.$710 million.

Banco Central's gross international reserves at the end of 2005 totaled U.S.$29.6 billion, representing an increase of U.S.$6.1 billion since December 31, 2004. In addition, funds in the Stabilization Fund totaled U.S.$732 million. At December 31, 2005, total international monetary assets totaled U.S.$30.7 billion, liquid operating reserves at Banco Central totaled U.S.$23.5 billion and net international reserves (excluding funds in the Stabilization Fund) at Banco Central totaled U.S.$29.4 billion.

Gross international reserves at Banco Central increased by U.S.$7.0 billion between December 31, 2005 and December 31, 2006, rising to U.S.$36.7 billion at year-end 2006. At December 31, 2006, international monetary assets stood at U.S.$37.9 billion, liquid operating reserves at Banco Central totaled U.S.$28.9 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$36.5 billion.

Gross international reserves at Banco Central decreased by U.S.$3.2 billion between December 31, 2006 and December 31, 2007. At December 31, 2007, international monetary assets stood at U.S.$34.3 billion, liquid operating reserves at Banco Central totaled U.S.$23.7 billion and net international reserves (excluding funds in the Stabilization Fund) totaled U.S.$32.9 billion.

The following table sets out a breakdown of the international monetary assets of Venezuela for the periods indicated:

	Year Ended December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(in millions of U.S. dollars)				
International Reserves at Banco Central	$20,666	$23,498	$29,636	$36,672	$33,477
Gold[1]	4,632	5,122	5,718	7,255	9,281
Special Drawing Rights	10	9	5	0	1
IMF Position[2]	478	500	460	484	509
Total Liquid Operating Reserves	15,546	17,867	23,453	28,933	23,686
Liabilities of Banco Central[3]	(40)	(295)	(262)	(202)	(592)
Net Liquid Operating Reserves	15,506	17,572	23,191	28,731	23,094
Stabilization Fund [4]	700	710	732	768	809
Other International Monetary Assets[5]	532	598	313	430	97
International Monetary Assets[6]	21,898	24,806	30,681	37,870	34,383

(1) Figures are valued at the market price for gold at the relevant dates and reflect methodological arrangements in the accounting treatment for gold-swap operations.
(2) Includes net IMF Position.
(3) Includes Banco Central's reserve liabilities.
(4) Includes the Stabilization Fund portfolio managed by Banco Central.
(5) Other than amounts in the Stabilization Fund.
(6) Includes all monetary or similar assets denominated in units of exchange other than Bolívares owned or controlled by the Republic, Banco Central and other public sector entities.

Sources: *Banco Central*

Banco Central Transfers

In 2001, Banco Central's board of directors approved the transfer of Bs.1.8 trillion in realized income from Banco Central to the Government in accordance with the provisions of the Central Bank Law. In 2002, Banco Central transferred an additional Bs.1.7 trillion in realized income to the Government. The amounts transferred were used for certain investment projects and social programs of the Government. The income that was the subject of the transfer was derived from the accumulation of realized profits from foreign exchange operations of Banco Central. The transfer did not affect unrealized gains on foreign exchange holdings.

A new Central Bank Law was enacted on October 3, 2001. The amended Central Bank Law continues to provide that 10% of Banco Central's annual net income is to be allocated to Banco Central's general reserve, and a maximum of 5% of annual net income can be set aside in a voluntary reserve fund. In accordance with the new Central Bank Law, the remainder of Banco Central's income must be transferred to the Government within the six-month period following Banco Central's fiscal year end. On October 18, 2002, an amendment to the Central Bank Law was approved by the National Assembly requiring the calculation of the amount of Banco Central income to be transferred to the Government must now be calculated every six months, rather than annually, and must be transferred to the Government within the six-month period following each such calculation.

In July 2005, the National Assembly approved an amendment to the new Central Bank Law. The reform allows PDVSA to maintain its oil and gas export proceeds in offshore accounts in amounts sufficient to cover its foreign currency-denominated investments and expenses. The balance of such proceeds, net of applicable corporate income tax, dividends and royalties, must be contributed by PDVSA to FONDEN. Amounts deposited in FONDEN may only be used for social, educational, health care, liability management and special and strategic purposes. Under the amended law, Banco Central is required to determine the optimum level of international reserves and to distribute the excess to FONDEN and inform the National Assembly on an annual basis. The reform also requires Banco Central to make a one-time special contribution to FONDEN of U.S.$6.0 billion from Venezuela's foreign currency reserves. This deposit was completed on November 7, 2005, and since that date through December 31, 2007, approximately U.S.$17.0 billion has been added by Banco Central.

Foreign Exchange Rates and Exchange Controls

Prior to February 1983, the Bolivar/U.S. dollar exchange rate was fixed at Bs.4.30 = U.S.$1.00. In February 1983, a system of differential exchange rates was implemented to reduce imports and to stimulate domestic production, including the production of non-traditional exports. Under this system, while the Bolivar was permitted to float for certain transactions, a series of controlled foreign exchange rates was established to moderate the inflationary impact of the cost of living and to mitigate the financial costs of the devaluation of the Bolivar among those sectors of the economy with high levels of external debt. These controlled rates of exchange were utilized for payments of registered external public and private debt and for most commercial transactions. During the same period, a much higher free market exchange rate was in effect for obtaining foreign exchange for tourism, imports of certain non-essential goods, personal transfers and certain other items.

Although the system of differential exchange rates assisted in moderating inflation, it also resulted in imbalances in both the external and internal accounts by effecting quantitative restrictions on imports. This created an anti-export bias in the Venezuelan economy and increased speculative pressure on the Bolivar. In March 1989, the Government ended the system of official, controlled exchange rates and established a unified, floating exchange rate with free convertibility.

A financial sector crisis in 1994 resulted from solvency and liquidity crises among Venezuelan financial institutions. The crisis, occurring in the context of a general climate of economic and political instability, caused a run on the foreign exchange markets in favor of U.S. dollars. At the end of June 1994, the exchange rate had declined to Bs.171.80 = U.S.$1.00 from Bs.105.90 = U.S.$1.00 at the end of December 1993. The adverse effect of such pressure in the foreign exchange markets, the resulting intensification of devaluation expectations and the loss of international reserves led the Government to close temporarily the foreign exchange markets on June 27, 1994. The Government thereafter adopted a new exchange control regime on July 9, 1994. Between July 1994 and December 11, 1995, the official exchange rate was set at Bs.170 = U.S.$1.00. On December 11, 1995, the Government devalued the Bolivar and changed the official exchange rate from Bs.170 = U.S.$1.00 to Bs.290 = U.S.$1.00. In April 1996, the exchange control system was eliminated and the Bolivar was permitted to float. On April 22, 1996, Venezuela introduced a unified, free-floating exchange rate with free convertibility. The

exchange rate was subject to a system established by Banco Central which was designed to allow the Bolivar to fluctuate within a crawling band.

The deteriorating economic and political environment in Venezuela during early 2002 triggered large-scale capital flight and increased pressure on the value of the Bolivar. In response, Banco Central was required to utilize large amounts of its international reserves to support the value of the Bolivar. On February 13, 2002, President Chávez announced that the Bolivar would float freely, without a protective band and with minimal intervention from Banco Central. On October 8, 2002, the Bolivar/U.S. dollar exchange rate reached its lowest point to date since its initial devaluation. The Bolivar/U.S. dollar exchange rate on that date, as calculated by Banco Central, was Bs.1,496.25 = U.S.$1.00, reflecting a depreciation of 97.4% compared to December 31, 2001. On December 31, 2002, the Bolivar/U.S. dollar exchange rate, as calculated by Banco Central, was Bs.1,403 = U.S.$1.00, reflecting a depreciation of 85.1% since December 31, 2001.

In accordance with the new fixed exchange control regime that became effective on February 5, 2003, the Bolivar/U.S. dollar exchange rate was set at Bs.1,596 = U.S.$1.00 (purchase) and Bs.1,600 = U.S.$1.00 (sale). On February 5, 2004, the Ministry of Finance and Banco Central changed the Bolivar/U.S. dollar exchange rate to Bs.1,915.20 = U.S.$1.00 (purchase) and Bs.1,920.00 = U.S.$1.00 (sale). On March 2, 2005, the Ministry of Finance and Banco Central set the U.S. dollar exchange rate to Bs.2,144.60 = U.S.$1.00 (purchase) and Bs.2,150.00 = U.S.$1.00 (sale).

Effective January 1, 2008, the currency of Venezuela has been converted to the Bolívar Fuerte, which represents one thousand Bolívares. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs.F 2.1446 = U.S.$1.00 for purchase operations and Bs.F 2.15 = U.S.$1.00 for sale operations.

For more information on the exchange control regime adopted in February 2003, refer to "—Exchange Control Regime".

The following table sets out the average Bolivar/U.S. dollar exchange rates for the periods indicated:

Year and Month	Exchange (Bolivar/ U.S. dollar)
2003	
First Quarter	Bs.1,634.51
Second Quarter	1,600.00
Third Quarter	1,600.00
Fourth Quarter	1,600.00
2004	
First Quarter	Bs.1,781.36
Second Quarter	1,920.00
Third Quarter	1,920.00
Fourth Quarter	1,920.00
2005	
First Quarter	Bs.1,989.37
Second Quarter	2,150.00
Third Quarter	2,150.00
Fourth Quarter	2,150.00
2006	
First Quarter	Bs.2,150.00
Second Quarter	2,150.00
Third Quarter	2,150.00
Fourth Quarter	2,150.00
2007	
First Quarter	Bs.2,150.00
Second Quarter	2,150.00
Third Quarter	2,150.00
Fourth Quarter	2,150.00

Source: *Banco Central.*

Monetary Reform

In February 2007, a monetary reform was announced by presidential decree under the 2007 Enabling Law that established the Bolívar Fuerte which is equivalent to Bs.1,000 under the old regime.

As of January 1, 2008, all prices are being expressed in Bolívares Fuertes. The rounding of any fractions which result from dividing the old prices of goods by the factor of 1,000, will be a rounded down to the nearest cent for all fractions below 0.5 and rounded upward to the next cent for all fractions which are equal to or higher than 0.5.

For a period of at least six months after January 1, 2008, there will be a period for the phase-in of the new currency. During this time, both the old Bolívares and the new Bolívar Fuerte are considered legal tender.

Employment and Labor

Labor Policies

The composition of the labor force in Venezuela has undergone substantial changes during the last 45 years. The most significant change has been a shift in employment from the primary sector, principally consisting of agricultural activities and petroleum and mining exploration and extraction, to the tertiary sector, principally consisting of services, finance, transportation, communications and Government employment.

According to INE, during the last six months of 2006, approximately 41.1% of the Venezuelan labor force was engaged in the informal sector of the economy. The informal sector is comprised of domestic workers, self-employed owners, laborers and non-paid family laborers.

Under the Economic Plan, the Government contemplates the integration of the informal sector into the economy. The Government intends to make technological and financial assistance available to informal sector participants on terms equivalent to those being offered to small- and medium-sized companies in the formal sectors of the economy.

The Economic Plan contemplates the implementation of programs to improve the skill level of the Venezuelan labor force and to promote an efficient labor market that would allow optimal mobility for Venezuelan workers. The Government also seeks to promote the improvement of wage levels throughout the productive sectors of Venezuela's economy consistent with its desire to minimize the inflationary effects or expectations that could result from wage increases.

As part of the Chávez administration's domestic initiatives, private companies in Venezuela are being asked to introduce "co-management" among workers and boards of directors as the preferred model of corporate governance. Under this initiative, companies are invited to adopt the model and have a minimum of 20% worker representation on their governing boards in order to receive new loans from state banks.

Labor Force

As the labor force of Venezuela has grown in recent years, there have been numerous efforts to absorb the increasing numbers of workers in Venezuela, particularly persons migrating from rural to urban areas.

Given the significant GDP growth exhibited in the past four years, a shortage of management personnel, technicians and skilled workers and a relatively limited supply of manufacturing and agricultural workers currently exists. The working-age population is expected to grow substantially in coming years. Beginning in 2003, social Missions have led to significant improvements in the training and education of manufacturing and agricultural workers.

At the end of 2006, the labor force was estimated at 12.3 million. The rate of unemployment decreased from 11.4% at year-end 2005 to 9.3% at year-end 2006, which was due primarily to increased public sector opportunities including the expanding social Missions. At the end of 2007, the labor force totaled approximately 12.4 million. The rate of unemployment decreased to 7.5% at year-end 2007.

The following table sets forth employment activity by sector for the periods indicated:

	Year Ended December 31,									
	2003		2004		2005		2006		2007	
Labor Force:										
Employed	9,993,806	83.2%	10,417,612	86.1%	10,733,980	88.6%	11,116,925	90.7%	11,503,869	92.5%
Unemployed	2,014,913	16.8	1,687,682	13.9	1,374,299	11.4	1,143,653	9.3	932,448	7.5
Total	**12,008,719**	**100.0**	**12,105,294**	**100.0**	**12,108,279**	**100.0**	**12,260,578**	**100.0**	**12,436,317**	**100.0**
By Sector:										
Petroleum and Mining	54,850	0.5	66,244	0.6	71,272	0.7	77,872	0.7	99,225	0.9
Agriculture, Fishing and Hunting	1,072,213	10.7	1,078,353	10.4	1,039,131	9.7	1,016,049	9.1	992,832	8.6
Manufacturing	1,160,662	11.6	1,175,326	11.3	1,245,453	11.6	1,350,895	12.2	1,415,538	12.3
Water, Electricity and Gas	53,250	0.5	52,194	0.5	56,893	0.5	50,352	0.5	48,031	0.4
Construction	706,790	7.1	793,700	7.6	857,581	8.0	1,057,616	9.5	1,104,538	9.6
Commerce, Restaurant and Hotels	2,563,145	25.6	2,518,241	24.2	2,619,613	24.4	2,620,025	23.6	2,712,478	23.6
Transportation, Storage and Communications	748,895	7.5	850,443	8.2	870,305	8.1	913,558	8.2	1,025,498	8.9
Financial Institutions, Insurance and Real Estate	472,903	4.7	495,691	4.8	516,857	4.8	551,031	5.0	587,139	5.1
Community, Social and Personal Services	3,125,558	31.3	3,242,693	31.1	3,364,831	31.3	3,452,568	31.1	3,492,273	30.4
Others	35,540	0.4	144,727	1.4	92,044	0.9	26,959	0.2	26,517	0.2
Total	**9,993,806**	**100.0%**	**10,417,612**	**100.0%**	**10,733,980**	**100.0%**	**11,116,925**	**100.0**	**11,503,869**	**100.0**

Source: *INE.*

Labor Regulations and Labor Liabilities

The *Ley Orgánica del Trabajo*, or the Organic Labor Law, sets forth minimum standards for employee benefits and working conditions, such as a minimum wage, a maximum number of working hours, mandatory holidays and vacations, minimum retirement, severance compensation and health and safety regulations.

The Organic Labor Law applies to private sector workers and to most public sector employees. The rights of other public employees, technicians and professionals are also regulated by the Law of Administrative Careers. Public sector wages are set by decree, in accordance with the labor laws and the Law of Collective Contracting of the Public Sector. Subject to minimum wage limitations set by the Government, private sector wages are competitive or set through collective bargaining contracts.

In June 1997, the Government reformed the Organic Labor Law. The new law implemented a tripartite agreement reached among the Government, employees represented by unions and their employers. The most significant reform was the elimination of the retroactive calculation of mandatory severance compensation for years of service. Previously, employers has been required to pay severance compensation for years of service calculated retroactively, based on an employee's salary at the time of termination of the labor relationship, regardless of any changes in the salary over the course of the employment. The new law required that severance pay accumulated through December 1996, referred to as the Labor Liabilities, be paid out within five years to both public and private employees. After December 1996, employers have been required to calculate severance compensation monthly, based on wages earned at that time, and deposit the amount in an account of the employee. The amounts deposited earn interest tax-free, which interest may be withdrawn by employees on a yearly basis. The account must accumulate during the entire period of employment, and at the end of the employment relationship the entire amount can be withdrawn by the employee. Under defined circumstances, portions of the principal in the account may be withdrawn by the employee before the end of the employment relationship.

The Government has amended the 1997 labor law to provide for the payment of Labor Liabilities owed to public sector employees over a period of five years, together with interest, at a prescribed rate commencing in 1998. The Government has created a presidential commission to quantify and oversee the processing of the Labor Liabilities with respect to employees of the Central Government.

Since 1998, the Government has maintained a continuous effort to honor past Labor Liabilities. At December 31, 2006, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.21.6 trillion. At December 31, 2007, the estimated total amount of the Government's Labor Liabilities was calculated to be approximately Bs.25.8 trillion.

In April 2007, the Government extended a firing freeze for private and public sector workers governed by the Organic Labor Law, effective through December 31, 2007. Under the decree, workers may not be fired, demoted or transferred without just cause. On December 27, 2007, this freeze was extended again for a period of one year through the end of 2008.

Minimum Wages

The Government sets the minimum salary for all public and private sector employees, which it adjusts as necessary to take into account changes in inflation and costs of living. The minimum wage has gradually increased over the years. In setting and adjusting minimum wages, the Government has attempted to address losses of purchasing power by the poorer segments of the Venezuelan labor force without creating an inflationary cycle.

The latest adjustment made to the monthly minimum wage occurred on April 25, 2007, in the form of a presidential decree which set the minimum wage for all public and private sector employees at Bs.614,790, or approximately U.S.$286, beginning May 1, 2007, representing a 20% increase over the previous minimum wage.

Labor Benefits under the 1999 Constitution

The 1999 Constitution provides certain rights to all laborers in Venezuela. It includes rights with respect to the maximum number of hours a person may be required to work, benefits in the event of loss of employment and non-discrimination on the basis of, among other factors, race, sex, age or creed. The Government is in the process of modifying the Organic Labor Law in accordance with the rights granted to laborers under the 1999 Constitution. As part of these developments, the Government is also currently in the process of reforming the social security system.

Reforms to the Social Security Laws

The Organic Law of Social Security took effect on December 30, 2002. This law sets forth substantial reforms to the national social security system. The services covered by the social security system are divided among three types of services: Health Services, Social Services and Housing Services. The responsibility of managing and administrating these services will be shared among the National Health System, the National Housing Bank, the National Geriatric and Gerontology Institute, the National Pension Institute, the National Employment Institute, the National Labor Health Institute and the Worker's Training and Recreation Institute, which will each be in charge of their respective social services.

Under the terms of the Organic Law of Social Security, both workers and employers will contribute to a collective social security system managed by the Government. Under the social security system, workers in the informal sector of the economy will be able voluntarily to join the social security system and make the contributions necessary to enable them to receive a future retirement pension, with a subsidy by the Government of a certain percentage of their contributions. Along with contributions from employees, employers and the Government, the social security system will also be financed by several other sources, including income from investments made with social security funds.

The law provides that the current Venezuelan Institute of Social Security, along with the other governmental entities and offices that are currently in charge of certain services covered by the social security law, will be replaced gradually by entities that will form the social security system. A newly-created entity, the *Superintendencia del Sistema de Seguridad Social* (Superintendency of the Social Security System) will be the office responsible for regulating and supervising the social security system.

The law also creates a Social Security System treasury with its own assets, distinct and independent from the National Treasury. This treasury's main responsibilities will include collecting, investing and distributing social security funds (which will be exempt from all taxes).

The terms of the law had required the President to develop an implementation plan for the social security system within six months of the law's effective date. However, given its complexity, the implementation plan has not been completed to date. Once such a plan has been completed, the system must then be implemented within five years of the law's adoption. In addition, the President must inform the National Assembly semi-annually of any new measures that have been adopted and any obstacles that have been encountered during the implementation process. Additionally, the law provides that a *Comisión Técnica de Transición* (Technical Commission for the Transition) must be created within 180 days after the law is adopted, which will be responsible for planning and managing the transition from the existing social security system to the new system introduced by this law.

In accordance with the Organic Law of Social Security, in 2005, the National Assembly passed laws to guarantee safe and healthy work environments, to regulate and protect social services for the elderly, to guarantee the right to housing and to ensure unemployed workers receive loans and assistance in finding jobs.

Labor Unions

Venezuela has numerous labor unions. Despite the number of labor unions currently in existence in Venezuela, Venezuela has a relatively low level of unionization when compared to the size of its labor force.

Unions engage in collective bargaining primarily involving the negotiation of contracts on an industry-wide basis. Strikes and lockouts are permitted, but conciliation procedures must be observed prior to calling a strike or lockout. In 2001, there were a number of strikes to protest lack of wage increases and other employment measures, including at PDVSA and SIDOR, which in the short term had an impact on economic activity in the regions and industries affected.

In April 2002, CTV, together with Fedecámaras, initiated a general strike in support of the protest undertaken by a group of PDVSA managers connected with the political opposition with respect to the appointees of President Chávez to the PDVSA board of directors.

A nation-wide work stoppage was called by the political group referred to as the Democratic Coordinating Committee, CTV and Fedecámaras on December 2, 2002 with the principal goal of forcing President Chávez to step down or to agree to early elections. The work stoppage was joined by key PDVSA employees, including certain officers of Venezuela's merchant fleet, including the Republic's oil tankers. Although the work stoppage did not receive the support of PDVSA's oil union, it was partially joined by banks, the media, private and public universities and certain other sectors of Venezuela. The work stoppage lasted approximately nine weeks, ending on February 3, 2003. For more information, refer to "Bolivarian Republic of Venezuela—Form of Government and Political Parties—The Referendum".

Poverty and Income Distribution; Education

Poverty and Income Distribution

The Government differentiates between extremely poor, poor and non-poor households based on census survey examinations with respect to qualitative factors such as access to electricity and potable water and the number of persons per dwelling unit. INE defines "extremely poor" as individuals who lack sufficient resources to obtain a subsistence-level basket of foodstuffs and "poor" as individuals who have resources sufficient to obtain two times a subsistence-level basket of foodstuffs.

The following table provides statistics comparing the number and percentage of extremely poor, poor and non-poor households in Venezuela for the indicated years:

	2003		2004		2005		2006		2007[(1)]	
	Total	%	Total	%	Total	%	Total	%	Total	%
Households:										
Non-Poor	2,501,332	44.9%	3,035,230	53.0%	3,689,799	62.1%	4,268,125	69.4%	4,516,256	72.5%
Poor										
Extremely Poor	1,395,377	25.0	1,066,330	18.6	910,067	15.3	558,257	9.1	475,319	7.6
Non-Extremely Poor	1,678,924	30.1	1,623,676	28.4	1,341,236	22.6	1,326,399	21.6	1,234,438	19.8
Total	3,074,301	55.1	2,690,006	47.0	2,251,303	37.9	1,884,656	30.6	1,709,757	27.5
All Households	5,575,633	100.0%	5,725,236	100.0%	5,941,102	100.0%	6,152,781	100.0%	6,226,013	100.0%
Population:										
Non-Poor	9,140,395	37.9%	11,318,952	46.1%	14,279,212	56.3%	16,551,960	63.7%	17,644,113	66.9%
Poor										
Extremely Poor	7,173,353	29.8	5,539,900	22.5	4,522,457	17.8	2,878,008	11.1	2,481,309	9.4
Non-Extremely Poor	7,797,008	32.3	7,710,928	31.4	6,567,832	25.9	6,555,637	25.2	6,236,330	23.7
Total	14,970,361	62.1	13,250,828	53.9	11,090,289	43.7	9,433,645	36.3	8,717,639	33.1
Total Population	24,110,756	100.0%	24,569,780	100.0%	25,369,501	100.0%	25,985,605	100.0%	26,361,752	100.0%

(1) Figures through first semester 2007.

Source: *INE.*

The percentage of poor and extremely poor among the Venezuelan population decreased from 55.4% in 2002 to 33.1% in 2007. In addition to stimulating real growth in the economy and increasing job opportunities, the Government aims to emphasize the primary education system to improve educational and technological skills among the future Venezuelan workforce, decentralize health and education support systems and reform social security and pension systems.

The following table compares statistics for the distribution of income or consumption in Venezuela and other Latin American countries:

	Venezuela[(1)]	Brazil[(1)]	Chile[(1)]	Colombia[(1)]	Mexico[(1)]	Peru[(1)]
Survey Year	2003	2004	2003	2003	2004	2003
Gini Index[(2)]	48.2	57.0	54.9	58.6	46.1	52.0
Lowest 10%	0.7	0.9	1.4	0.7	1.6	1.3
Lowest 20%	3.3	2.8	3.8	2.5	4.3	3.7
Second 20%	8.7	6.4	7.3	6.2	8.3	7.7
Third 20%	13.9	11.0	11.1	10.6	12.6	12.2
Fourth 20%	22.0	18.7	17.8	18.1	19.7	19.7
Highest 20%	52.1	61.1	60.0	62.7	55.1	56.7
Highest 10%	35.2	44.8	45.0	46.9	39.4	40.9

(1) Rankings are based on per capita income. Data refers to income shares by percentile of the population.
(2) Gini index measures the extent to which the distribution of income among individuals within a country deviates from a perfectly equal distribution. A value of 0 represents perfect equality and a value of 100 represents perfect inequality.

Source: *World Bank 2007 World Development Indicators.*

Education and Other Sustainable Development Factors

According to the Human Development Index, referred to as the HDI, a measure used by the United Nations Development Program, or UNDP, Venezuelan social conditions rank 74th among the 177 countries in the world in the UNDP's Human Development Report for 2007.

The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrollment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, or PPP, and income). The HDI provides a broad prism for viewing human progress and the complex relationship between income and well-being. According to the UNDP's Human Development Report for 2007, the HDI for Venezuela was 0.792 for the year ended December 31, 2005.

The following table summarizes the statistics for social factors related to the HDI in Venezuela and the other six largest economies in Latin America:

	Survival		**Education**		**Income**			
					Share of Income or Consumption		*Population in Poverty*	
HDI Rank	People not expected to survive to age 40 2000-2005	Population without access to safe water 2004	Adult illiteracy rate 1995-2005	Children not reaching grade 5 2004	Poorest 20% 2003-04	Richest 20% 2003-04	U.S.$1 a day (PPP U.S.$)[1] 1990-05	National poverty line 1990-04
38 Argentina	4.9%	4%	2.8%	3%[3]	3.1%	55.4%	6.6%	n.a.%
40 Chile	3.5	5	4.3	0	3.8	60.0	2.0	17.0
52 Mexico	5.8	3	8.4	6	4.3	55.1	3.0	17.6
70 Brazil	9.2	10	11.4	n.a.	2.8	61.1	7.5	21.5
74 Venezuela	7.3	17	7.0	9	3.3	52.1	18.5	31.3[2]
75 Colombia	9.2	7	7.2	19	2.5	62.7	7.0	64.0
87 Peru	9.7	17	12.1	10	3.7	56.7	10.5	53.1

Data refers to the most recent year available.
(1) Personal Purchasing Power used to measure the poverty line.
(2) Data refers to period other than specified.
(3) Data refers to 2003 school year.
n.a.: Not available.

Source: *UNDP, Human Development Report, 2007* (statistics for the largest seven economies of Latin America).

While the extremely poor in Venezuela are severely challenged by a lack of access to basic necessities, some positive signs of sustainable development are present. The adult literacy rate was 93.0% in 2005. Venezuela is ranked in the category of "medium human development" in terms of overall profile and HDI trends, South-North gaps, child survival, health, food security, education imbalances, communications, social investment and natural resource usage.

PRINCIPAL SECTORS OF THE VENEZUELAN ECONOMY

Petroleum and Natural Gas

General

Venezuela, a member of OPEC, is the world's ninth-largest oil producer and fifth-largest oil exporter. The petroleum sector has been the cornerstone of the Venezuelan economy for the past 50 years. It represents the principal source of revenues, foreign exchange earnings and stimulus for economic, industrial and social change. According to the *BP Statistical Review of World Energy 2007*, Venezuela has the sixth-largest proven oil reserves in the world, the ninth-largest proven natural gas reserves in the world and the largest proven reserves of both oil and natural gas in Latin America. From 2003 through 2007, petroleum products accounted for an average of approximately 86.0% of Venezuela's total exports. During the same period, petroleum revenues accounted for an average of approximately 44.6% of Venezuela's total Central Government revenues and the petroleum sector accounted for an average of approximately 15.5% of Venezuela's GDP. In 2007, petroleum activities accounted for approximately 12.2% of GDP, compared to approximately 13.8% in 2006.

Recent Developments Concerning the Oil Industry

In February 2007, President Chávez issued a law-decree under the authority conferred by the 2007 Enabling Law, pursuant to which existing Orinoco Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, were required to be converted into *Empresas Mixtas*, or Mixed Companies, in which *Corporación Venezolana del Petróleo*, or CVP, a PDVSA wholly-owned subsidiary, or another PDVSA subsidiary, holds an equity interest of at least 60% in accordance with the Hydrocarbons Law. Pursuant to this law-decree, operators of the Orinoco Belt project will become Mixed Companies, with PDVSA becoming the majority owner of the operations. The Ministry of Energy and Oil is required to make a valuation of each new Mixed Company in order to determine the fair participation of the PDVSA subsidiary and to provide any economic or financial adjustment as necessary. The law-decree also provided that existing profit-sharing agreements for the exploration of the *Golfo de Paria Oeste*, *Golfo de Paria Este* and the blocks known as La Ceiba, as well as *Orifuels Sinovensa, S.A.*, must be converted into Mixed Companies.

In May 2007, CVP completed the acquisition process with respect to the four Orinoco Belt strategic associations, Petrozuata, Sincor, Cerro Negro and Hamaca. In June 2007, Chevron Texaco, Statoil, Total, BP, Eni SpA (ENI), Petroleum & Chemical Corp (Sinopec), and Ineparia agreed to convert their participations in the four Orinoco Oil Belt projects into Mixed Companies controlled by PDVSA, increasing PDVSA's average participation in the projects to 78%. In the same month, Moody's downgraded its credit rating on the Cerro Negro project from B1 to B3, and in June 2007, Moody's downgraded its credit ratings on the remaining three Venezuelan heavy oil projects (Hamaca, Petrozuata and Sincor) from B1 to B2.

ExxonMobil and ConocoPhillips, the majority partners in the *Cerro Negro* and *Petrozuata* projects, respectively, have failed to reach a financial agreement with PDVSA regarding the required sale of their ownership interests. As a result, an ExxonMobil affiliate filed a request for arbitration with ICSID, as a result of it having been unable to successfully negotiate the terms of, or agree on the value of, the assets in the *Cerro Negro* project being transferred to the Republic. Prior to the enactment of the law-decree, ExxonMobil had a 41.7% interest in the *Cerro Negro* project. On January 25, 2008 the ExxonMobil affiliate commenced an additional arbitration under the rules of the International Chamber of Commerce.

On December 27, 2007 and January 8, 2008 the ExxonMobil affiliate obtained from the U.S. District Court for the Southern District of New York an attachment order totaling U.S.$315 million against accounts of a PDVSA affiliate and on January 25, 2008 the ExxonMobil affiliate obtained a freezing injunction from the High Court of Justice in London preventing the removal or non-ordinary course disposition of up to U.S.$12 billion in assets of PDVSA and its affiliates in the United Kingdom and the non-ordinary course disposition of up to that amount of assets elsewhere in the world. A court in the Netherlands has issued an order relating to the freezing of certain PDVSA assets in the Netherlands and in the Netherlands Antilles. On March 18, 2008 the High Court of Justice in London lifted the U.S.$12 billion freeze order, which decision is subject to appeal by ExxonMobil.

Petróleos de Venezuela, S.A.

In order to manage the assets acquired by the nationalization of the domestic oil industry, the Government decided to create PDVSA in 1975 by giving the Republic the sole ownership of the company. PDVSA's charter documents provide that the President of Venezuela designates the members of PDVSA's board of directors by executive decree.

Since its inception in 1975, PDVSA has been operating as a state-owned commercial entity vested with commercial and financial autonomy. PDVSA is regulated by MEP and it is required by law to sell all foreign currency revenues to Banco Central, with the exception of an amount that it is permitted to maintain in a foreign currency in order to meet its foreign currency-denominated investments and expenses. The balance of such proceeds, net of all applicable corporate income tax, dividends and royalties, must be transferred to FONDEN to be used for social, educational, health care, liability management and special and strategic purposes. For more information on FONDEN, refer to "Introduction—Recent Economic Developments—The Current Economic Situation".

PDVSA, the most important contributor to Venezuela's GDP, exports and fiscal revenues, is responsible for coordinating most aspects of the petroleum industry, including administration, planning, operations, domestic and foreign marketing and capital investment. Since 1978, PDVSA has been responsible for the petrochemical sector, although this responsibility is currently being transferred to MEP. Since 1985, PDVSA has also been responsible for the development of coal resources located in western Venezuela, although in 2004, substantial responsibilities in this regard were transferred to Carbozulia, a fund for both regional development and for the development of Venezuela's bitumen resources. Through its subsidiaries, PDVSA supervises, controls and develops the petroleum, petrochemical, gas, coal and Orimulsion® industries in Venezuela.

MEP oversees all activities with respect to hydrocarbons and determines overall policies concerning rates of production, new investments and resource conservation. In addition, MEP is the chairman of PDVSA's General Shareholders' Assembly, which sets PDVSA's general policy. Currently, the minister of MEP is also serving as president of PDVSA.

PDVSA obtains income from its subsidiaries in the form of a mandatory 10% payment of their net revenues from exports of crude oil, in which net revenue is calculated after deductions of related royalties and expenses but before income taxes. PDVSA also receives the after-tax net profit of each subsidiary. The laws governing the petroleum industry require such revenues to be used for the industry's capital investment programs.

In February 2002, President Chávez replaced the president of PDVSA and five of the seven members of PDVSA's board of directors, asserting that policy differences had arisen over the implementation of the Republic's adherence to OPEC production limits, as well as other issues. A large group of PDVSA executives and staff publicly protested these appointments. In March 2002, this group of employees participated in a work slowdown and stoppage and organized a one-day strike on March 21, 2002. The protests continued, and on April 4, 2002, those employees began an open-ended strike, which culminated in a full-fledged national strike on April 9, 2002, which was closely followed by a *coup d'etat*, which briefly removed President Chávez from power. For more information on the April 2002 strike and *coup d'etat*, refer to "Bolivarian Republic of Venezuela—Form of Government and Political Parties—The April 2002 Coup d'Etat".

The most recent and damaging of the nation-wide work stoppages began on December 2, 2002 and ended on February 3, 2003. It was called by the Democratic Coordinating Committee, CTV and Fedecámaras and was joined by managers of PDVSA, many key PDVSA employees, certain officers of Venezuela's oil tankers and merchant fleet, banks, the media, private and public universities and other sectors of the Republic.

For a 20-day period in January 2003, oil tankers anchored in front of oil terminals, blocking shipments to and from the facilities. The participation of the oil sector in this general work stoppage severely crippled oil production, which dropped to as low as 25,000 barrels per day, or bpd, at the height of the work stoppage. In January 2003, PDVSA was forced to declare an event of *force majeure* under its international petroleum sales contracts, which was ultimately lifted on crude oil sales contracts in March 2003 and on gasoline sales contracts in April 2003. In response to this emergency, the Government activated the industry's oil contingency plan, including military protection of some of PDVSA's facilities, requested aid from OPEC in the form of both fuel and personnel, and received support from Brazil, Trinidad & Tobago and Qatar. The production and distribution of foodstuffs also was affected, resulting in food shortages in certain regions.

PDVSA's oil production recovered significantly during February and March 2003. In April 2003, PDVSA reported that oil production had recovered to approximately 3.2 million bpd. At the same time, PDVSA began refining more than 1 million bpd and exporting approximately 2.5 million bpd of oil and oil products.

Because production activities at PDVSA's refineries were temporarily affected as a result of the work stoppage, from December 2002 through March 2003, PDVSA had to import gasoline and diesel fuel to meet its domestic distribution obligations. In December 2002, PDVSA had imported a total of approximately 521,600 barrels of gasoline and approximately 480,299 barrels of diesel fuel. During the first quarter of 2003, PDVSA imported approximately 13.5 million barrels of gasoline and approximately 975,196 barrels of diesel fuel.

Problems resulting from the general work stoppage also interrupted PDVSA's billing systems. PDVSA was unable to bill its customers for previously-shipped products, which resulted in an invoicing backlog. As a result of production increases and the normalization of its billing systems, PDVSA was able to increase its collections significantly by February 2003. By the end of July 2003, PDVSA had substantially eliminated the backlogged invoicing volume, and collections had been fully restored.

In response to concerns regarding the effects of the general strike that began in 2002, as well as with respect to greater governmental involvement in the operation of PDVSA and the allocation of its resources, Standard & Poor's, Moody's and Fitch lowered their ratings for PDVSA in December 2002 and January 2003 to CCC+ from B-, to Caa1 from B3 and to BB- from BBB, respectively, each with negative outlooks. Standard & Poor's subsequently upgraded its rating outlook for PDVSA from negative to stable in April 2003 and removed its ratings on certain debt of PDVSA Finance Ltd. from Credit Watch, citing improving conditions for the oil company and its finance subsidiary. In June 2003, Fitch upgraded the senior unsecured foreign currency rating of PDVSA from CCC+ to B- and upgraded its rating outlook from negative to stable. In July 2003, Standard & Poor's upgraded PDVSA's credit rating from CCC+ to B- and upgraded its rating outlook from negative to stable. In November 2003, Moody's maintained PDVSA's Caa1 credit rating, but upgraded its rating outlook to stable. In August 2004, following the rating upgrade of Venezuela's long-term foreign currency-denominated debt from B- to B, Standard & Poor's upgraded PDVSA's corporate credit rating from B- to B. In September 2004, Fitch upgraded its long-term foreign and local currency rating for PDVSA from B- to B+. In May 2005, Moody's confirmed an upgrade of PDVSA's global currency rating to B1, and in August 2005, Standard & Poor's raised its corporate credit rating for PDVSA to B+ from B, following its long-term foreign and local currency upgrade from B to B+. In January 2006, Fitch upgraded its long-term foreign and local currency rating for PDVSA from B+ to BB-. In July 2006, Moody's withdrew its B1 global currency rating and foreign currency rating for PDVSA because of the oil company's failure to provide timely and adequate financial and operating information since the general strike in 2002. In February 2007, Moody's reassigned a B1 global currency rating for PDVSA with a stable outlook. In March 2007, Standard & Poor's raised PDVSA's corporate credit rating from B+ to BB-.

PDVSA principally uses PDVSA Finance Ltd. for its corporate financing needs through the issuance of debt. As of December 2003, the level of indebtedness of PDVSA, on a consolidated basis, was approximately U.S.$7.6 billion. In August 2004, PDVSA Finance Ltd. completed a tender offer and consent solicitation for its outstanding notes. Holders of an aggregate of 96.3% of the approximately U.S.$2.6 billion in principal amount of the notes tendered and delivered their consent pursuant to the tender offer and an amendment to certain provisions of the Senior Indenture. Notes in aggregate outstanding amounts of U.S.$2.5 billion were repurchased, providing PDVSA with improved debt capacity in order to finance its business plan. In March 2006, PDVSA Finance Ltd. made a public redemption offer for all of its outstanding debt in an amount of U.S.$83 million, which was paid on April 11, 2006. On February 23, 2007, PDVSA entered into two credit facilities with the Japan Bank for International Cooperation, Marubeni Corporation, Mitsui & Co., Ltd and private banks in Japan in the aggregate amount of U.S.$3.5 billion to finance oil development projects in Venezuela. The credit facilities have a term of 15 years. In connection with the credit facilities, it is contemplated that PDVSA will enter into contracts for the supply of crude oil and refined petroleum products with affiliates of Marubeni and Mitsui and that the proceeds of such sales will be applied to pay amounts due under the credit facilities.

On April 4, 2007, PDVSA issued (i) U.S.$3,000,000,000 5.25% Notes due 2017, (ii) U.S.$3,000,000,000 5.375% Notes due 2027, and (iii) U.S.$1,500,000,000 5.50% Notes due 2037. As of December 31, 2007, PDVSA had an aggregate of U.S.$16 billion of debt outstanding maturing on various dates through 2037.

In March 2004, PDVSA modified its organization structure in order to (1) enhance internal control of its operations, (2) improve its corporate governance, (3) align its operating structure with the long-term strategies of its shareholder and (4) adhere to the Hydrocarbons Law with respect to the separation of different national oil industry activities. In January 2005, the Government appointed a new board of directors for PDVSA, comprised of the President, two Vice-Presidents, five internal directors and three external directors.

PDVSA is structured in three vertically-integrated geographic divisions to manage its upstream operations, including exploration, production and upgrading. These divisions are referred to as the Eastern Division, the Southern Division and the Western Division.

PDVSA's business strategy is to pursue the development of Venezuela's hydrocarbon resources with the support of both national and foreign private capital, to maximize the value of oil and gas and to ensure its financial strength and stability. PDVSA's business plan focuses on:

- the exploration of condensate, light and medium crude oil;
- the development and expansion of the Orinoco Belt reserves;
- the development of the gas sector;
- the development of major projects to increase overall refinery capacity;
- the marketing of all crude oil and refined petroleum products; and
- the development of infrastructure assuring the development of crude oil and gas reserves.

This business plan calls for investments of approximately U.S.$77 billion in Venezuela, the Caribbean and Latin America over the next five years to achieve sustainable crude oil production of 5.8 million bpd and to significantly expand PDVSA's gas production and refining capacity by 2012. PDVSA also seeks to maintain high safety and health standards in conducting its business and aims to achieve effective and timely integration of business technologies in its operations, as well as the empowerment and development of human resources.

PDVSA and the Venezuelan Economy

PDVSA is the largest corporation in Venezuela. As of December 31, 2007, PDVSA's total assets were U.S.$98.8 billion, compared to U.S.$80.5 billion at December 31, 2006, U.S.$70.5 billion at December 31, 2005 and U.S.$61.8 billion at December 31, 2004. At December 31, 2007, PDVSA's long-term debt and capital lease obligations (excluding its current portion) were U.S.$13.1 billion, compared to U.S.$2.3 billion at year-end 2006. PDVSA's total debt and capital lease obligations (including its current portion) as of December 31, 2007 totaled U.S.$16 billion, compared to U.S.$2.9 billion at year-end 2006.

PDVSA's consolidated results are affected primarily by the volume of crude oil produced and variations in the general price levels of hydrocarbons. The level of crude oil production and the capital expenditures needed to achieve such level of production have been among the principal factors determining PDVSA's financial condition and results of operations. The importance of these factors is expected to continue during the foreseeable future.

In 2003, PDVSA accounted for approximately 18% of Venezuela's GDP, 67% of its exports and 57% of its Government revenues. In 2004, PDVSA accounted for approximately 27% of Venezuela's GDP, 83% of its exports and 48% of its Government revenues. Because PDVSA is the single largest contributor to Venezuela's GDP, exports and fiscal reserves, it has a significant influence on the Venezuelan economy. PDVSA is responsible for, among other things, making substantial royalty and tax payments to the Government.

New Hydrocarbons Law

On November 13, 2001, under the enabling law authorized by the National Assembly, President Chávez enacted the new Hydrocarbons Law, which came into effect in January 2002 and replaced the Hydrocarbons Law of 1943 and the Nationalization Law of 1975. Among other matters, the new Hydrocarbons Law, as amended, provides that all

oil production and distribution activities are the domain of the Venezuelan state. Every activity relating to the exploration and exploitation of hydrocarbons and their derivatives is reserved to the Government, which may undertake such activities directly or through instrumentalities controlled by Venezuela through an equity participation of more than 50%.

Under the new Hydrocarbons Law, the Republic is responsible for performing industrial and commercial activities reserved for the Government, such as the separation, purification and transformation of natural hydrocarbons and byproducts. In certain instances, the Republic may perform the reserved activities through companies owned exclusively by the Republic or through related companies in which the Government owns a high percentage of shares, referred to as *Empresas Mixtas*.

In February 2007, President Chávez issued a law-decree pursuant to which existing Orinoco Belt projects, namely Petrozuata, Sincor, Cerro Negro and Hamaca, were required to be converted into *Empresas Mixtas* in which CVP or another PDVSA subsidiary holds an equity interest of at least 60% in accordance with the Hydrocarbons Law. Pursuant to this law-decree, operators of the Orinoco Belt project will become Mixed Companies, with PDVSA becoming the majority owner of the operations.

The new Hydrocarbons Law decreases the income tax rate for oil exploration and production activities from 67.7% to 50%, and to 34% for downstream activities. It increases the extraction royalty rate from 16.7% to 30%, which royalties are deductible for purposes of calculating income tax. In special circumstances, the Republic may decrease this rate to 20% for heavy crude oil and 16.7% for Orimulsion®, but the Republic retains the right subsequently to increase this rate to 30%.

The new Hydrocarbons Law also modified other taxes with respect to hydrocarbons. Under the surface area tax, every square kilometer or fraction thereof which has been granted for exploration but which has not been used for that purpose will be taxed 100 tributary units per year. In fiscal year 2003, each tributary unit was equivalent to Bs.19,400. In 2004, each tributary unit was equivalent to Bs.24,700, and for the first six months of 2005, each tributary unit is equivalent to Bs.29,400. This tax will be increased by 2% every year through 2007 and then 5% annually thereafter. The new Hydrocarbons Law provides for a tax on developer consumption of 10% of the retail price on each cubic meter of petroleum products produced and used by the developer to fuel its own operations. The law also imposes a tax of 30% to 50% of the retail price on each liter of petroleum product sold in the Venezuelan domestic market. This tax on retail purchases is levied annually by the National Assembly in the Budget Law and is to be paid monthly to the National Treasury.

The long-term effects of the new Hydrocarbons Law and its changes in royalty structure and taxes on PDVSA's activities and results of operations, as well as its impact on foreign investment in the petroleum sector, cannot be predicted at this time.

Stabilization Fund

PDVSA was originally required to make deposits to the Stabilization Fund equivalent to 50% of its revenues from export sales in excess of U.S.$9.00 per barrel, net of taxes related to such sales. However, in October 2001, and again in 2002, the Government introduced reforms to laws governing the Stabilization Fund and, among other changes, suspended contributions for the last quarter of 2001 and the years 2002 and 2003. In November 2003, the Stabilization Fund Law was amended again, requiring PDVSA to contribute to the fund 50% of the surplus (if any) calculated as the difference between oil export revenue for each calendar year, calculated in U.S. dollars, and the average of oil export revenue for the three preceding calendar years, net of taxes. Upon the effectiveness of the October 2005 amendment to the Stabilization Fund, PDVSA was no longer required to make contributions to the Stabilization Fund.

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

As of December 31, 2002, the balance in the Stabilization Fund pertaining to PDVSA was approximately U.S.$2.4 billion. This decrease was primarily the result of withdrawals during 2002 by PDVSA in the amount of approximately U.S.$2.2 billion to fund its capital expenditures. In 2003, PDVSA withdrew an additional U.S.$1.7 billion from the Stabilization Fund (of which approximately U.S.$1.4 billion was approved in 2003 and U.S.$272

million corresponded to amounts approved in 2002). As of December 2003, the balance in the Stabilization Fund pertaining to PDVSA was approximately U.S.$698 million. Since 2004, the Stabilization Fund law established that no new contributions would be made to the Stabilization Fund. As of December 2004, the balance in the Stabilization Fund was approximately U.S.$705 million, representing an additional U.S.$7 million in accrued interest. In 2005, the Stabilization Fund generated U.S.$22 million in accrued interest.

Taxes

Domestic sales in Venezuela are subject to a value-added tax the rate of which currently is 9%. As exporters, each of PDVSA's Venezuelan operating subsidiaries is entitled to a refund for a significant portion of such taxes paid. The Venezuelan government reimburses taxes through special tax recovery certificates, or CERTs. PDVSA did not recover any CERTs during 2002, 2003, 2004 and 2005. In 2006, PDVSA recovered U.S.$647 million in CERTs.

PDVSA and its Venezuelan subsidiaries are entitled to a tax credit for new investments of up to 12% of the amount invested. In the case of *PDVSA Petróleo, S.A.*, referred to as PDVSA Petróleo, however, such credits may not exceed 2% of its annual net taxable income and, in all cases, the carry-forward period cannot exceed three years.

Prior to 2004, Venezuela levied a tax on corporate assets at a rate of 1% of the average value of a company's assets, as adjusted for inflation at the beginning and end of each year. This tax served as a minimum income tax, as it was only paid if the amount that would be due thereunder was greater than the income tax otherwise payable. The tax on corporate assets was revoked in August 2004 and is no longer required to be paid.

An amendment of the Income Tax Law of Venezuela was approved in October 1999. This amendment introduced transfer pricing rules that came into effect in January 2000. The law sets forth the methodology for allocating income, costs and deductions in import-export and loan transactions among related parties. Any resulting effects will be included as a taxable item in the determination of income tax. PDVSA carries out significant operations regulated by transfer pricing rules. Beginning in January 2001, the amendment also included a universal tax system for Venezuela and introduced taxes on dividends and rules to promote international fiscal transparency. For more information regarding taxation in Venezuela, refer to "Public Finance—Taxation".

In October 2004, the Government adjusted oil royalties from 1.0% to 16.67% on four extra-heavy crude oil ventures in the Orinoco Belt.

In April 2005, the Government announced that the income tax rate applicable to 32 oil operating contracts would be raised from 34% to 50% and the operating agreements would be converted into joint ventures with PDVSA. The contracts date from 1992-1997, and the increase does not apply to extra-heavy crude ventures. The Hydrocarbons Law also increased royalties and requires PDVSA to have at least a 51% participation in new upstream oil projects.

In May 2006, the National Assembly increased the royalty tax rate on Orinoco Belt companies from 16.67% to 33.3% with the goal of raising U.S.$1.3 billion per year in tax revenues. In August 2006, the National Assembly passed an amendment to the Income Tax Law that increased the income tax rate applicable to the heavy oil Orinoco Belt ventures from 34% to 50%.

On April 15, 2008, the National Assembly enacted the "Law Creating a Special Contribution Deriving from Extraordinary Crude Prices in the International Markets" (*Ley de Contribución Especial Sobre Precios Extraordinarios del Mercado Internacional de Hidrocarburos*). Pursuant to this law, in any month in which the average Brent oil price for such month exceeds U.S.$70 a barrel, oil and derivatives exporters (including PDVSA) must pay a tax on their exports calculated by multiplying the number of barrels they export in such month by 50% of the excess of the average Brent price per barrel for such month over U.S.$70. In any month in which the average Brent price is greater than U.S.$100, the tax is assessed at the foregoing rate for the first U.S.$30 of the excess over U.S.$70 and at 60% of the excess of the average Brent price over U.S.$100.

Social Fund

Article 5 of the Hydrocarbons Law mandates that all revenues generated by the Venezuelan Government from oil activities shall be used to promote health programs, macroeconomic stabilization funds and investments. In this respect, PDVSA has made significant contributions to social programs, promoting and participating in Venezuela's social and economic development. In 2004 and 2005, PDVSA participated in and contributed significantly to the

funding of low-income housing, educational programs, agricultural development, healthcare, job creation, subsidized food distribution and other social programs. For example, in January 2004, PDVSA approved the creation of a fiduciary fund referred to as *Fondo para el Desarrollo Económico y Social del País*, or FONDESPA, which is designed to disburse amounts of money for programs related to work projects, goods and services, development of infrastructure and roads, agricultural activity, health and education. Additionally, CVP, a branch of PDVSA that is in charge of business relations between PDVSA and private petroleum business, has amended its charter in order to focus on social welfare activities. In 2004, PDVSA spent approximately U.S.$1.2 billion in contributions towards social programs in Venezuela. PDVSA spent approximately U.S.$6.9 billion in 2005 and U.S.$13.3 billion in 2006 in support of social projects developed by the Government.

Results of Operations for 2007

On March 20, 2008, PDVSA released its official audited financial statements for its 2007 fiscal year. Pursuant to those financial statements, for the year ended December 31, 2007, PDVSA's revenues were U.S.$96.2 billion and PDVSA's expenses were approximately U.S.$72.3 billion.

PDVSA's net cash provided by operating activities in 2007 totaled approximately U.S.$4.2 billion, primarily reflecting U.S.$6.3 billion of net income, U.S.$4.0 billion of depreciation and depletion, U.S.$10 million of asset impairment and U.S.$2.8 billion in provisions for employee termination, pension and other post-retirement benefits, less equity in earnings of non-consolidated investees of U.S.$733 million, less U.S.$1.6 billion of deferred income taxes and less changes in working capital of U.S.$5.9 billion. PDVSA's social development expenditures in 2007 totaled U.S.$14.1 billion.

For the year ended December 31, 2007, consolidated net cash provided by financing activities totaled approximately U.S.$10.1 billion and net cash used in PDVSA's investment activities totaled U.S.$13.2 billion.

In 2007, the average crude oil and products export price was U.S.$62.68 per barrel.

PDVSA's capital expenditures in Venezuela for exploration and production totaled approximately U.S.$8.0 billion in 2007, and its capital expenditures in Venezuela for refining and marketing totaled U.S.$1.6 billion. Capital expenditures in Venezuela for natural gas projects totaled U.S.$3.1 billion in 2007, while capital expenditures in Venezuela for petrochemicals and others had a negative balance of U.S.$313 million.

PDVSA's production of crude oil and liquid petroleum gas averaged 2.9 million bpd in 2007. At December 31, 2007, Venezuela had estimated proven crude oil reserves totaling approximately 99.4 billion barrels and had proven reserves of natural gas amounting to 170,920 billion cubic feet, or bcf.

Results of Operations for 2006

For the year ended December 31, 2006, PDVSA's revenues were U.S.$99.3 billion and PDVSA's expenses were approximately U.S.$78.6 billion.

PDVSA's net cash provided by operating activities in 2006 totaled approximately U.S.$4.0 billion, primarily reflecting U.S.$5.5 billion of net income, U.S.$3.6 billion of depreciation and depletion, U.S.$969 million in provisions for employee termination, pension and other post-retirement benefits, less equity in earnings of non-consolidated investees of U.S.$1.1 billion, less U.S.$93 million of asset impairment, less U.S.$724 million of deferred income taxes and less changes in working capital of U.S.$4.1 billion. PDVSA's social development expenditures in 2006 totaled U.S.$13.8 billion.

For the year ended December 31, 2006, consolidated net cash used in financing activities totaled approximately U.S.$1.8 billion and net cash used in PDVSA's investment activities totaled U.S.$1.7 billion.

In 2006, the average crude oil and products export price was U.S.$55.21 per barrel.

PDVSA's capital expenditures in Venezuela for exploration and production totaled approximately U.S.$4.2 billion in 2006, and its capital expenditures in Venezuela for refining and marketing totaled U.S.$385 million. Capital expenditures in Venezuela for natural gas projects totaled U.S.$1.2 billion in 2006, while capital expenditures in Venezuela for petrochemicals and others totaled U.S.$77 million.

PDVSA's production of crude oil and liquid petroleum gas averaged 2.9 million bpd in 2006. At December 31, 2006, Venezuela had estimated proven crude oil reserves totaling approximately 87.3 billion barrels and had proven reserves of natural gas amounting to 166,249 bcf.

Results of Operations for 2005

Total Revenues

PDVSA's revenues were U.S.$85.7 billion and PDVSA's expenses were approximately U.S.$66.5 billion for the year ended December 31, 2005.

PDVSA's net cash provided by operating activities in 2005 totaled approximately U.S.$5.6 billion, primarily reflecting U.S.$6.5 billion of net income, U.S.$3.2 billion of depreciation and depletion, U.S.$20 million of asset impairment, U.S.$976 million in provisions for employee termination, pension and other post-retirement benefits, less equity in earnings of non-consolidated investees of U.S.$1.1 billion, less U.S.$878 million of deferred income taxes and changes in working capital of U.S.$4.1 billion.

For the year ended December 31, 2005, consolidated net cash used in financing activities totaled approximately U.S.$1.6 billion and net cash used in PDVSA's investment activities totaled U.S.$3.9 billion.

In 2005, the average crude oil and products export price was U.S.$45.32 per barrel.

PDVSA's` capital expenditures in Venezuela for exploration and production totaled approximately U.S.$2.1 billion in 2005, and its capital expenditures in Venezuela for refining and marketing totaled U.S.$282 million. Capital expenditures in Venezuela for natural gas projects totaled U.S.$735 million in 2005, while capital expenditures in Venezuela for petrochemicals and others totaled U.S.$60 million.

PDVSA's production of crude oil averaged 2.9 million bpd in 2005. At December 31, 2005, Venezuela had estimated proven crude oil reserves totaling approximately 80.0 billion barrels and had proven reserves of natural gas amounting to 152,264 bcf.

Petroleum Production and Export Revenues of Crude Oil and Refined Products

PDVSA's production of crude oil and liquid petroleum gas averaged 3.1 million bpd in 2005, a 2% increase from the 3.0 million bpd produced in 2004. PDVSA's production of crude oil and liquid petroleum gas averaged 2.7 million in 2003 and 2.9 million bpd produced in 2002. The increase in production during 2004 was due primarily to a recovery of production operations from the work stoppage that affected PDVSA in December 2002 and the first quarter 2003. In November 2002, PDVSA was producing approximately 3.3 million bpd, but by January 2003, production had fallen to an average of 800 thousand bpd. Of total production in 2005, 25.9% was light crude oil and condensates, 32.5% was medium crude oil, 36.2% was heavy and extra-heavy crude oil and the remaining 5.4% was liquid petroleum gas. PDVSA's natural gas production (net of amounts re-injected) increased from an average of 3.8 million cubic feet per day, or MMCFD, in 2004, to an average of 4.1 MMCFD in 2005.

PDVSA's net output of refined petroleum products, including the output of products by refineries in which its affiliates in the United States and Europe own equity interests, increased slightly in 2005, from an average of 2.9 million bpd in 2004 to an average of 2.9 million bpd in 2005. Of the total production of PDVSA's refineries during 2004, 45%, or 1.3 million bpd, was produced by its Venezuelan refineries (including the Isla Refinery in Curaçao), 46%, or 1.3 million bpd, was produced by refineries in the United States in which PDVSA owns equity interests, and 9%, or 273 thousand bpd, was produced through PDVSA's various European joint ventures.

Exports represented approximately 65% of PDVSA's sales volume in 2005. The volume of PDVSA's exports increased by 2% in 2005, from approximately 2.4 million bpd in 2004 to approximately 2.5 million bpd in 2005 due primarily to a 47 thousand bpd increase in exports of crude oil. The average realized export price per barrel for Venezuelan crude oil and refined petroleum products increased by approximately 40% in 2005, from U.S.$32.88 per barrel in 2004 to U.S.$45.32 per barrel in 2005.

PDVSA's primary markets for exports of its crude oil, refined petroleum products and liquid petroleum gas are the United States and Canada, Central America and the Caribbean, South America and Europe. The United States and

Canada continue to be the largest markets for PDVSA's export sales, with total sales volume of approximately 1.2 million bpd in 2005, as compared to approximately 1.2 million bpd in 2004. Latin America and the Caribbean continue to be important markets for PDVSA's export sales (primarily of refined petroleum products), with total sales of 716 thousand bpd in 2005, as compared to 859 thousand bpd in 2004.

In December 2004, Venezuela and China signed a total of eight energy, agricultural and technical cooperation agreements. During President Chávez's visit to China, MEP and CNPC also agreed to develop an oil field in eastern Venezuela. In 2006, Venezuela and China signed additional oil agreements, and by September 2006, Venezuela was shipping approximately 200,000 barrels of crude oil and products per day to China.

In June 2005, PDVSA approved the creation of *PDV Caribe, S.A.*, referred to as PDV Caribe. Located in Caracas, PDV Caribe attends to the operational guidelines set forth in the Petrocaribe Energy Cooperation Agreement, signed between the Venezuela and several Caribbean countries. PDV Caribe focuses on operations in the Caribbean, including the exploration and production of crude oil, the import and export of hydrocarbons and derivative products, the refining of hydrocarbons and the production of petroleum products.

PDVSA exports all of its crude oil production that is not processed in its Venezuelan refineries (including to the Isla Refinery located in Curaçao). PDVSA's total export volume of approximately 2.6 million bpd in 2005 consisted of approximately 1.9 million bpd of crude oil (including exports to the Isla Refinery located in Curaçao) and 650 thousand bpd of refined petroleum products. For the purposes of calculating export revenues, PDVSA does not treat the sale of refined petroleum products from the Isla Refinery as an export of refined petroleum products from Venezuela, but does treat crude oil processed in the Isla Refinery as an export of crude oil from Venezuela.

According to a comparative study published by Petroleum Intelligence Weekly, a trade publication, on December 18, 2006, PDVSA is the world's fourth largest vertically integrated oil and gas company and ranked fourth in the world in production, fifth in proven reserves of crude oil, fourth in refining capacity, and seventh in product sales. At the end of 2005, PDVSA exported approximately 2.4 million bpd (excluding the Orinoco Belt production and extra heavy crude), of which 1.2 million bpd or 50% went to the United States or Canadian markets.

Petrochemical and Other Sales

PDVSA's net sales for 2005 included approximately U.S. $2.0 billion generated from sales of petrochemicals, bitumen and coal, a 34% increase compared to approximately U.S. $1.5 billion generated from sales of these products in 2004. This increase in net sales was primarily due to an increase in prices.

Total Costs and Expenses

PDVSA's total costs and expenses were approximately U.S.$66.5 billion for the year ended December 31, 2005 compared to approximately U.S.$52.7 billion for the year ended December 31, 2004. PDVSA's net income was approximately U.S.$6.5 billion for the year ended December 31, 2005 compared to approximately U.S.$5.4 billion for the year ended December 31, 2004.

Cash Flow Related to Financing Activities

For the year ended December 31, 2005, consolidated net cash used in financing activities totaled approximately U.S.$1.6 billion, resulting primarily from payments of dividends in the amount of U.S.$1.3 billion, debt repayments of U.S.$1.2 billion and U.S.$879 million for the issuance of debt. As of December 31, 2005, PDVSA had an aggregate of approximately U.S.$3.5 billion of indebtedness outstanding that matures through 2033.

In August 2004, PDVSA Finance Ltd. completed a cash tender offer for its outstanding notes in order to reduce its overall debt service costs. The outstanding principal of the notes purchased in the tender offer was approximately U.S. $2.6 billion. In October 2005, CITGO, a PDVSA subsidiary, announced cash tender offers for all of its outstanding 7.875% senior notes due 2006 and 6% senior notes due 2011. The outstanding principal of the notes purchased in the tender offers was approximately U.S.$386 million.

On February 23, 2007, PDVSA entered into two credit facilities with the Japan Bank for International Cooperation, Marubeni Corporation, Mitsui & Co., Ltd and private banks in Japan in the aggregate amount of U.S.$3.5 billion to finance oil development projects in Venezuela. The credit facilities have a term of 15 years. In connection with the

credit facilities, it is contemplated that PDVSA will enter into contracts for the supply of crude oil and refined petroleum products with affiliates of Marubeni and Mitsui and that the proceeds of such sales will be applied to pay amounts due under the credit facilities.

In April 2007, PDVSA issued U.S.$7.5 billion in aggregate principal amount of various bonds to local buyers that included U.S.$3.0 billion of PDVSA's 5.25% bonds due 2017, U.S.$3.0 billion of PDVSA's 5.375% bonds due 2027 and U.S.$1.5 billion of PDVSA's 5.5% bonds due 2037. PDVSA plans to use the proceeds from the bonds for general corporate purposes including financing its capital expenditures.

Capital Expenditures

Capital expenditures for exploration and production totaled U.S.$2.8 billion in 2005, as compared to U.S.$2.3 billion in 2004. During 2005, PDVSA's capital expenditures in refining facilities totaled U.S.$1.1 billion (U.S.$282 million in Venezuela and U.S.$784 million abroad), as compared to U.S.$963 million in 2004 (U.S.$369 million in Venezuela and U.S.$594 million abroad). PDVSA's capital expenditures in the petrochemical and other sectors in 2005 totaled U.S.$60 million, as compared to U.S.$79 million in 2004.

PDVSA's planned capital expenditures in refining activities were expected to be used primarily to upgrade its Venezuelan refineries. PDVSA expected to invest a significant amount in projects that were aimed at complying with the increasingly stringent environmental regulations in its international markets, including increasing the production of reformulated gasoline and distillates and improving the quality and value of its current slate of refined petroleum products in its Venezuelan refineries (including the Curaçao refinery).

The majority of PDVSA's subsidiaries, both in Venezuela and abroad, are subject to various environmental laws and regulations under which they may be required to make significant expenditures to modify their facilities and to prevent or remedy the environmental effects of waste disposal and spills of pollutants.

Net cash used in PDVSA's investment activities totaled U.S.$3.9 billion for 2005, consisting of U.S.$3.9 billion in capital expenditures and U.S.$1.2 billion in net movements on restricted cash.

Hydrocarbon Reserves and Exploration

At December 31, 2005, proven developed reserves of crude oil and natural gas represented approximately 21% and 70%, respectively, of Venezuela's total estimated proven crude oil and natural gas reserves on an oil equivalent basis. PDVSA maintains an active exploration and development program designed to increase its proven crude oil reserves and production capacity. PDVSA currently conducts its exploration and development activities in the Western Zulia Basin, the Central Southern Barinas—Apure Basin and the Eastern Basin in the Monagas and Anzoategui states.

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

PDVSA continuously conducts exploratory activity throughout Venezuela. In 2005, PDVSA's exploration expenses totaled U.S.$118 million, as compared to U.S.$60 million in 2004. The increase in exploration expenses was primarily due to an increase in exploratory activities, particularly with respect to the acquisition of two dimensional and three dimensional seismic lines.

In 2005, PDVSA's exploration expenditures were used principally to fund the drilling of 16 exploratory wells and the acquisition of 2,373 square kilometers of three dimensional seismic lines. In addition, in 2006, PDVSA drilled 19 exploratory wells and acquired 617 square kilometers of three dimensional seismic lines. PDVSA's exploration and production strategy focuses on searching for new light crude oil and medium crude oil reserves and the systematic replacement of such reserves in traditional areas. PDVSA plans to reach a production capacity of 5.8 million bpd by 2012.

Cumulative production of crude oil in Venezuela from 1914 through December 31, 2005 totals approximately 58 billion barrels, with the Western and Eastern producing approximately 41.6 billion barrels and approximately 16.4 billion barrels, respectively, to date. Despite the quantities of oil produced, proven reserves have increased through continuous discoveries. From December 31, 1995 to December 31, 2004, Venezuela's estimated proven reserves of crude oil increased by 14.3 billion barrels, and its estimated proven reserves of natural gas increased by 1.3 billion barrels of oil equivalent, or BOE.

At December 31, 2005, Venezuela had proven reserves of natural gas amounting to 152,264 bcf. Virtually all of Venezuela's natural gas reserves are composed of associated gas developed incidentally to the development of crude oil reserves. During 2004, approximately 42% of the natural gas produced was re-injected for purposes of maintaining pressure in reservoirs. During 2005 and 2004, natural gas utilized in re-injection operations amounted to 1,006 bcf and 1,003 bcf, respectively.

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

The following table shows proven crude oil and natural gas reserves and proven developed crude oil and natural gas reserves, all located in Venezuela. Proven reserve quantities exclude natural gas liquids.

	As of December 31, 2005
	(million barrels, except where noted)
Proven Reserves[1]	
Condensate, light and medium crude oil (API gravity of 21° or more)	24,036
Heavy and extra heavy crude oil (API gravity of less than 21°)[2]	55,976
Total crude oil	80,012
Natural gas (bcf)[3]	152,264
Remaining reserve life of crude oil (years)[4]	67
Proven Developed Reserves	
Condensate, light and medium crude oil (API gravity of 21° or more)	7,706
Heavy and extra heavy crude oil (API gravity of less than 21°)[2]	9,232
Total crude oil	16,938
Percentage of proven crude oil reserves[5]	21%
Natural gas (bcf)	106,726

(1) Proven reserves include both proven developed reserves and proven undeveloped reserves.
(2) Includes reserves in the Orinoco Belt.
(3) Includes 13,819 bcf associated with extra-heavy crude oil reserves.
(4) Based on crude oil production and total proven crude oil reserves.
(5) Proven developed crude oil reserves divided by total proven crude oil reserves.

Source: *PDVSA.*

Refining

PDVSA is involved in refining activities in Venezuela and the Caribbean, the United States and Europe. PDVSA owns five refineries in Venezuela, with a total rated crude oil refining capacity of 1.3 million bpd. It also leases and operates a refinery in Curaçao, with a refining capacity of 335 thousand bpd at December 31, 2005. PDVSA has equity or ownership interests in eight refineries in the United States, five of which are wholly owned, and has an equity interest in a coker/vacuum crude distillation unit. These refineries in the United States provide PDVSA with an aggregate net interest in crude oil refining capacity of 1.3 million bpd at December 31, 2005. PDVSA has equity interests in eight refineries in Western Europe with a total rated crude oil refining capacity at December 31, 2005 of 1.1 million bpd, of which its net interest in crude oil refining capacity was 259 thousand bpd. PDVSA's net interest in refining capacity has grown from 2.4 million bpd in 1991 to 3.2 million bpd at December 31, 2005.

In order to maintain its competitiveness within international markets, PDVSA has focused on expanding and upgrading its refining operations in Venezuela, the Caribbean, the United States and Europe, allowing it to increase its production of refined petroleum products and upgrade its product mix toward higher-margin refined petroleum products. PDVSA expects to invest approximately U.S.$16.5 billion (U.S.$14.3 billion in Venezuela and U.S.$2.2 billion overseas for activities primarily in Cuba, Jamaica, Brazil and Uruguay) from 2005 through 2012 to improve its refining systems and adapt its systems to meet environmental regulations and domestic and international product quality requirements. PDVSA has also increased the sophistication of its refining capacity in Venezuela. It has also made extensive investments to convert its worldwide refining assets from simple conversion to deep conversion capabilities. Deep conversion capabilities in its Venezuelan refineries have allowed PDVSA to improve yields by allowing a greater percentage of higher value products to be produced. PDVSA is also expanding its delayed coking plants located at the refining complex in Paraguaná, Venezuela and is performing studies to increase Venezuela's refining capacity. In addition, PDVSA intends to continue to participate in projects to increase its production of gasoline. For example, the two fluid catalytic cracker units located at PDVSA's Amuay and Cardón refineries are being modified to produce more gasoline. A low sulfur gasoline production unit (currently in the engineering phase) is expected to be operational in the Amuay refinery by 2009, using oil products and technology, developed by Intevep, a wholly-owned subsidiary of PDVSA.

Petrochemicals and Extra Heavy Crude Oil

Petrochemicals

PDVSA was engaged in the Venezuelan petrochemical industry through its wholly-owned subsidiary, Pequiven. In June 2005, however, the Government decided to transfer the activities, assets and shares held by PDVSA in Pequiven to MEP. The completion of the transfer occurred in January 2006 after the enactment of the Petrochemical Act. Pequiven was established in 1977 to increase the capacity and flexibility of existing plants, both for local and international markets, and to identify new products or commercial opportunities, mainly in methanol, plastics and fertilizers. The net effect of the January 2006 spin-off of Pequiven was approximately U.S.$2.8 billion, based on the net assets of that subsidiary at December 31, 2005.

Extra Heavy Crude Oil

On September 9, 2003, PDVSA announced a general restructuring of its wholly-owned subsidiary, Bitor. Under the plan, Bitor will be eliminated as an independent legal entity and will be absorbed by PDVSA Oriente (the Eastern Division of PDVSA). PDVSA has stated that the current restructuring process will not affect Bitor's existing contracts.

Previously, Bitor was responsible for developing reserves containing approximately 429 million metric tons of extra-heavy crude oil (or approximately 2.7 billion barrels). Bitor was developing these reserves principally through a process of emulsifying natural extra heavy crude oil in water to create an alternative liquid fuel to generate electricity, named Orimulsion®. However, in the first quarter of 2006, Bitor decided to apply most of its extra-heavy crude oil reserves towards the production of commercial crude oil, suspending the production of Orimulsion®.

PDVSA's Orimulsion® production capacity is approximately 6.5 million metric tons per year. Venezuela has significant reserves of extra-heavy crude oil, which are being developed in conjunction with the production of Orimulsion® by Bitor, through operating agreements which apply new technologies for refining and improvement of the crude oil aimed at the economic viability of production. PDVSA used 25 million and 21 million barrels of extra-heavy crude oil for the production of Orimulsion® during 2005 and 2004, respectively. PDVSA is currently developing Venezuela's significant extra-heavy crude oil reserves with several foreign companies through joint ventures.

In the fourth quarter of 2006, MEP announced that it would halt Orimulsion® production, indicating that Orimulsion® was not the best use for Venezuela's extra-heavy crude. In 2007, Bitor initiated discussions with its existing clients to renegotiate its obligations for the supply Orimulsion®. As part of these negotiations, some of Bitor's existing clients have agreed to receive fuel oil instead of Orimulsion®, while other clients have agreed to terminate their supply agreements.

Regional Developments

Venezuela has sought to promote a regional integration of state energy companies under the name "Petroamerica". Petroamerica is divided into "Petrosur", comprising the southern cone and Bolivia, and "Petrocaribe" comprising the Caribbean nations. The stated purpose of the regional arrangement is to gain strength in the international markets by eliminating trade barriers, increasing the refining infrastructure and reducing costs.

Under Petrosur, Argentina, Brazil and Venezuela agreed to develop a field in Venezuela's Orinoco oil belt, a refinery in Brazil's northeast, and an oil and gas venture in Argentina. Under the Petrocaribe agreement, member countries would pay market price for Venezuelan oil, but they would only be required to pay a portion of the cost up front and could finance the rest over 25 years at 1% interest. Governments could also pay for part of the cost with goods or services. In 2005, PDVSA created *PDVSA-Cuba* in order to promote refining and marketing businesses in the region. During 2006, PDVSA supplied crude oil and refined products, under special terms, to the Caribbean and Central America by means of the Petrocaribe Energy Corporation Agreement and Caracas Energy Cooperation Agreement.

The regional oil and gas energy venture *Petroandina Comercio y Suministro*, or Petroandina, was created by Venezuela and Bolivia on May 26, 2006. The cooperation agreement signed by PDVSA and the state-owned oil company of Bolivia, *Yacimientos Petrolíferos Fiscales Bolivianos*, or YPFB, contemplates that the parties will develop projects concerning exploration, production, refining, distribution, processing and the industrialization of hydrocarbons. Petroandina also was established to improve the training of Bolivian professionals and technicians, and to construct two gas processing plants in Bolivia. The parties anticipate that Petroandina will receive an investment of approximately U.S.$1.5 billion from PDVSA for various projects in Bolivia and will be controlled 51% by YPFB and 49% by PDVSA.

OPEC

Venezuela is a founding member of OPEC. OPEC's members collectively produce approximately 45% of total world production of crude oil and 18% of the world production of natural gas. In addition, OPEC members account for approximately 54% of the worldwide oil exports. Member countries formed OPEC in 1960 to improve oil prices, attain greater state participation by member countries in the petroleum industry and influence production levels.

OPEC has established general production quotas for each member. However, OPEC has never brought formal actions based on such quotas, and the quotas do not distinguish clearly between crude oil, refined products and derivatives, or between exports and domestic utilization. Venezuela's plan to increase petroleum production and exports assumes that the growth in international demand for petroleum products can only be met by a small number of countries, which include Venezuela, that have adequate reserves.

Commencing in 2000, the stated goal of OPEC was to maintain barrel prices within a range of U.S.$22.00 to U.S.$28.00 per barrel. In 2002, the OPEC crude basket price was U.S.$24.36 but increased to U.S.$28.10 per barrel in 2003. During 2004, the price of oil continued to rise, increasing by U.S.$7.95 per barrel, or 28.3%, to U.S.$36.05 per barrel. In January 2005, OPEC declared that it was temporarily abandoning the target price range because prices had remained outside the range for an extended period of time, rendering it unrealistic. During 2005, the OPEC crude basket price increased by U.S.$14.59 per barrel, or 40.5%, from U.S.$36.05 per barrel in 2004 to U.S.$50.64 per barrel in 2005. The price of oil in 2006 continued to rise, increasing by U.S.$10.44 per barrel, or 20.6%, from U.S.$50.64 per barrel in 2005 to U.S.$61.08 per barrel in 2006. In 2007, the price of the OPEC crude oil basket continued to increase to U.S.$69.08 per barrel.

In January 2003, OPEC instituted a production ceiling of 24.5 million bpd. However, OPEC members continued to exceed this production quota during 2003, and total crude production rose to approximately 27.4 million bpd in April 2003. This prompted OPEC to increase its official output ceiling to 25.4 million bpd on April 24, 2003. Although this action served to increase the official production of crude by OPEC members, it effectively served to cut the actual production of crude by 2 million bpd because of OPEC's determination to enforce actively the official output ceiling. In September 2003, OPEC cut its output ceiling back to 24.5 million bpd, which became effective November 1, 2003. In February 2004, OPEC decided to reduce this ceiling by another 1 million bpd to 23.5 million bpd, which became effective April 1, 2004. Oil prices continued to rise in 2004, prompting OPEC to raise the production ceiling to 25.5 million bpd effective July 1, 2004 and 26.0 million bpd effective August 1, 2004. On

September 15, 2004, OPEC raised the production ceiling by another 1.0 million bpd to 27.0 million bpd effective November 1, 2004. On March 16, 2005, OPEC again raised the production ceiling, this time by an additional 500,000 bpd to 27.5 million bpd, effective immediately. On June 15, 2005, OPEC raised the production ceiling by another 500,000 bpd to 28.0 million bpd, effective July 1, 2005. On September 20, 2005, OPEC suspended its output quotas for the fourth quarter of 2005, citing recent Hurricanes Katrina and Rita as the cause of decreased oil production capacity in the Gulf of Mexico region. OPEC maintained its 28.0 million bpd production ceiling until October 2006, when it reduced it to 26.3 million bpd, effective November 1, 2006. In December 2006, OPEC reduced the production ceiling by another 0.5 million bpd, effective February 1, 2007, but in September 2007, OPEC raised the ceiling by 0.5 million bpd, returning it to 26.3 million bpd, effective November 1, 2007.

Manufacturing and Mining

Manufacturing Sector

After the petroleum and natural gas sector, the second most important sector of the Venezuelan economy is manufacturing. The manufacturing sector can be divided into two sub-sectors, production for the domestic market in connection with the Government's plan to encourage domestic industry and import substitution, and production for export.

In 2003, the manufacturing sector contracted by 6.8% in real terms and comprised 16.2% of GDP. This was the result of the work stoppage and the implementation of the exchange controls, which limited the availability of raw materials. In 2004, the manufacturing sector grew by 21.4% in real terms and comprised 16.7% of GDP. In 2005, the manufacturing sector grew by 11.1% in real terms and comprised 16.8% of GDP. The growth in the manufacturing sector was primarily due to an expansion in the domestic aggregate demand as a result of higher levels of public expenditure. In 2006, the manufacturing sector grew by 9.7% in real terms and comprised 16.7% of GDP. The growth in the manufacturing sector in 2006 was primarily due to the expansion in the domestic aggregate demand for the third consecutive year. In 2007, the manufacturing sector grew by 7.2% in real terms and comprised 16.5% of GDP.

The Government's general policy with respect to the manufacturing sector emphasizes:

- increasing efficiency and productivity;
- attracting foreign and domestic private investment;
- providing technological and financial assistance to small and medium-sized manufacturers; and
- reforming the income tax laws applicable to the manufacturing sector to provide tax deductions and/or credits for expenditures made by manufacturers for employee training programs, investment in technological improvements and the creation of jobs.

The Government believes that these policies will effectively serve to increase the manufacturing sector's contribution to GDP.

Mining Sector

In 2003, the mining sector contracted by 4.4% in real terms and comprised 0.8% of GDP. In 2004, the mining sector grew by 14.2% in real terms and comprised 0.8% of GDP. In 2005, the mining sector grew by 3.0% in real terms and comprised 0.7% of GDP. In 2006, the mining sector grew by 4.5% in real terms and comprised 0.7% of GDP. The growth in the mining sector in 2006 was primarily due to the increase in the production of coal. In 2007, the mining sector grew by 2.0% in real terms and comprised 0.6% of GDP.

On May 26, 2006, Venezuela and Bolivia created *Minera del Sur*, or Minersur, a Latin American integration project designed to complement the countries' mining capabilities and techniques. The goal of Minersur is to strengthen national sovereignty of mining resources and to promote sustainable mineral industrialization and joint international investments.

In June 2006, the National Assembly approved a reform of Venezuela's Mining Law in order to promote the sovereignty and national interest of the country in its mining resources by eliminating concessions for inactive mines and by creating a new legal framework to benefit Venezuela's small-scale mining interests. Under the reform, private companies with idle, unproductive mines are required to form joint ventures with Venezuela in which Venezuela is granted a majority interest.

Corporación Venezolana de Guayana

After PDVSA, the second-largest industrial complex in the country is made up of branches and subsidiary companies of CVG. The Government created CVG in 1960 to institutionalize the industrial development strategies of one of the richest areas in Venezuela. CVG enabled the Government to develop an extensive industrial complex in sectors in which Venezuela had a comparative advantage such as low-cost inputs, including energy, electricity and high-quality minerals.

The Government has undertaken a number of internal reorganizations to improve the operating performance of CVG, to stimulate the internal market and reduce the costs imposed on the consolidated public sector accounts by CVG's losses. For example, the Government created the Ministry of Basic Industry and Mining, referred to as MIBAM, with the objective of strengthening the recovery of CVG and basic industry. MIBAM has developed a new model for production that focuses on optimizing the development of natural resources through the incorporation of increased national aggregate value.

CVG has various investment projects currently under way or set to begin. These projects encompass CVG's activities in hydroelectric power generation and transmission, telecommunications, ferroalloy, aluminum and forest products manufacturing.

The following tables set out the production and exports of CVG's aluminum, iron and gold companies for the periods indicated:

	Year Ended December 31,			
Production	**2003**	**2004**	**2005**[(1)]	**2006**[(1)]
	(in thousands of metric tons, except as noted)			
Iron	19,195	20,021	22,054	22,100
Bauxite	5,445	5,814	5,183	5,927
Alumina	1,882	1,910	1,927	1,896
Aluminum	605	631	623	619
Gold (in kilograms)	2,452	3,229	3,756	3,947

(1) Preliminary figures.
Source: *CVG Companies.*

	Year Ended December 31,			
Exports	**2003**	**2004**	**2005**[(1)]	**2006**[(1)]
	(in millions of U.S. dollars)			
Iron Ore	$286.8	$395.8	$281.6	$283.1
Bauxite	0.0	0.0	1.6	5.3
Alumina	114.7	138.0	162.3	227.3
Aluminum	661.3	804.5	778.9	1,034.7
Total	$1,062.8	$1,338.3	$1,224.4	$1,500.4

(1) Preliminary figures.

Source: *CVG Companies.*

Agriculture and Livestock

Venezuela's principal agricultural and livestock products are coffee, cocoa, sugar cane, rice, corn, plantains, pork, eggs and milk.

In 2003, the agricultural sector contracted by 1.3% as compared to 2002 and comprised 5.9% of GDP. The introduction of exchange controls in 2003 caused a shortage of many imported goods. During 2004, the agricultural sector grew by 4.4% as compared to 2003 and comprised 5.2% of GDP. In 2005, the agricultural sector grew by 9.8% as compared to 2004 and comprised 5.2% of GDP. In 2006, the agricultural sector contracted by 0.9% as compared to 2005 and comprised 4.7% of GDP. In 2007, the agricultural sector grew by 1.9% as compared to 2006 and comprised 4.4% of GDP. The growth in the agricultural sector in 2007 was primarily due to the Government providing favorable financing and subsidies to stimulate and incentivize agricultural activities.

The growth in the agricultural sector in 2007 was primarily due to the Government providing favorable financing to stimulate and incentivize agricultural activities. In order to stimulate growth in the agricultural sector, the Government provides financing to small producers through the *Fondo de Desarrollo Agropecuario, Pesquero, Forestal y Afines* and to medium-sized producers through the *Fondo de Crédito Industrial*. In January 2006, the Government established that commercial banks must provide between 11% and 16% of their net credit portfolio to finance agricultural projects.

The following tables set out the exports and imports of the agricultural sector for the periods indicated:

	Year Ended December 31,				
Exports	**2003**	**2004**	**2005**	**2006**[2]	**2007**[1]
	(in thousands of metric tons)				
Coffee	12,791	5,532	0	0	0
Cocoa	3,688	7,173	2,345	156	0
Sugar cane	0	0	0	0	0
Rice	36	279	811	161	25
Corn	6,689	105	637	12	7

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(1) For the period January-April 2007
(2) Incomplete information

Source: *Banco Central and INE.*

	Year Ended December 31,				
Imports	**2003**	**2004**	**2005**	**2006**	**2007**[1]
	(in thousands of metric tons)				
Coffee	0	0	0	0	0
Cocoa	0	0	0	0	0
Sugar cane	52,351	67,227	68,230	68,628	38,019
Rice	38,816	29	191	3,371	197
Corn	609,530	547,098	148,901	41,646	528,562

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(1) For the period January-September 2007.

Source: *Banco Central and INE.*

Lands and Agricultural Development Law-Decree

On November 13, 2001, a new law-decree was issued targeting land reform. This new Lands and Agricultural Development Law-Decree replaced the Law of Agrarian Reform promulgated in 1960. This law-decree is intended to reallocate arable lands in Venezuela according to a plan determined by the Government. Under this law, a Government agency, the National Lands Institute, classifies rural land according to its best use, such as agriculture, cattle-raising or forestry. In addition, certain unused, uncultivated or idle rural lands will also be subject to tax or expropriation and redistribution. In most cases, this redistribution of land would not be an outright grant to the recipient, but rather the right to work the land in a productive manner. Two additional agencies, the Rural Development Institute and the Venezuelan Agrarian Corporation, will oversee the implementation and operation of the land reform system.

In July 2002, President Chávez passed a law-decree that relates to land reform in Venezuela in order to justify the Government's plan to reallocate arable lands according to their most productive use. Under the law-decree, the

Government may expropriate idle or uncultivated lands that do not comply with a minimum requirement of productivity upon the payment of due compensation to owners.

By year-end 2006, the National Land Institute, or INTI, following current legal procedures, had recovered on a national level over approximately 4.8 million hectares of land that was either owned by the state, declared unproductive or illegally occupied, that has been distributed to poor farmers through agricultural cooperatives and other socio-productive entities in order to enhance the participation in alternative forms of agricultural production and to expand the production of important agricultural items.

Electric Sector

The Government views the electric power sector as a key stimulant of growth in the productive sectors of the economy. State-owned companies have historically dominated the electric power sector in Venezuela. Modernization of the electric power sector has been difficult because of inefficiency in the installed base of plant and equipment and the lack of investment funds. The Government believes the electric power sector will require an estimated U.S.$13.4 billion in investment over the period of 2005-2015.

The Participants

The electric power sector in Venezuela is made up of state-owned companies. It serves more than 25 million customers. At December 31, 2006, six companies held practically all of the assets of Venezuela's electric power sector. These six companies were *Electrificación del Caroní, C.A.*, referred to as EDELCA; *Compañía de Administración y Fomento Eléctrico,* referred to as CADAFE; *Energía Eléctrica de Venezuela*, referred to as ENELVEN; *C.A. Energía Eléctrica de Barquisimeto*, referred to as ENELBAR; *Energía Eléctrica de la Costa Oriental*, referred to as ENELCO; and EDC.

At December 31, 2006, EDC and three other smaller electric companies were the only privately-held electric companies in Venezuela. In June 2000, The AES Corporation, a U.S. independent power company, acquired a majority interest in EDC. Pursuant to a plan announced in January 2007 to nationalize various areas of the economy, in February 2007, PDVSA agreed to purchase the AES Corporation's 82% interest in EDC pursuant to a tender offer. In May 2007, the AES Corporation tendered its 82% interest to PDVSA and received approximately U.S.$739 million. The Government through PDVSA currently controls an approximately 93% interest in EDC.

EDELCA is owned by CVG. CADAFE, ENELVEN, ENELBAR and ENELCO are owned by MEP. EDELCA, CADAFE, ENELVEN and ENELBAR generated approximately 87.6% of the total electricity used in Venezuela during the year ended December 31, 2006.

In 2006, EDELCA generated approximately 71.1% of the total electricity production in Venezuela. EDELCA generates electricity at its three hydroelectric plants in the Caroní river basin in the Guayana Region. EDELCA's Guri plant has an installed capacity of 10,000 megawatts, or MW, the Macagua I, II and III plants have an installed capacity of 3,140 MW, and the Caruachi plant has an installed capacity of 2,160 MW. CADAFE is the largest electricity distribution company in Venezuela, covering approximately 80% of the country. Approximately U.S.$834 million has been invested in CADAFE from 2004 through September 2007, predominantly from FONDEN and FONDESPA. CADAFE plans to invest its funds in order to modernize its electricity generation, transmission and distribution. ENELVEN, ENELBAR and ENELCO are smaller vertically-integrated electric companies. ENELVEN serves Zulia State on the western coast of Lake Maracaibo, ENELCO serves the eastern coast of Lake Maracaibo and ENELBAR serves the Barquisimeto area of Lara State. EDC serves over 1,000,000 customers, the majority of whom reside in Caracas and its suburbs.

The installed capacity of Venezuela's electric power sector on December 31, 2006 was 22.22 MW. More than 95% of Venezuela's population has access to electric power. Demand for electric power in Venezuela increased by 8.2% in 2005.

Electrical power in Venezuela is generated both by hydroelectric plants and thermal plants, with two-thirds being generated by hydroelectric plants. This dependence on hydroelectric power for the generation of a significant percentage of Venezuela's energy makes the Republic vulnerable to periods of severe drought. The electric sector has been designed such that thermal plants would begin producing electricity when the hydroelectric plants were not producing enough electricity to meet demand. Because of the recent growing demand for electricity, Venezuela has

been required to utilize thermal power for primary generation. However, prior reliance on hydroelectric sources for electricity generation has had the consequence of diverting investment from thermal generation, resulting in an installed base of thermal capacity that is not adequate to cover demand during periods of drought.

The Government is attempting to address this structural problem through medium-term investment. Specifically, plans have been put into place to ration electric power, improve the capacity and efficiency of existing electric power plants, invest in new hydroelectric and thermal generation plants, purchase additional electrical power, curtail the illegal use of electric power and reduce current demand.

Economic growth in Venezuela will require the expansion of the electric power sector. In order to meet anticipated demand growth, the Government contemplates emphasizing further development of hydroelectric power and the use of natural gas as a raw material for electric power generation.

In July 2007, by presidential decree within the legislative power conferred by the 2007 Enabling Law, the Government created a new state-owned electrical holding company called *Corporación Eléctrica Nacional S.A.*, or CEN, to centralize electric power in Venezuela. The law mandates that all electric companies, including CADAFE, ENELVEN, ENELBAR and ENELCO, must be brought together under CEN by 2010.

The Regulatory Framework

Until recently, Venezuela did not have a unified body of law that regulated the electric power sector. Historically, three Presidential decrees set forth the methodology for determining tariff rates and established the principal regulatory bodies. Other sources of electric power sector regulation have included certain municipal laws, resolutions passed by MEP and MPC, and the law reforming the *Ley Orgánica Sobre Concesiones de Obras Públicas y Servicios Públicos Nacionales,* or the National Concessions Law, as well as laws of general application.

On December 31, 2001, the *Ley Orgánica del Servicio Eléctrico,* or the Electricity Law, was enacted. The Electricity Law mandates the separation of the electric sector in Venezuela into generation, transmission, national dispatch, distribution and commercialization.

Under the Electricity Law, upon the effectiveness of the implementing regulations, no single entity is permitted to engage in more than one of the activities set forth above, with the exception that generation or distribution companies may also engage in commercialization activities. Subject to prior approval by MEP, any person or entity may undertake the generation and commercialization of electricity. However, the Electricity Law reserves the development of hydroelectric generation facilities on the Caroní, Paragua and Caura rivers for state-owned companies, such as EDELCA.

The Electricity Law exempts self-generation activities from regulation. It also contemplates the opening of generation activities to competition, principally by allowing consumers of more than 5 MW per year to purchase electricity freely in the market. In addition, the Electricity Law requires that companies engaged in transmission and distribution activities obtain formal concessions from MEP.

The Electricity Law contemplates the creation of a centralized, state-owned company, the *Centro Nacional de Gestión de Servicio Eléctrico*, to administer the dispatch of electricity nationwide by coordinating, controlling and supervising the generation and transmission activities of Venezuela's public and private electric utility companies and developing and administering the wholesale market for electricity in Venezuela.

The Government believes the development of a wholesale market for electricity in Venezuela will facilitate block sales of electricity among generation and distribution companies, commercializers and large clients.

The Electricity Law also contemplates the creation of the *Comisión Nacional de Energía Eléctrica*, a single regulatory authority for Venezuela's electricity sector. The entity, which will be an autonomous agency within MEP, will promote the development of competition in the areas of generation and commercialization of electricity and establish norms for electricity sales to the public and tariff rates that electric utility companies may charge the public.

Tariff Rates

On January 28, 1999, MEP and MPC published the *pliego tarifario,* or the Tariff Regime, which established a new tariff rate regime for the electric sector in Venezuela. The Tariff Regime contains basic tariff rates applicable to energy sold by the various electric utility companies in Venezuela during each year from 1999 through 2002. The Tariff Regime is designed to gradually eliminate the cross subsidy that has existed between residential tariff rates and industrial and general tariff rates in Venezuela. The Executive Branch has extended the 2002 Tariff Regime that was used in 2002, pending a new tariff regime.

The Telecommunications Sector

The National Telecommunications Commission, or CONATEL, is the governmental agency that regulates and surveys competition in the telecommunications market. One of CONATEL's main goals is to broaden the general public's access to telecommunications services. To achieve this goal, CONATEL created a universal service fund dedicated to the provision of service to areas without access to telecommunications services. The universal service fund reached approximately U.S.$83 million at the end of first quarter 2007. The first universal service project was launched in 2005 and featured several telecom operators competing for a new infrastructure project worth approximately U.S.$8 million. By the end of first quarter 2007, approximately U.S.$164 million of the universal service fund was assigned to new infrastructure projects and to support social policies.

CONATEL is working to modify the regulatory framework in the telecommunications market by establishing policies that promote competition in different services, including broadband services and new proposals for emerging technologies.

The telecommunications sector grew by 23.2% in 2006, as compared to 2005. The mobile telecommunications market has experienced substantial growth since its origin in 1989, and both the Internet and subscribed television markets have experienced accelerated growth in recent periods.

The Government's long-term plan includes, among other objectives, the development of new telecommunications infrastructure, services and content, the promotion of competition within the industry and the consolidation of Internet access.

In January 2007, the Ministry of Popular Power for Telecommunications and Computer Science was created. The Ministry is responsible for regulating and planning public policies for the promotion and development of the telecommunications sector.

In January 2007, President Chávez announced a plan to nationalize CANTV, and by May 2007, the Government controlled 86.2% of the company, in part by purchasing Verizon Communications Inc.'s 28.5% stake for approximately U.S.$572 million. With the nationalization of CANTV, the Government plans to offer affordable cellular phone and fixed-line rates to people in poor communities and plans to expand service to underserved areas.

THE FINANCIAL SYSTEM

Banco Central

Banco Central, which is wholly owned by the Republic, is Venezuela's central bank and its currency-issuing bank. The 1999 Constitution granted Banco Central, for the first time in its history, constitutional authority as an independent legal entity with autonomy to exercise its delineated powers. The main purpose of Banco Central is to control inflation and maintain the stability of the Bolivar. Under the 1999 Constitution, Banco Central is prohibited from underwriting, cosigning or guaranteeing any debt of the Republic. In addition, Banco Central is required to provide the National Assembly an account of its actions, goals and results achieved as well as certain periodic reports to the National Assembly which describe the current status of the macroeconomic variables of the economy. The National Assembly must approve Banco Central's budget.

On October 3, 2001, a new Central Bank Law became effective. This law superseded the previous Central Bank Law dated as of December 4, 1992. A purpose of the new Central Bank Law is to coordinate the regulations and activities of Banco Central with the provisions of the Constitution and thus to promote economic development in a more cohesive manner. Significant amendments between the old and new Central Bank Laws include the following: (1) Banco Central will implement policies established through coordination with the Ministry of Finance; (2) Banco Central will no longer necessarily be designated as the exclusive financial agent of the Republic; and (3) Banco Central's operating budget must be approved by the National Assembly. Furthermore, pursuant to the Constitution, the new Central Bank Law provides that the Government and Banco Central will execute an agreement establishing annual macroeconomic policies, which agreement must be consistent with the Government's economic policies. For more information concerning the macroeconomic policies, refer to "The Venezuelan Economy—Economic Policy and Legislation—Macroeconomic Coordination." The policies set forth in this agreement must be disclosed to the public once the annual budget has been approved by the National Assembly. Additionally, the new Central Bank Law also provides for the expansion of control of the Superintendency of Banks over certain activities of Banco Central.

Under the Central Bank Law, Banco Central's statutory functions include:

- formulating and executing monetary policy;
- participating in the design of exchange rate policy;
- executing exchange rate policy;
- regulating credit and interest rates in the financial system;
- centralizing and administering the Republic's international monetary reserves;
- overseeing the performance of the Republic's payments system and establishing its operating regulations;
- participating, regulating and executing operations in the gold market; and
- issuing, on an exclusive basis, Venezuelan currency.

An amendment to the Central Bank Law came into effect on October 18, 2002 which provided that the amount of Banco Central income to be transferred to the Government must be calculated every six months, rather than annually, and must be transferred to the Government within the six-month period following the date of each such calculation. For more information regarding transfers made from the National Treasury to Banco Central, refer to "The Venezuelan Economy—Foreign Trade and Balance of Payments—Banco Central Transfers".

FONDEN

In July 2005, the National Assembly approved an amendment to the new Central Bank Law. The reform requires PDVSA to make contributions to FONDEN with its excess dollar cash flow after all its external and internal obligations have been satisfied, including capital, operational and tax-related disbursements. Amounts deposited in FONDEN may only be used for social, educational, health care, liability management and special and strategic

purposes. Under the amended law, Banco Central is required to determine the optimum level of international reserves and to distribute the excess to FONDEN and inform the National Assembly on an annual basis. The reform also requires Banco Central to make a one-time special contribution to FONDEN of U.S.$6.0 billion from Venezuela's foreign currency reserves. This deposit was completed on November 7, 2005, and since that date through December 31, 2007, approximately U.S.$17.0 billion have been added by Banco Central and approximately U.S.$15.1 billion have been contributed by PDVSA.

Amounts deposited in FONDEN are being used for major infrastructure projects such as bridges, highways, intra-city trolleys, subway lines, railroads, electricity generation, rural irrigation systems, hospitals, educational facilities, as well as for the purchase of Brady bonds as part of a liability management program put in place in 2006.

As of December 31, 2007, FONDEN had allocated approximately U.S.$25.7 billion, or approximately 83% of the funds available, to the various projects financed by FONDEN. As of December 31, 2007, approximately U.S.$4.4 billion has been allocated to 26 infrastructure projects, approximately U.S.$1.3 billion has been allocated to 16 mining projects, approximately U.S.$6.0 billion has been allocated to 42 energy and petroleum projects, approximately U.S.$2.3 billion has been allocated to 16 housing projects, approximately U.S.$1.0 billion has been allocated to nine agricultural projects, approximately U.S.$176 million has been allocated to two science and technology projects and approximately U.S.$316 million has been allocated to 12 environmental projects. FONDEN keeps its resources in financial trusts (local and foreign currency investments) at *Banco del Tesoro*, where funds are being disbursed in accordance with projected execution levels.

Monetary Policy

Historically, Banco Central has conducted an active monetary policy that has supported the Government's economic adjustment plans. Banco Central utilized open-market operations with respect to its own instruments issued initially through the Caracas Stock Exchange and later by means of an auction mechanism. The placement of zero coupon bonds and *Titulos de Establizacion Monetaria*, or TEMs, progressively replaced Banco Central's money desk as a primary mechanism of monetary regulation and became an efficient means of moderating the increase of monetary aggregates. However, the Government's increased use of Bolivar-denominated debt instruments somewhat served to reduce Banco Central's open-market operations during 2000. Banco Central's use of rediscount and loan mechanisms decreased as a result. However, economic circumstances during the second half of 2001, 2002 and the beginning of 2003 prompted an increase in the level of Banco Central's open-market transactions.

The table below sets forth the changes in monetary aggregates for the periods indicated:

	M2		**Monetary Base**	
Year	**In billions of nominal Bolívares**	**In billions of 1997 Constant Bolívares**	**In billions of nominal Bolívares**	**In billions of 1997 Constant Bolívares**
2003	30,836.0	7,995.6	11,274.4	2,923.4
2004	46,363.7	10,086.7	16,524.4	3,595.0
2005	70,796.0	13,468.3	23,086.5	4,392.0
2006	119,867.9	19,497.8	44,795.4	7,285.0
2007	153,224.6	20,348.6	64,177.0	8,522.8

Source: *Banco Central.*

The national work stoppage that began in December 2002 exacerbated the devaluation of the Bolivar against the U.S. dollar. This general work stoppage decreased Venezuelan oil exports and tax revenues, and the political instability surrounding the situation created a strong demand for U.S. dollars. This resulted in a further devaluation of the Bolivar as compared to the U.S. dollar, which declined to a low of Bs.1,853 = U.S.$1.00 on January 22, 2003.

This significant devaluation of the Bolivar prompted President Chávez to suspend foreign exchange transactions in order to protect the level of Venezuelan international reserves until the Government could present an alternative exchange control mechanism. Foreign exchange transactions were suspended for approximately two weeks. A new exchange control regime became effective on February 5, 2003, which included a single foreign exchange rate

(Bs.1,596 = U.S.$1.00 (purchase) and Bs.1,600 = U.S.$1.00 (sale)). On February 5, 2004, the Ministry of Finance and Banco Central changed the U.S. dollar exchange rate to Bs.1,915.20 = U.S.$1.00 for purchase operations and Bs.1,920.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was also set at Bs.1,920.00 = U.S.$1.00. On March 2, 2005, the Ministry of Finance and Banco Central set the U.S. dollar exchange rate to Bs.2,144.60 = U.S.$1.00 for purchase operations and Bs.2,150.00 = U.S.$1.00 for sale operations. The exchange rate for the payment of external public debt was also set at Bs.2,150.00 = U.S.$1.00. Effective January 1, 2008, the currency of Venezuela was converted to the Bolívar Fuerte. Accordingly, from that date the U.S. dollar exchange rate has been set at Bs.F 2.1446 = U.S.$1.00 for purchase operations and Bs.F 2.15 = U.S.$1.00 for sale operations. For more information, refer to "The Venezuelan Economy—Exchange Control Regime".

The following table sets out Venezuela's interest rates, by quarter, for the periods indicated:

Interest Rates

Year and Quarter	Short-Term (Commercial Banks)[1]	90-Day CDs Deposit Rate	Banco Central Discount Rate[3]	Basic Inflation Rate[4]
		(in % per annum)[2]		
2003				
First Quarter	34.45	23.64	39.00	43.19
Second Quarter	26.16	17.92	32.00	23.66
Third Quarter	23.78	15.85	28.50	19.57
Fourth Quarter	21.15	14.10	28.50	23.20
2004				
First Quarter	18.84	12.39	28.50	27.93
Second Quarter	18.21	12.68	28.50	18.85
Third Quarter	17.81	12.29	28.50	13.73
Fourth Quarter	17.25	13.24	28.50	16.69
2005				
First Quarter	17.22	12.50	28.50	13.99
Second Quarter	16.48	11.86	28.50	19.18
Third Quarter	16.64	11.02	28.50	14.07
Fourth Quarter	15.93	11.20	28.50	10.36
2006				
First Quarter	15.57	10.61	28.50	5.43
Second Quarter	14.90	10.22	28.50	17.66
Third Quarter	15.30	10.15	28.50	29.29
Fourth Quarter	15.77	10.10	28.50	16.71
2007[3]				
First Quarter	15.91	10.10	28.50	10.96
Second Quarter	16.18	10.11	28.50	21.51
Third Quarter	17.04	10.99	28.50	12.17
Fourth Quarter	19.52	11.66	28.50	48.70

(1) Corresponds to the average of promissory notes, loans and discounts. Loans include interest rates for mortgage credits.
(2) Interest rates are calculated using averages during the relevant period. The interest rate average is calculated based on the data of the six largest commercial banks of the Venezuelan financial system.
(3) Based on the CPI (base 1997) calculated by annualizing forward cumulative quarterly inflation rates.
(4) Refers to interest rates granted to the construction sector, for housing acquisition, and credits granted under special financing programs and the policy housing law.

Source: *Banco Central.*

The following table sets out total outstanding loans and long-term investments by quarter by public and private financial institutions for the periods indicated:

Year and Quarter	Commercial Bank Credit	Mortgage Bank Credit	Other[(1)]	Total Credit of the Financial System[(2)]	Percentage Change[(3)]
	(in millions of Bolívares)				
2003					
First Quarter	9,460,274	13,764	313,152	9,787,190	2.13
Second Quarter	8,911,220	14,274	268,078	9,193,572	(3.72)
Third Quarter	9,495,851	13,068	268,205	9,777,124	(3.18)
Fourth Quarter	11,494,468	756	263,888	11,759,112	9.36
2004					
First Quarter	12,744,756	1,206	267,638	13,013,600	32.97
Second Quarter	15,455,597	1,136	333,463	15,790,196	71.75
Third Quarter	17,699,783	1,747	388,471	18,090,001	85.02
Fourth Quarter	22,849,904	4,908	486,747	23,341,559	98.50
2005					
First Quarter	23,190,763	4,886	537,628	23,733,277	82.37
Second Quarter	27,899,352	5,252	670,798	28,575,402	80.97
Third Quarter	31,045,394	5,318	816,960	31,867,672	76.16
Fourth Quarter	38,716,721	5,090	1,193,013	39,914,824	71.00
2006					
First Quarter	39,262,164	6,217	1,200,647	40,469,028	70.52
Second Quarter	46,723,577	7,146	1,345,705	48,076,428	68.24
Third Quarter	55,078,927	7,700	1,485,918	56,572,545	77.52
Fourth Quarter	60,615,347	19,083	1,406,474	62,040,905	55.43
2007					
First Quarter	67,451,560	20,336	1,563,657	69,035,554	70.59
Second Quarter	79,410,163	20,286	1,880,330	81,310,779	69.13
Third Quarter	89,154,163	24,522	2,186,274	91,364,959	61.50
Fourth Quarter	102,287,102	26,270	2,320,894	104,634,266	68.65

(1) Includes finance companies and savings and loan institutions.
(2) Excludes Banco Central.
(3) From the corresponding quarter of the previous year.

Source: *Banco Central.*

Treasury Bank

In August 2005, the National Assembly passed a law creating a treasury bank, referred to as *Banco del Tesoro*. In accordance with the law, *Banco del Tesoro* acts as the Government's chief financing arm, handling the Central Government's banking needs and managing debt payments and debt issues of the Government. *Banco del Tesoro* also acts as depositary for Government funds currently held by private banks, which currently account for approximately 26% of deposits held by private banks. For initial capital, the National Assembly approved a transfer of Bs.30.6 billion, or approximately U.S.$14 million, to *Banco del Tesoro*, and later approved an additional transfer of Bs.30.0 billion. As of August 2007, *Banco del Tesoro* was managing third party funds valued at approximately Bs.26 trillion.

Pursuant to an agreement signed in October 2007 between Venezuela and China, *Banco del Tesoro* currently manages approximately U.S.$6 billion composed of a U.S.$2 billion deposit by China and a U.S.$4 billion deposit by Venezuela. These resources will be used to finance development and infrastructure projects in Venezuela. Additionally, *Banco del Tesoro* manages approximately U.S.$6.6 billion of FONDEN resources obtained from excess Venezuelan reserves.

Banco del Sur

Banco del Sur is a financial institution that is being promoted by Venezuela for regional integration that serves to provide a source of funding for Latin American and Caribbean countries. *Banco del Sur's* principal objective is to

finance development projects and serve as an alternative to traditional multilateral lenders, including the World Bank, IADB and the IMF. The bank was established in 2007 through a treaty signed seven countries: Argentina, Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela, and began operations on January 1, 2008.

Financial Institutions

The Superintendency of Banks is responsible for banks and credit unions. Its functions include inspection, supervision and control.

The Superintendency of Banks also regulates individuals, companies and institutions that conduct or purport to conduct operations that are subject to authorization under the General Law of Banks and Other Financial Institutions. FOGADE, which was established in 1985, insures deposits up to Bs.F 4,000 per depositor. FOGADE also assists in the recovery and stabilization of financial institutions through lending assistance.

Some of Venezuela's largest banks announced their intention to merge following the enactment of the *Ley de Fusiones*, referred to as the Merger Law, on February 28, 2001. The purpose of the Merger Law was to strengthen banks' capital bases and increase their competitiveness by stimulating merger activity among smaller banks. The Merger Law provides for the Superintendency of Banks to approve merger proposals and to grant priority to mergers of specialized financial institutions, savings and loan associations and commercial banks resulting in universal banks.

As of December 31 2007, the Venezuelan financial system consisted of 59 financial institutions, which included:

- 23 universal banks;
- 15 commercial banks;
- 4 investment banks;
- 1 mortgage bank;
- 7 development banks;
- 1 leasing company;
- 2 savings and loan associations;
- 2 money market funds; and
- 4 special law-regulated banks.

Effective March 2002, Universal banks were required by law to have a minimum paid-in capital of Bs.40.0 billion. Universal banks with main offices outside of the metropolitan area and deemed "regional banks" by the Superintendency of Banks were required by law to have a minimum paid-in capital of Bs.20.0 billion. Additionally, effective March 2002, commercial banks with main offices within the metropolitan area were required to have a minimum paid-in capital of Bs.16.0 billion, whereas commercial banks with main offices outside the metropolitan area were required to have a minimum paid-in capital of Bs.8.0 billion. Banks are also required to meet certain capital adequacy requirements, such as a minimum 12% ratio of net worth to assets and contingent operations.

A partial reform to the General Law of Banks and Other Financial Institutions was enacted by law-decree on November 13, 2001. The purpose of the reform was to further strengthen the banking system and guarantee its stability. The amended law raises the upper limit of the amount of insured deposits to Bs.10 million per depositor in the same financial group, provides for rules regarding trust operations, allows investment banks to carry out trust activities and provides an administrative process for adjudicating public complaints with respect to banks. The amendments also eliminate the ability of FOGADE to provide financial assistance to ailing banks. The amended law establishes new criteria for determining affiliations with respect to financial groups. Related entities of troubled

banks are also subject to intervention or liquidation. The amended law also established new minimum paid-in capital requirements.

Additionally, the law, as amended, creates two new types of special banks, namely development banks and second-tier banks, which would be primarily dedicated to the promotion of microenterprise development. The Superintendency of Banks is now authorized to issue special rules governing the accounting of credits extended to such enterprises.

The amended law also regulates electronic banks and grants to the Superintendency of Banks the power to enact special standards regulating loans from electronic banks.

Securities Markets

The Caracas Stock Exchange is currently the only securities market in Venezuela, with 57 issuers and 58 securities registered as of December 2006. Historically, trading on the Caracas Stock Exchange has been composed of trades in stocks and bonds. In September 2001, the exchange began to allow trades in short-term debt instruments, such as commercial paper.

Since December 2003, the Ministry of Finance has become an active participant in the Caracas Stock Exchange through the issuance of *Vebonos*, a new, actively traded instrument consisting of public sector bonds issued to pay certain benefits due to public sector university professors.

In 2006, the Caracas Stock Exchange had a total trading volume of U.S.$2.3 billion, representing U.S.$1.1 billion in stocks, U.S.$987.2 million in ADRs, U.S.$100.5 million in private sector debt securities and U.S.$116.2 million in *Vebonos*. The individual stocks with the highest trading volume were *Mercantil Servicios Financieros, C.A., CANTV, Corimon, Sivensa* and *H.L. Boulton*.

The Caracas Stock Exchange posts trading information, such as price, volume and transaction activity for listed securities during trading hours. Pricing information includes high, low and average sales prices. The Caracas Stock Exchange also publishes three indices for equity securities. The principal stock index is the *Indice Bursátil Caracas*, referred to as IBC. The IBC tracks the share prices of 16 major companies and is calculated in a manner similar to that used by the S&P 500. The other indices focus on the industrial and financial sectors.

The total market capitalization of the companies listed on the Caracas Stock Exchange as of December 31, 2006 was approximately U.S.$12.9 billion. From December 31, 2005 to December 31, 2006, the total market capitalization increased in absolute terms from U.S.$6.8 billion to U.S.$12.9 billion.

The CNV authorized the opening of a commodities exchange on May 19, 1999. Trading on this exchange commenced in October 1999 and, as of December 31, 2005, the cumulative trading volume totaled U.S.$4.1 billion. The trading volume on this exchange totaled U.S.$1.7 billion in 2005, as compared to U.S.$1.4 billion in 2004.

In the past, Venezuelan stock exchanges have experienced substantial market price fluctuations. Factors contributing to such fluctuations include changes in the overall state of the Venezuelan economy and adverse political developments, together with merger activity among domestic companies and takeovers of domestic companies by foreign corporations. Compared to other stock markets in Latin America, the Venezuelan stock market is among the smallest in terms of market capitalization and trading volume.

The Caracas Stock Exchange can suspend dealing in any listed security if the price of the security varies by 20% or more during a trading session.

Market Regulation

The CNV must authorize all Venezuelan companies before they legally offer equity or debt securities to the Venezuelan public. In order to offer securities to the public in Venezuela, an issuer must meet certain CNV requirements regarding assets, operating history, management and other matters.

All outstanding securities of such companies must also be registered with the CNV and approved by the relevant stock exchange. The CNV must approve the application for listing of a security before it is listed on a stock exchange. The CNV also requires issuers to file unaudited quarterly financial statements and audited annual financial statements with the applicable stock exchanges and the CNV.

Since September 1, 1994, the CNV has required any company issuing debt in Venezuela to obtain a rating from two independent rating agencies registered with the CNV. However, as of April 4, 2002, and for any company that issues commercial paper (debt issues ranging from 15 days to 360 days), the CNV may reduce the requirement from two independent rating agencies to one, depending upon the market conditions at that time.

In September 2002, the CNV changed certain regulations relating to securitization of assets in order to expand opportunities for companies to obtain financing.

The Capital Markets Law and the rules issued by the CNV provide a regulatory structure for the Venezuelan securities industry. The Capital Markets Law was amended in October 1998 to conform the Venezuelan securities market to international standards. In addition to setting standards for brokers, the law empowers the CNV to regulate public offerings and trading of securities. In January 1999, the CNV promulgated regulations governing the activities of broker-dealers and brokerage houses. The CNV has also promulgated regulations requiring issuers of securities to file information regarding the issuer, its management and its significant shareholders to ensure transparency in capital markets transactions and public tender offers.

PUBLIC FINANCE

General Description of Accounts and Entities

The Ministry of Finance is responsible for preparing the budget and administering the Government's finances. The Ministry of Finance is required to submit a proposed budget to the National Assembly each year. The National Assembly may change items in the proposed budget so long as authorized expenditures do not exceed projected revenues. Nevertheless, actual expenditures in any given year may exceed revenues for that year as a result of differences in the timing of receipts and expenditures. The budget must include appropriations to be distributed to the states and the federal district in accordance with a prescribed formula. No taxes may be levied, money borrowed or expenditures made unless authorized by law. In addition to budgeted expenditures contained in the legislatively-approved budget, the Government may increase expenditures, including allocations for debt service obligations, during the course of the year with the approval of the National Assembly. However, total expenditures may not exceed actual revenues.

All revenues and expenditures are budgeted and recorded on a cash basis. The Ministry of Finance is responsible for collecting public revenues. Various ministries and agencies of the Central Government are responsible for implementing the budget. For example, the Comptroller General is the agency in charge of national revenues, expenditures and assets and related operations. The functions of that office include control, supervision and auditing. The Comptroller General is appointed for a period of seven years by, and is accountable to, the National Assembly.

The consolidated public sector is divided, in general terms, into two parts: the Central Government and the decentralized state institutions. The decentralized state institutions are corporations that are majority or wholly owned by the Government.

Taxation

The Organic Tax Code

The *Código Orgánico Tributario*, referred to as the Organic Tax Code, was approved in 1991 and amended in 1992, 1994 and 2001. The Organic Tax Code increased penalties on overdue tax payments and made tax avoidance a criminal offense. The Ministry of Finance, with assistance from the World Bank and the IADB, has developed a tax collection program aimed at decreasing income tax evasion.

The new Organic Tax Code became effective on October 17, 2001. Some of the reforms in the new legislation include: (1) the adoption of the "substance over form" approach in tax administration; (2) the consent to the passing on of tax responsibilities from a target company to the acquiring company in a merger; and (3) the disallowance of offsets of income tax credits against monthly payables under the VAT. The amendments have also changed the rate of interest for unpaid tax obligations. Interest on unpaid tax obligations now equals the average of the lending rates of the six largest commercial banks, multiplied by a factor of 1.2.

In addition, the reforms increased the penalties imposed on various tax offenses and set forth new categories of tax violations in order to deter tax evasion. Breaches of substantive obligations under the new Organic Tax Code result in increased penalties, while offenses potentially leading to imprisonment have been broadened in scope. For example, new fines have been introduced both for the failure to pay taxes as well as for the late payment of taxes, and criminal penalties have been established for tax fraud. In addition, withholding agents who intentionally fail to remit taxes withheld within three business days following payment are now subject to imprisonment for two to four years.

Furthermore, the amended Organic Tax Code now permits taxpayers to enter into advance pricing agreements with the tax authorities to establish the value of transactions between affiliated enterprises.

Procedural rules have also been amended. Under the new Organic Tax Code, judicial tax appeals do not suspend the effects of a tax assessment, except in cases where the taxpayer demonstrates that non-suspension will cause irreparable damages or when the appeal is based on "sound arguments of law". In contrast, the filing of an administrative tax appeal will suspend payments required by an assessment but not interest on the assessment. Furthermore, it is now expressly stated that the opinions of the tax authority with respect to a particular issue may not be appealed to the tax courts.

Income Tax

The Central Government is the only entity in Venezuela with the authority to tax income. As a percentage of Central Government revenues, income tax revenues were 14.7% in 2003, 16.1% in 2004, 22.1% in 2005, 23.9% in 2006 and 26.6% in 2007.

The petroleum industry provided 42.7% of total income tax revenues in 2003, 46.2% of total income tax revenues in 2004, 60.4% of total income tax revenues in 2005, 55.1% of total income tax revenues in 2006 and 23.1% of total income tax revenues in 2007.

Venezuelan income tax is payable by both natural persons and legal entities. The base of income upon which a person or entity may be taxed includes worldwide income. Certain Governmental entities, educational institutions, charitable institutions and funds, as well as certain other individuals and entities, are exempt from Venezuelan income tax. Additionally, the President, in conjunction with the Council of Ministers, has the power to exempt from the payment of taxes certain sectors or industries that are believed to be of particular importance to national or regional development. Natural persons are taxed at a rate from 6% up to 34%, depending on income level, with certain tax rebates for lower-income households. Corporations are taxed at a rate from 15% up to 34%, except for those engaged in the petroleum industry, which are taxed at a special rate determined by the Hydrocarbons Law. For more information on this law, refer to "Principal Sectors of the Venezuelan Economy—Petroleum and Natural Gas—New Hydrocarbons Law".

The inability of the Government to rely on sources of financing other than petroleum revenues has made it difficult to establish a positive balance in the consolidated public sector accounts and has contributed to the general instability of the Venezuelan economy as a whole. Because the development of a more diversified economy with a greater capacity for and a high volume of non-traditional exports can only be accomplished in the medium term, the Government has attempted to increase the base of non-petroleum tax revenues.

Value-Added Tax

In May 1999, the Government passed legislation establishing the VAT to replace the then existing sales tax. The VAT applies to sales of all goods and services throughout the chain of distribution, except certain exempted items such as food, medicine, telephone, gas and other utilities. The island of Margarita is exempted from the VAT altogether. The Central Government generated revenues of approximately Bs.6.5 trillion in 2003 from the VAT.

In July 2004, the National Assembly amended the VAT again, reducing the rate from 16% to 15%, which became effective in September 2004. During 2004, the Central Government generated revenues from the VAT of approximately Bs.13.4 trillion.

In August 2005, the National Assembly amended the VAT again, reducing the rate from 15% to 14%. The Central Government generated revenues of approximately Bs.20.0 trillion in 2005 and Bs.25.8 trillion, or 6.6% of GDP, in 2006 from the VAT. As part of the Government's policy of containing inflationary pressures in the economy, the VAT was reduced from 14% to 11%, effective March 1, 2007. The VAT was further reduced to 9% effective July 1, 2007. During 2007, the Central Government generated revenues from the VAT of approximately Bs.28.1 trillion.

Tax on Bank Debits

In March 2002, the Government enacted a bank debit tax, which had a term of one year. This tax was initially assessed at a rate of 0.75% on the value of each applicable transaction and subsequently was amended several times.

The tax on bank debits generated revenues in the amount of Bs.2.0 trillion, or 1.5% of GDP, during 2003, Bs.1.9 trillion, or 0.9% of GDP, during 2004, and Bs.2.7 trillion, or 0.9% of GDP, during 2005. In February 2006, the Government eliminated the bank debit tax.

Customs

A law was passed by the National Assembly in January 2002 to modernize Venezuela's customs operations, which is currently being implemented throughout Venezuela. Automated customs operations, referred to as the SIDUNEA system, have already been put into effect in the following ports of entry: *Marítima de La Guaira*, *San Antonio del Táchira* and *Subalternate of Ureña*, *Merida*, *Principal Maracaibo*, *Subalternate of Chinita*, *Principal de Puerto*

Cabello and *Principal de Valencia*. By the end of December 2004, eight additional principal and three additional subalternate automated customs operations were put into effect in Venezuela. The modernized ports using the new SIDUNEA system accounted for approximately 99% of customs revenues and 98% of imports. The total customs revenue collected in 2005 and 2006, including the VAT, was Bs.10.3 trillion and Bs.14.5 trillion, respectively. The total customs revenue collected in 2007, including the VAT, was Bs.9.4 trillion.

In addition, Venezuelan customs authorities have obtained special equipment for non-intrusive inspections of cargo containers in an effort to curtail drug trafficking and customs fraud. In March 2002, the *Comisión Presidencial de Lucha Contra el Fraude Aduanero* (Presidential Commission Against Customs Fraud) was formed. This commission is made up of several representatives of both the public and private sector who are interested in preventing contraband and customs fraud. Together they drafted the Anti-Contraband Bill, which was enacted in December 2005 and employs the use of more severe penalties and expands the scope of actions that may be taken by authorities to curtail contraband.

The Tax-Pardoning Law

In 2001, the National Assembly approved a tax-pardoning law, which established a system for the voluntary payment of overdue tax obligations through tax pardons, payment plans and opportunities to submit returns for previous years in which no returns were filed or to correct previously submitted returns. Depending on when the taxpayer applies for a pardon, once the taxpayer agrees to pay a specified percentage of his tax obligation, the remaining tax liability, including fines and interest, is pardoned. Under the law, the following are not pardonable tax liabilities: income taxes, luxury taxes and value-added taxes that have been already calculated or noted by tax agents; customs duties; banking or financial debits; debts subject to liens or attachments; and debts against which proceedings have been initiated and against which goods have already been attached.

SENIAT

In August 1994, the Government established SENIAT, an independent agency within the Ministry of Finance, to administer tax and customs collections. The objectives of the SENIAT include:

- increasing the level of non-oil tax revenues to 10.0% of GDP;
- reducing tax evasion by 0.5% of GDP;
- improving customs duty collections;
- promoting the modernization of the Venezuelan tax code system;
- developing a “tax culture”; and
- consolidating the organization of the SENIAT to promote efficiency in its collections.

The following table sets forth the revenues administered by SENIAT for the periods indicated:

	Year Ended December 31,				
	(in billions of 1997 Constant Bolívares)				
	2003	2004	2005	2006	2007
Income Tax	972.9	1,337.1	2,078.7	3,181.4	3,214.5
VAT	1,870.8	3,135.2	4,025.9	4,455.8	4,188.9
Customs Income	297.7	528.6	800.9	1,013.9	1,405.4
Other Internal Income	242.2	263.0	273.8	290.3	376.1
Liquor	76.7	91.8	99.7	98.8	136.8
Cigarettes	121.7	134.8	141.5	161.9	203.0
Stamp Revenue	35.1	23.9	19.5	14.3	8.7
Estate Tax	7.1	10.7	11.3	12.6	18.1
Matches	0.2	0.3	0.2	0.3	0.2
Gambling (Bingos and Casinos)	1.4	1.5	1.6	2.4	9.2
Financial Transactions Tax (ITF)[1]	0.0	0.0	0.0	0.0	378.3
Bank Debit Tax[2]	562.6	447.8	551.9	57.2	0.0
Total Gross Revenues	Bs. 3,946.5	Bs. 5,711.7	Bs. 7,731.1	Bs. 8,998.6	Bs. 9,563.2

(1) The collection of the ITF took effect on November 1, 2007 and will remain in force until December 31, 2008.
(2) In February 2006, the Government eliminated the bank debit tax.

Source: SENIAT

Revenues and Expenditures

Central Government

The Central Government's revenues consist of tax revenues and non-tax revenues, such as petroleum royalties and dividends from state-owned companies. The Central Government's expenditures consist primarily of operating expenditures, such as salaries, interest payments and purchases of goods and services, transfers to state and local governments and the private sector and capital expenditures.

As a percentage of Central Government revenues, non-tax revenues in 1997 Constant Bolívares accounted for 40.0% in 2003, 42.3% in 2004, 41.2% in 2005, 44.8% in 2006 and 38.7% through the first nine months of 2007.

Petroleum royalties provided 78.8% of non-tax revenues in 2003, 80.9% of non-tax revenues in 2004, 77.4% of non-tax revenues in 2005, 83.6% of non-tax revenues in 2006 and 83.6% of non-tax revenues through the first nine months of 2007.

In 2003, the Central Government's revenues totaled Bs.8.9 trillion in 1997 Constant Bolívares and the Central Government's expenditures totaled Bs.10.6 trillion in 1997 Constant Bolívares. As a result, the Central Government accounts recorded a deficit of Bs.1.7 trillion in 1997 Constant Bolívares, or 4.4% of GDP, for 2003.

In 2004, the Central Government's revenues totaled Bs.11.9 trillion in 1997 Constant Bolívares and the Central Government's expenditures totaled Bs.12.9 trillion in 1997 Constant Bolívares. As a result, the Central Government accounts recorded a deficit of approximately Bs.940.8 billion in 1997 Constant Bolívares, or 1.9% of GDP, for 2004.

In 2005, the Central Government's revenues increased to Bs.16.8 trillion in 1997 Constant Bolívares from Bs.11.9 trillion in 1997 Constant Bolívares in 2004. This increase was due primarily to improved tax collection and an increase in dividends, royalties and taxes from the petroleum sector due to an increase in petroleum prices. The Central Government's expenditures for 2005 increased to Bs.15.8 trillion in 1997 Constant Bolívares from Bs.12.9 trillion in 1997 Constant Bolívares for 2004. This increase was due primarily to an increase in transfers to the rest of the public sector. As a result of the foregoing factors and a larger positive current account surplus, the Central Government accounts recorded a surplus for 2005 of Bs.993.3 billion in 1997 Constant Bolívares, or 1.6% of GDP, compared to a deficit of Bs.940.8 billion in 1997 Constant Bolívares, or 1.9% of GDP, for 2004.

In 2006, the Central Government's revenues increased to Bs.20.8 trillion in 1997 Constant Bolívares. This increase was due primarily to an increase in dividends, royalties and taxes from the petroleum sector due to an increase in petroleum prices. The Central Government's expenditures for 2006 increased to Bs.20.7 trillion in 1997 Constant Bolívares. This increase was due primarily to an increase in the purchase of goods and services and an increase in transfers to the rest of the public sector. As a result of the foregoing factors and a larger positive current account surplus, the Central Government accounts recorded a surplus for 2006 of Bs.12.5 billion in 1997 Constant Bolívares, or 0.02% of GDP, compared to a surplus of Bs.993.3 trillion in 1997 Constant Bolívares, or 1.6% of GDP, for 2005.

As of September 30, 2007, the Central Government's revenues totaled Bs.18.8 trillion in 1997 Constant Bolívares. The Central Government's expenditures for the same period in 2007 increased to Bs.16.8 trillion in 1997 Constant Bolívares.

The following table sets forth the revenues, by source, and expenditures, by sector, of the Central Government for the periods indicated:

Venezuela Central Government Revenues and Expenditures

	Year Ended December 31,				
	2003	**2004[(1)]**	**2005[(1)]**	**2006[(1)]**	**2007[(1)]**
	(in billions of 1997 Constant Bolívares)				
Central Government					
Total Revenues	Bs. 8,911.5	Bs. 11,912.1	Bs. 16,841.2	Bs. 20,762.0	Bs. 18,769.4
Current Revenues	8,911.5	11,912.1	16,841.2	20,762.0	18,769.4
Tax Revenues	4,300.4	6,287.4	9,331.6	10,950.8	10,484.2
Petroleum Sector	558.8	889.0	2,249.5	2,693.4	2,650.5
Other	3,741.7	5,398.4	7,082.1	8,257.4	7,833.6
Non-tax Revenues	3,560.5	5,041.7	6,939.9	9,310.1	8,285.2
Petroleum Royalties	2,807.2	4,076.5	5,368.4	7,785.4	6,121.2
Other	753.3	965.2	1,571.5	1,524.7	1,429.4
Dividends	1,050.6	583.1	569.7	501.2	734.7
Capital Revenues	-	-	-	-	-
Total Expenditures	10,587.3	12,853.0	15,847.9	20,749.5	16,794.4
Current Expenditures	7,918.6	9,718.0	11,613.4	15,305.6	12,742.5
Operating Expenditures	4,082.2	4,453.6	4,704.5	5,730.5	4,333.5
Salaries, etc.	1,707.1	2,036.5	2,270.5	2,854.4	2,786.4
Interest Payments	1,788.9	1,813.6	1,798.4	1,443.6	983.1
Purchase of Goods and Services	586.2	603.5	635.5	1,432.5	564.0
Current Transfers	3,836.4	5,264.4	6,908.9	9,575.1	8,408.9
To Rest of Public Sector	3,669.3	4,596.0	6,137.6	8,549.8	7,373.1
To Private Sector	165.6	667.8	770.7	1,025.4	1,035.8
Other Transfers	1.5	0.5	0.6	-	-
Quasi-fiscal Operations of Banco Central	-	-	-	-	-
Extra-budgetary	488.0	388.6	390.8	446.4	181.0
Current Account Surplus	992.9	2,194.1	5,227.8	5,456.4	6,026.9
Capital Expenditures	2,091.2	2,503.1	3,538.9	4,662.3	3,801.3
Capital Formation	653.7	228.7	231.3	228.5	95.1
Capital Transfers	1,437.5	2,274.4	3,307.6	4,433.8	3,706.3
To Public Sector	1,435.8	2,271.7	3,303.9	4,427.1	3,698.9
To Private Sector	1.7	2.7	3.6	6.7	7.4
Financial Investment	89.5	243.3	304.9	335.2	69.7
Overall Surplus (Deficit)	(1,675.8)	(940.8)	993.3	12.5	1,974.9
As percentage of GDP	(4.4)%	(1.9)%	1.6%	0.0%	3.0%

(1) Preliminary figures.

Sources: *National Budget Office, referred to as ONAPRE, Banco Central and the Ministry of Finance.*

Consolidated Public Sector

The consolidated public sector accounts include the results of decentralized state entities, such as PDVSA and the CVG companies.

In 2003, consolidated public sector revenues totaled approximately Bs.12.3 trillion in 1997 Constant Bolívares and consolidated public sector expenditures totaled approximately Bs.12.2 trillion in 1997 Constant Bolívares. As a result, the consolidated public sector accounts recorded a surplus for 2003 of approximately Bs.134.7 billion in 1997 Constant Bolívares, or 0.4% of GDP.

In 2004, consolidated public sector revenues totaled approximately Bs.17.1 trillion in 1997 Constant Bolívares and consolidated public sector expenditures totaled approximately Bs.15.8 trillion in 1997 Constant Bolívares. As a result, the consolidated public sector accounts recorded a surplus for 2004 of approximately Bs.1.3 trillion in 1997 Constant Bolívares, or 2.5% of GDP.

In 2005, consolidated public sector revenues increased to Bs.23.0 trillion in 1997 Constant Bolívares from Bs.17.1 trillion in 1997 Constant Bolívares in 2004. This increase was due primarily to an increase in petroleum prices and improved tax collection. Consolidated public sector expenditures for 2005 increased to Bs.20.3 trillion in 1997 Constant Bolívares from Bs.15.8 trillion in 1997 Constant Bolívares for 2004. The increase in expenditures was due primarily to increased investment in infrastructure, including infrastructure in the electric sector, combined with increased spending on education and health care. As a result of the foregoing factors, the consolidated public sector accounts recorded a surplus for 2005 of Bs.2.7 trillion in 1997 Constant Bolívares, or 4.4% of GDP, compared to a surplus of Bs.1.3 trillion in 1997 Constant Bolívares, or 2.5% of GDP, for 2004.

In 2006, consolidated public sector revenues increased to Bs.26.2 trillion in 1997 Constant Bolívares. This increase was due primarily to an increase in the collection of income taxes from domestic activities as a result of economic growth. Consolidated public sector expenditures for 2006 increased to Bs.27.0 trillion in 1997 Constant Bolívares. The increase in expenditures was due primarily to a substantial increase in the purchases of goods and services given the overall increase in Central Government revenues. As a result of the foregoing factors, the consolidated public sector accounts recorded a deficit for 2006 of Bs.810.8 billion in 1997 Constant Bolívares, or 1.2% of GDP, compared to a surplus of Bs.2.7 trillion in 1997 Constant Bolívares, or 4.4% of GDP, for 2005.

As of September 30, 2007, consolidated public sector revenues increased to Bs.16.4 trillion in 1997 Constant Bolívares. Consolidated public sector expenditures as of September 30, 2007 were Bs.17.7 trillion in 1997 Constant Bolívares.

The following table sets forth the revenues, by source, and expenditures, by sector, of the consolidated public sector for the periods indicated:

Venezuela Consolidated Public Sector Revenues and Expenditures

	For the Year Ended December 31,				
	2003	**2004[(1)]**	**2005[(1)]**	**2006[(1)]**	**2007[(1)(3)]**
	(in billions of 1997 Constant Bolívares)				
Consolidated Public Sector					
Total Revenues	Bs. 12,328.4	Bs. 12,055.8	Bs. 23,012.2	Bs. 26,166.4	Bs. 16,420.6
Tax Revenues	3,936.9	5,654.1	7,392.9	8,681.0	6,455.0
Non-tax Revenues	8,391.5	11,401.8	15,619.3	17,485.4	9,965.7
Central Government	-	-	-	-	-
PDVSA Operating Surplus	6,716.0	8,285.0	10,696.5	11,453.8	7,359.9
FIV Interest and Dividend Income	-	-	-	-	-
Non-financial Public Enterprises	308.3	471.5	433.7	223.6	270.1
Capital Revenues	0.4	0.6	5.5	0.1	0.0
Other	1,366.9	2,644.7	4,483.6	5,807.9	2,335.7
Total Expenditures	12,193.7	15,853.5	13,042.0	16,743.5	17,716.6
Current Expenditures	8,439.2	10,853.5	13,042.0	16,743.5	10,646.5
Salaries, etc.	1,863.7	2,220.0	2,452.6	3,104.8	1,790.5
Purchases of Goods and Services	726.3	772.1	922.3	1,807.5	794.6
Interest Payments	1,986.2	1,863.2	1,819.5	1,455.1	843.8
Transfers to Private Sector	675.5	1,393.6	1,727.6	1,758.7	1,478.0
Central Government Transfers to Unconsolidated Entities	3,074.8	4,381.8	5,984.4	8,383.6	5,430.8
Other[(2)]	112.6	222.8	135.5	233.8	150.6
Central Government (Extra-Budgetary)	386.7	303.1	284.7	335.2	97.9
Capital Expenditures	3,367.8	4,647.1	7,013.1	9,898.4	6,932.2
Capital Formation	1,979.7	1,886.9	2,407.1	3,126.3	2,743.2
Other (Including Transfers to Unconsolidated Entities)	1,388.1	2,760.2	4,605.9	6,772.1	4,189.0
Overall Surplus (Deficit)	134.7	1,252.2	2,672.4	(810.8)	(1,296.0)
(As percentage of GDP)					
Total Revenues	32.3%	34.4%	37.8%	37.9%	23.1%
Total Expenditures	32.0	31.9	33.4	39.0	24.9
Overall Surplus (Deficit)	0.4%	2.5%	4.4%	(1.2)%	(1.8)%

(1) Preliminary figures.
(2) Includes other expenditures, exchange losses and quasi-fiscal losses of Banco Central.
(3) For the period January-September 2007.

Source: *Ministry of Finance, using IMF methodology.*

2007 Budget

In November 2006, the National Assembly approved the budget for 2007. The 2007 budget, as approved, projected total revenues of approximately U.S.$49.5 billion, or 30.0% of GDP, and total expenditures of approximately U.S.$53.5 billion or 32.0% of GDP. The 2007 budget also contemplates a legal limit on borrowing by the Republic of U.S.$3.9 billion, or 2.4% of GDP. The budget for 2007 is based on certain assumptions, including real GDP growth of 5.0%, an average price for the Venezuelan oil basket of U.S.$29.00 per barrel, an average exchange rate of Bs.2,150.00 = U.S.$1.00 and an average inflation at a rate of 12.0%.

2008 Budget

In November 2007, the National Assembly approved the budget for 2008. The 2008 budget, as approved, projected total revenues of approximately U.S.$59.1 billion (25.2% of GDP), and total expenditures of approximately U.S.$63.9 billion (27.3% of GDP). The 2008 budget also contemplates a legal limit on borrowing by the Republic of U.S.$7.6 billion (3.3% of GDP). The budget for 2008 is based on certain assumptions, including real GDP growth of 6.0%, an average price for the Venezuelan oil basket of U.S.$35.00 per barrel, an average exchange rate

of Bs.2,150.00 = U.S.$1.00 (the current exchange rate as of January 1, 2008 is Bs.F 2.15 = U.S.$1.00) and an average inflation at a rate of 11.0%.

PUBLIC DEBT

Overview

In 1976, the Government enacted the Organic Law of Public Credit to create and issue public debt through prior authorization and registration. The Organic Law of Public Credit has been superseded by the entry into force of the LOAFSP.

Public debt is defined to include public issues of bonds and treasury notes in Venezuela and abroad, domestic and foreign direct indebtedness, contracts providing for payments extending beyond the then current fiscal year and guaranties and modifications of existing indebtedness. The types of entities subject to regulation under the LOAFSP include national, state and municipal governments, decentralized state institutions, autonomous government institutions and other public entities, corporate entities controlled directly or indirectly by the public sector and non-profit organizations under the control of the Government.

Standard & Poor's, Moody's Investor Services and Fitch all lowered their ratings and outlook with respect to the Republic's foreign currency-denominated debt in late 2002 or early 2003 (Standard & Poor's in December 2002; Moody's and Fitch in January 2003), citing increasing pressure on the Republic's finances and international reserves due to continued economic disruptions, especially in the petroleum sector. Specifically, Standard & Poor's, Moody's and Fitch downgraded their ratings for the Republic's foreign currency-denominated debt to CCC+, Caa1 and CCC+ (for long-term debt), respectively. In addition, Moody's changed its outlook for the Republic's foreign debt to developing, while Standard & Poor's and Fitch maintained a negative outlook for such debt at that time. Standard & Poor's subsequently upgraded its outlook on the Republic's long-term foreign currency-denominated debt from negative to stable in April 2003 and, in July 2003, raised its rating for such debt from CCC+ to B-, citing improved external liquidity stemming from recovering oil production and an improved amortization profile related to the tender offer announced in July 2003. For more information concerning the tender offer announced in 2003, refer to "—1990 Financing Plan". Moody's and Fitch also subsequently upgraded their respective outlooks for the Republic's foreign debt to stable (Moody's in May 2003 and Fitch in June 2003). In addition, Fitch raised its rating for the Republic's foreign currency-denominated debt to B- in June 2003, citing the Government's success in restoring oil production levels. In August 2004, Standard & Poor's upgraded the Republic's long-term foreign currency-denominated debt rating from B- to B, and in September 2004, Moody's upgraded its rating from Caa1 to B2 and Fitch upgraded its rating from B- to B+, citing prospective diminished political instability following President Chávez's victory in the August 15, 2004 referendum coupled with substantial improvements in Venezuela's external indicators.

In January 2005, Standard & Poor's lowered its long- and short-term foreign currency sovereign credit ratings on Venezuela to "SD", citing a delay in the completion of the calculations required to determine the amount due on certain oil-indexed warrants, referred to as the Oil Obligations. An "SD" rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations, but will continue to make timely payments on other issues or classes of obligations. In October 2004, the Government announced that due to the disruptions caused by the work stoppage at PDVSA in 2002 and 2003, there would be delays in determining whether any payments were owing on the Oil Obligations on the scheduled payment date of October 15, 2004. On March 3, 2005, the Republic made the applicable payment on the Oil Obligations, plus accrued interest from October 15, 2004. The total amount of payment was U.S.$359,812. The Republic has made timely payments of all amounts that have subsequently become due and payable under the Oil Obligations.

Following Venezuela's payment on the Oil Obligations on March 3, 2005, Standard & Poor's raised Venezuela's long- and short-term foreign currency sovereign credit ratings from SD to B. In August 2005, Standard & Poor's raised Venezuela's long- and short-term foreign currency sovereign credit ratings from B to B+. In November 2005, Fitch raised its rating for the Republic's foreign currency-denominated debt from B+ to BB-, citing improvement in external debt and liquidity as a result of sound oil revenues. In February 2006, Standard & Poor's raised Venezuela's foreign currency debt rating again, from B+ to BB-, citing economic growth and stronger international reserves. In October 2006, Standard & Poor's lifted its outlook on Venezuela's sovereign debt from stable to positive citing the contribution of high oil prices to the continued improvement in Venezuela's debt indicators.

In January 2007, Standard & Poor's modified its outlook on Venezuela's "BB-" sovereign debt from "positive" to "stable", citing increased uncertainty with respect to government policy. In October 2007, Fitch modified its

outlook on Venezuela's "BB-" foreign currency-denominated debt rating from "stable" to "negative", citing an increasingly unsustainable macroeconomic policy framework.

The information above was obtained from information available on the websites of the rating agencies.

In November 2006, Venezuela issued U.S.$1.0 billion in principal amount of the *Bono del Sur*, or Bond of the South, a mix of Argentine dollar-denominated "Boden" bonds and Venezuelan *Títulos de Interés y Capital Cubierto*, or TICCs, which are local Venezuelan debt securities denominated in U.S. dollars that can be traded in Bolívares. In February 2007, Venezuela issued U.S.$1.5 billion in principal amount of the *Bono del Sur II* that included U.S.$750 million of Argentina's 7.0% Boden bonds due 2015 and U.S.$750 million of Venezuela's 5.25% TICC bonds due 2019. In September 2007, Venezuela issued U.S.$1.2 billion in principal amount of the *Bono del Sur III* that included U.S.$600 million of Argentina's 7.0% Boden bonds due 2015 and U.S.$600 million of Venezuela's 7.125% TICC bonds due 2015. In each case, Venezuela had acquired the Boden bonds from Argentina prior to each issuance of the *Bonos del Sur*.

The Republic has provided credit to Belize, and BANDES has provided credit to the Development Bank of Jamaica Limited, in the amount of U.S.$50.0 million and approximately €204.4 million, respectively. These credits are currently represented by capital markets instruments.

On November 15, 2007, the Republic sold U.S.$1,650,358,000 of its Venezolano I bond package at an average issue price of 131.52%. Fifty percent of the Venezolano I was composed by the Republic's U.S.$825,179,000 7.00% Bonds due 2038, and the other 50% was made up equally by two local *Vebono* bonds denominated in Bolívares, one due 2014 and the other due 2015. On November 27, 2007, the Republic sold U.S.$849,648,000 of its Venezolano II bond package at an average issue price of 129.8%. Fifty percent of the Venezolano II was composed by the Republic's U.S.$424,824,000 7.00% Bonds due 2038, and the other 50% was made up equally by two local *Vebono* bonds denominated in Bolívares, one due 2013 and the other due 2014.

Summary of External Debt

The following table sets out the composition of Venezuela's external public debt outstanding at the dates indicated:

	December 31,				
	2003	**2004**	**2005**	**2006**	**2007**[1]
	(in millions of U.S. dollars)				
Commercial Bank External Public Sector Debt	$ 2,266.3	$ 2,139.7	$ 2,005.6	$ 1,833.5	$ 1,649.3
Other External Public Sector Debt	22,513.4	25,329.7	29,192.5	25,421.1	25,638.7
Obligations and Bonds	17,858.8	21,027.2	25,443.0	21,439.6	22,312.7
Suppliers & Contractors	157.4	117.5	81.1	30.7	13.7
Multilateral Agencies	3,789.1	3,523.5	3,118.4	3,413.6	2,653.3
Bilateral Agencies	708.2	661.5	550.0	537.2	659.0
Total External Public Sector Debt	$24,779.7	$27,469.4	$31,198.1	$27,254.6	$27,288.0

(1) Preliminary figures. At the Bolivar/U.S. dollar exchange rate as of December 31, 2007, as provided by Banco Central.

Source: *Ministry of Finance.*

The following table sets out the scheduled amortizations for Venezuela's external public debt for each of the years indicated as of December 31, 2007:

	Scheduled Amortization[1] (in millions of U.S. dollars)				
	2008	**2009**	**2010**	**2011**	**2012 and thereafter**
Commercial Bank External Public Sector Debt	$ 356.1	$ 288.1	$ 218.8	$ 173.6	$ 446.2
Other External Public Sector Debt	1,846.9	400.8	1,896.5	2,088.0	19,397.1
Obligations and Bonds	1,424.0	-	1,490.0	1,663.5	17,735.3
Suppliers & Contractors	7.5	4.0	2.7	2.7	2.7
Multilateral Agencies	339.9	307.9	315.7	348.8	1,326.0
Bilateral Agencies	75.6	88.9	88.2	73.1	333.2
Total External Direct Public Sector Debt	$2,203.1	$ 688.9	$2,115.3	$2,261.6	$19,843.4

(1) Assumes subsequent disbursements from credit facilities entered into as of December 31, 2007.

Source: *Ministry of Finance.*

Internal Public Debt

The Government's internal public debt as of December 31, 2007 totaled approximately Bs.35.9 trillion, or U.S.$16.7 billion (at the prevailing Bolivar/U.S. dollar exchange rate on that date) compared to Bs.36.3 trillion, or U.S.$16.9 billion (at the prevailing Bolivar/U.S. dollar exchange rate on that date) on December 31, 2006.

The table below sets forth a summary of Venezuela's internal public debt as of December 31, 2007:

Type of Debt	Outstanding as of December 31, 2007 (in millions of U.S. dollars)[1]
Treasury Bonds (*Letras del Tesoro*)	$275.58
National Public Debt Bonds	16,314.67
Loans	79.87
Promissory Notes[2]	73.23
Total Internal Debt of the Republic of Venezuela	16,743.35
Internal Debt Issued by Public Entities and Guaranteed by the Republic	0.22
Total	$ 16,743.57

(1) At the Bolivar/U.S. dollar exchange rate as of December 31, 2007.
(2) Issued in domestic market; denominated in foreign currency.

Source: *Ministry of Finance.*

Multilateral Borrowings and Subscriptions

The Government has entered into credit agreements with several multilateral institutions, including:

- financing from the IADB covering a wide spectrum of initiatives relating to structural adjustment, public sector reform, educational improvements, health reform, infrastructure enhancements and environmental protection, of which approximately U.S.$1.1 billion was outstanding at December 31, 2007; and
- several loan agreements with CAF, of which U.S.$1.5 billion was outstanding as of December 2007.

Venezuela is one of the founding members of the IMF. As of December 2007, its subscription to the IMF, which corresponds to its quota, was SDR 2.7 billion or U.S.$4.2 billion. Venezuela's subscription to the capital of the World Bank was U.S.$2.5 billion at December 2007. Of this amount, U.S.$150 million has been disbursed as of December 2007. For more information concerning the IMF and the World Bank, refer to "Bolivarian Republic of

Venezuela—External Affairs and Membership in International Organizations". In addition, Venezuela is a member of the other World Bank Group affiliates, International Finance Corporation, or IFC, with subscriptions of U.S.$27 million, and MIGA, with subscriptions of U.S.$15 million, in each case at December 2007.

Venezuela's subscription to the capital of the IADB was U.S.$5.8 billion at December 2007, one of the largest subscriptions of the bank's Latin American members. Of this amount, U.S.$169 million had been paid in cash as of December 2007, and the balance is callable if required to meet the bank's obligations. Venezuela's contribution to the IADB's Fund for Special Operations is U.S.$313.7 million.

Venezuela is a member of CAF with subscriptions of capital totaling U.S.$316.8 million, of which U.S.$316.8 million has been paid in cash as of December 2007. Venezuela is also a member of *Banco de Desarrollo del Caribe*, with subscriptions of capital totaling U.S.$20 million, of which U.S.$5 million had been paid in cash as of December 2007.

1990 Financing Plan

In June 1990, the Government, along with its bank advisory committee, announced the principal terms of a financing plan, referred to as the 1990 Financing Plan. The 1990 Financing Plan provided for the exchange of medium-term commercial bank debt for a variety of options featuring debt and debt service reduction or new money, including collateralized short-term notes, collateralized bonds and new money bonds.

The 1990 Financing Plan, structured along the lines of the Brady initiative, contemplated that all eligible debt would be exchanged for one or more of the options. Funds for the acquisition of collateral for the options came from the IMF, the World Bank, Venezuela's own resources and other external sources.

The 1990 Financing Plan was consummated on December 18, 1990. Pursuant to the 1990 Financing Plan, holders of eligible debt exchanged such debt for one or more of the options offered under the 1990 Financing Plan. The options under the 1990 Financing Plan included the New Money Option, Collateralized Short-Term Notes Option, Collateralized Principal Option and Front-Loaded Interest Reduction Option.

The bonds issued under the 1990 Financing Plan were in several different currencies. The New Money Bonds and Debt Conversion Bonds were issued in U.S. dollars, Deutsche marks and Pounds sterling. The Short-Term Notes were issued in U.S. dollars. The Par Bonds were issued in U.S. dollars, Deutsche marks, French francs, Italian lire and Swiss francs. The Discount Bonds were issued in U.S. dollars and Deutsche marks, and the Front-Loaded Interest Reduction Bonds were issued in U.S. dollars, Deutsche marks, Swiss francs and Pounds sterling. The bonds denominated in Deutsche marks, French francs and Italian lire are now being serviced in Euros.

In connection with the 1990 Financing Plan, the Republic issued Oil-Indexed Payment Obligations to holders of its Par and Discount Bonds due 2020. Holders were given five Oil Obligations for each U.S.$1,000 of old debt exchanged for Par Bonds and Discount Bonds. Venezuela is required to make certain payments under the Oil Obligations in the event that the average price per barrel of crude oil exported from Venezuela over the applicable determination period exceeds a strike price set forth in the Oil Obligations, up to a maximum of U.S.$3.00 per Oil Obligation per determination period. For more information concerning the Oil Obligations, refer to "—Overview".

In March 2006, the Republic purchased in private transactions and retired U.S.$699,553,000 in aggregate principal amount of its U.S. dollar-denominated Discount Bonds due 2020. Subsequently, it redeemed all of the remaining outstanding principal amount of its Par and Discount Brady Bonds of all series. The redemption was completed on May 31, 2006. The final outstanding bonds issued under the 1990 Financing Plan with a current outstanding amount of U.S.$4.0 million will mature in December 2008.

Capital Market Issues of Public External Debt

Over the past 50 years, despite the debt crisis that prompted the restructuring of its commercial bank debt, Venezuela has paid on a current basis in accordance with the terms of the relevant agreements the full amount of principal and interest due on all publicly-issued bonds and notes in the international capital markets. Prior to the consummation of the 1990 Financing Plan, the percentage of Venezuela's external debt represented by obligations issued in the international capital markets was very small, approximately 5.6% at December 31, 1989. Venezuela's

debt structure has shifted as a result of the 1990 Financing Plan and subsequent issues of capital markets instruments such that international capital markets obligations now constitute the major portion, approximately 81%, of Venezuela's total external debt as of December 31, 2007.

The following table sets out a summary, as of December 31, 2007, of the principal features of the long-term outstanding bonds and notes publicly issued in external capital markets other than the bonds issued pursuant to the 1990 Financing Plan.

Security	Currency of Issue[1]	Original Issue Size	Principal Outstanding	Interest Rate[2]	Initial Issue Date	Maturity Date	Target Market
		(Millions)					
ROV 9.25%	U.S.$	4,000	4,000	9.25%	Sept. 97	Sept. 27	United States
ROV 13.625%	U.S.$	753	753	13.625%	Aug. 98[3]	Aug. 18	United States
ROV DM-7.375%	DM	180	180	7.375%	Oct. 98	Oct. 08	Germany
ROV €-11.00%	€	880	880	11.00%	Mar. 01[4]	Mar. 08	Euromarket
ROV ¥ FRN'08	¥	17,926	17,926	¥ LIBOR +5.93%	Mar. 01	Mar. 08	Euromarket
ROV €-11.125%	€	348	348	11.125%	July 01[5]	July 11	Euromarket
ROV 13.625%	U.S.$	300	300	13.625%	Sept. 01	Aug. 18	United States
ROV 5.375%	U.S.$	1,500	1,500	5.375%	Aug. 03	Aug. 10	Euromarket
ROV 10.75%	U.S.$	1,559	1,559	10.75%	Sept. 03[6]	Sept. 13	Euromarket
ROV 7.00%	U.S.$	1,000	1,000	7.00%	Dec. 03	Dec. 18	Venezuela
ROV 9.375%	U.S.$	1,500	1,500	9.375%	Jan. 04[7]	Jan. 34	Euromarket
ROV FRN'11	U.S.$	1,000	1,000	LIBOR +1.00%	Apr. 04	Apr. 11	Euromarket
ROV 8.5%	U.S.$	1,500	1,500	8.5%	Oct. 04	Oct. 14	Euromarket
ROV €-7.00%	€	1,000	1,000	7.00%	Mar. 05	Mar. 15	Euromarket
ROV ¥ FRN'11	¥	17,926.5	17,926.5	¥ LIBOR +2.51%	Mar. 05	Mar. 11	Euromarket
ROV 7.00%	U.S.$	1,250	1,250	7.00%	Nov. 07[8]	Mar. 38	Euromarket

(1) Notes issued in Deutsche marks are now being serviced in Euros.
(2) Interest is paid on a semi-annual basis except on the issues denominated in Deutsche marks and Euro on which interest is paid annually and the issue denominated in ¥ on which interest is paid quarterly.
(3) U.S.$500 million in aggregate principal amount of these notes were issued initially for cash in August 1998. In connection with an exchange undertaken with BANDES in 2003, referred to as the BANDES Exchange, the Republic issued an additional U.S.$252.8 million in aggregate principal amount of these notes, which form a single series with the U.S.$500 million of these notes issued in 1998.
(4) €700 million in aggregate principal amount of these notes were issued for cash in three separate tranches during 2001. In connection with the BANDES Exchange, the Republic issued an additional €180 million in aggregate principal amount of these notes, which form a single series with the €700 million of these notes issued in 2001.
(5) €250 million in aggregate principal amount of these notes were issued initially for cash in July 2001. In connection with the BANDES Exchange, the Republic issued an additional €94.3 million in aggregate principal amount of these notes, which form a single series with the €250 million of these notes issued in 2001.
(6) U.S.$700 million in aggregate principal amount of these notes were issued initially for cash on September 19, 2003. On October 23, 2003, the Republic issued an additional U.S.$858.5 million in aggregate principal amount of these notes, which form a single series with the U.S.$700 million of these notes issued in September 2003. The additional issuance was divided between a cash offer to international investors in an aggregate principal amount of U.S.$470 million and an exchange tranche pursuant to which the Republic issued U.S.$388.5 in aggregate principal amount of these notes in exchange for beneficial interests in *pagarés* previously issued by the Republic and held by certain of its contractors, suppliers or their assignees. For more information regarding the exchange tranche, refer to "—Internal Public Debt".
(7) U.S.$1.0 billion in aggregate principal amount of these notes were issued in January 2004. In December 2004, the Republic issued an additional U.S.$500 million in aggregate principal amount of these notes, which form a single series.
(8) U.S.$825,179,000 in aggregate principal amount of these notes were issued on November 15, 2007. On November 27, 2007, the Republic issued an additional U.S.$424,824,000 in aggregate principal amount of these notes, which form a single series.

Source: *Ministry of Finance.*

External Private Sector Debt

From March 1989 to July 1994, private sector entities were not required to register their foreign currency denominated indebtedness. As a result, the Government had no official record of any inflows or outflows of private sector indebtedness. Upon the implementation of foreign exchange controls in July 1994, the Government established a procedure for private sector entities to register their foreign currency indebtedness and apply for access to foreign exchange. Commencing in the third quarter of 1994, private sector entities were permitted to register their outstanding foreign currency debt with the *Unidad de Registro de la Deuda Externa Privada*, and thereafter the *Oficina Técnica de Administración Cambiaria*. As of November 1995, the *Unidad de Registro de la Deuda Externa Privada* estimated that total private external debt was U.S.$5 billion. On April 15, 1996, the Government announced the elimination of exchange controls. Between that date until the implementation of exchange controls in early 2003, private sector entities had not needed to obtain governmental authorization to obtain foreign currency. For more information, refer to "The Venezuelan Economy—Exchange Control Regime" for a description of the exchange controls currently in effect in Venezuela.

Commercial Bank and Supplier Public External Debt

In recent years, the Government has entered into credit agreements with various foreign commercial banks and suppliers of goods and services in order to finance projects and to procure goods and services. In many cases, the Government's obligations under such credit agreements are guaranteed by non-commercial risk insurance provided by the Export-Import Bank of the United States, referred to as Ex-Im Bank, and other bilateral agencies of the OECD countries.

Following the Government's imposition of exchange controls in the first quarter of 2003, on April 17, 2003, Ex-Im Bank announced that it would not approve additional guaranties to Venezuela for the sale of U.S. goods to public and private purchasers.

TABLES AND SUPPLEMENTARY INFORMATION

I. Venezuela's Funded Internal Debt (as of December 31, 2007)

Internal Direct Debt of the Republic	Interest Rate	Issuance Date	Final Maturity	Issued Amount (Millions of U.S.$)	Outstanding Amount (Millions of U.S.$)
Commercial Bank Loans	Various	Dec. 95-Feb. 00	Jan. 01-Feb. 05	29.3	0.0
Suppliers' Loans	Various	2002	2003-2005	2.8	0.8
	Various	1990	1997-2003	1.1	79.0
	Various	1996	1999-2003	1.0	0.1
				4.9	79.9
Debt with Banco Central					
Debt to Equity Conversion Bonds					
Decreto 2490, Emisión 1, 1988	(1)	September 1988	December 2003(2)	0.3	0.4
Decreto 1051, Emisión 2, 1990	(1)	June 1990	August 2000(2)	5.3	13.9
Decreto 1398, Emisión 3, 1990	(1)	December 1990	December 2001(2)	0.4	1.0
Decreto 2057, Emisión 4, 1991	(1)	December 1991	June 2001(2)	6.6	21.7
Decreto 3120, Emisión 6, 1993	(1)	August 1993	August 2003(2)	4.8	11.6
				17.3	48.6
BCV Debt Refinancing Bonds	(1)	December 1998	December 2001(2)	48.9	60.9
BCV Debt Refinancing Bonds	(1)	May 2001	March 2008	149.3	149.3
BCV Debt Refinancing Bonds	(1)	July 1997	July 2015	3,688.0	0.0
				3,903.5	210.2
National Public Debt Bonds					
(Deuda Pública Nacional-DPN)					
Resident Bonds	LIBOR + 1%	1983	18 years(3)	950.0	75.5
Deuda Pública Nacional (DPN)	(1)	2002	1-7 years	553.7	182.2
Deuda Pública Nacional (DPN & Vebonos)	(1)	2003	1-6 years	235.4	235.4
Deuda Pública Nacional (DPN & Vebonos)	(1)	2004	1-6 years	2,703.1	2,703.1
Deuda Pública Nacional (DPN & Vebonos)	(1)	2005	3-5 years	3,755.0	3,755.0
Deuda Pública Nacional (DPN & Vebonos)	(1)	2006	5-20 years	3,880.8	3,880.8
Deuda Pública Nacional (DPN & Vebonos)	(1)	2007	5-20 years	1,999.6	1,999.6
Deuda Pública Nacional (U.S.$)	(1)	2006	10 years	1,075.3	1,075.3
Deuda Pública Nacional (U.S.$)	(1)	2007	11 years	2,149.0	2,149.0
				17,301.9	16,055.9
Promissory Notes	Fixed	2003		1,413.0	8.6
	Fixed	2004		192.3	64.7
				1,605.3	73.3
Total Funded Internal Debt of the Republic				22,844.8	16,467.8
Internal Debt of Public Sector Entities Guaranteed by the Republic				1.8	0.2
Total Funded Internal Debt				22,846.6	16,468.0

(1) Rate set by Banco Central in accordance with the formulae established by the decrees pursuant to which the bonds were issued.
(2) The Republic is currently in the process of documenting this debt and is awaiting a legal opinion from Banco Central.
(3) This debt is in the process of being documented for payment by the Republic.

Source: *Ministry of Finance.*

II. Venezuela's Floating Internal Direct Debt (as of December 31, 2007)

Internal Direct Debt of the Republic	Interest Rate	Issuance Date	Final Maturity	Issued Amount *(Millions of U.S.$)*	Outstanding Amount *(Millions of U.S.$)*
Treasury Bonds					
(Letras del Tesoro)					
Decreto 4227, Emisión 68..................	(1)	January 2005	Less than 364 days	1,860.47	-
Decreto 5164, Emisión 69..................	(1)	January 2006	Less than 364 days	1,720.93	275.58
				3,581.40	275.58

III. Venezuela's Funded External Direct Debt (as of December 31, 2007)[1]

	Interest Rate	Issue Date	Final Maturity	Currency	Principal Amount: Issued Amount *(Millions of Original Currency)*[2]	Principal Amount: Outstanding Amount *(Millions of U.S.$)*[3]
Multilateral Organizations:						
Inter-American Development Bank	Variable	1985-1991	1996-2011	U.S.$	1,011.3	15.3
	Variable	1992	2000-2012	U.S.$	437.3	33.1
	Variable	1993	1999-2018	U.S.$	605.3	416.9
	Variable	1994	2001-2014	U.S.$	211.0	150.3
	Variable	1995	2003-2015	U.S.$	139.8	49.3
	Variable	1996	2004-2021	U.S.$	52.0	40.5
	Variable	1997	2017-2020	U.S.$	57.1	30.2
	Variable	1998	2003-2013	U.S.$	370.9	135.0
	Variable	2000	2004-2025	U.S.$	120.0	102.0
	Variable	2001	2007-2021	U.S.$	75.0	37.5
	Variable	2002	2006-2031	U.S.$	80.5	18.1
	Variable	2003	2006-2010	U.S.$	5.0	0.0
	Variable	2004	2009-2024	U.S.$	5.0	0.0
	Variable	2005	2009-2030	U.S.$	23.5	6.3
	Variable	2006	2007-2030	U.S.$	750.0	115.0
					3,943.7	**1,149.6**
Corporación Andina de Fomento	Variable	1995-2005	1999-2020	U.S.$	3,397.4	1,164.5
	Variable	2006	2007-2016	U.S.$	425.0	300.0
					3,822.4	**1,464.5**
FIDA	8%	1988-1992	1994-2006	SDR	19.2	0.5
						0.5
NIB	Variable	1993	2007-2013	U.S.$	60.0	36.0
	Variable	2003	2009-2018	U.S.$	2.8	2.8
					62.8	**38.8**
Bilateral Agencies:						
Various Creditors	Fixed	2001	2012-2032	EURO	10.0	14.6
Various Creditors	Fixed	1993-1996	1993-2018	U.S.$	87.4	62.9
Various Creditors	Variable	1993-1996	1993-2015	U.S.$	46.8	102.1
Various Creditors	Variable	1998	1999-2010	U.S.$	111.7	6.3
Various Creditors	Fixed	1999	2010-2030	U.S.$	102.8	66.4
Various Creditors	Variable	2000	2001-2012	U.S.$	115.5	29.9
Various Creditors	Fixed	2001	2005-2014	U.S.$	107.5	73.7
Various Creditors	Variable	2001	2004-2008	U.S.$	42.4	2.7
Various Creditors	Variable	2002	2004-2011	U.S.$	37.7	19.1
Various Creditors	Fixed	2003	2006-2020	U.S.$	182.6	104.7
Various Creditors	Fixed	2004	2026-2045	U.S.$	14.2	57.8
Various Creditors	Fixed	2005	2007-2015	YEN	15,793.6	118.7
						659.0
Suppliers and Contractors:						
Various Creditors	Variable	1996	1997-2002	U.S.$	208.8	(5.6)
Various Creditors	Variable	1998	1999-2003	U.S.$	174.8	(5.1)
Various Creditors	Variable	2002	2003-2012	U.S.$	15.0	0.9
Various Creditors	Fixed	2002	2003-2012	U.S.$	29.2	17.4
Various Creditors	Variable	2003	2002-2007	U.S.$	17.2	6.1
					445.0	**13.7**

	Interest Rate	Issue Date	Final Maturity	Currency	Principal Amount — Issued Amount *(Millions of Original Currency)*[(2)]	Principal Amount — Outstanding Amount *(Millions of U.S.$)*[(3)]
Commercial Banks:						
Various Creditors	Variable	1998	1999-2009	CHF	19.6	1.5
Various Creditors	Variable	1999	1999-2011	CHF	31.8	6.5
Various Creditors	Variable	2004	2005-2014	CHF	17.3	10.9
Various Creditors	Fixed	1993	2005-2017	EURO	25.6	29.9
Various Creditors	Fixed	1998	2004-2012	EURO	201.3	155.5
Various Creditors	Variable	2001	2002-2008	EURO	276.1	0.8
Various Creditors	Fixed	2001	2002-2010	EURO	38.1	54.2
Various Creditors	Variable	2002	2004-2012	EURO	399.4	318.4
Various Creditors	Fixed	2002	2003-2016	EURO	52.8	43.8
Various Creditors	Variable	2003	2004-2016	EURO	157.6	147.1
Various Creditors	Variable	2004	2006-2016	EURO	2.8	17.6
Various Creditors	Fixed	1993	2006-2010	U.S.$	59.7	44.9
Various Creditors	Variable	1996	1997-2010	U.S.$	591.9	3.8
Various Creditors	Variable	1997	1999-2008	U.S.$	108.5	3.5
Various Creditors	Variable	1998	1999-2012	U.S.$	520.3	26.5
Various Creditors	Fixed	1998	2000-2013	U.S.$	142.8	38.6
Various Creditors	Variable	1999	2003-2011	U.S.$	84.0	4.7
Various Creditors	Fixed	1999	2003-2011	U.S.$	54.0	11.5
Various Creditors	Variable	2000	2001-2015	U.S.$	354.7	85.0
Various Creditors	Fixed	2000	2001-2011	U.S.$	80.8	13.3
Various Creditors	Variable	2001	2002-2015	U.S.$	371.4	97.4
Various Creditors	Fixed	2001	2002-2013	U.S.$	72.4	19.7
Various Creditors	Variable	2002	2003-2016	U.S.$	459.2	221.4
Various Creditors	Fixed	2002	2006-2011	U.S.$	43.2	17.7
Various Creditors	Variable	2003	2004-2015	U.S.$	417.6	141.9
Various Creditors	Fixed	2003	2006-2011	U.S.$	16.2	3.1
Various Creditors	Variable	2004	2005-2017	U.S.$	427.6	93.9
Various Creditors	Variable	2005	2009-2012	U.S.$	62.7	36.2
						1,649.3
Bonds:						
DM – 10.00%	10.000%	1998	2008	DM	180.0	134.5
Debt Conversion - US$ (Series DL)	LIBOR + 7/8%	1990	1997-2008	STG	119.4	4.0
Global Bonds – 11.00%	11.000%	2001	2008	EURO	880.0	1,285.4
Global Bonds – 5.375%	5.375%	2003	2010	U.S.$	1,500.0	1,490.0
Global Bonds – 11.125%	11.125%	2001	2011	EURO	344.3	503.0
Global Bonds – 10.75%	10.750%	2003	2013	U.S.$	1,559.0	1,539.5
Global Bonds – 8.50%	8.500%	2004	2014	U.S.$	1,500.0	1,498.0
Global Bonds – 5.75%	5.750%	2005	2016	U.S.$	1,500.1	1,500.1
Global Bonds – 7.00%	7.000%	2005	2015	EURO	1,000.0	1,310.0
Global Bonds – 13.625% Callable	13.625%	2001	2018	U.S.$	300.0	300.0
Global Bonds – 13.625%	13.625%	1998	2018	U.S.$	752.8	752.8
Global Bonds – 7.00%	7.000%	2003	2018	U.S.$	1,000.0	1,000.0
Global Bonds – 6.00%	6.000%	2005	2020	U.S.$	1,500.1	1,500.1
Global Bonds – 7.65%	7.650%	2005	2025	U.S.$	1,599.8	1,597.8
Global Bonds – 9.25%	9.25%	1997	2027	U.S.$	4,000.0	3,998.0
Global Bonds – 7.00%	7.00%	2007	2038	U.S.$	1,250.0	1,250.0
Global Bonds – 9.375%	9.375%	2004	2034	U.S.$	1,500.0	1,489.0
USD FRN 2011	LIBID + 1%	2004	2011	U.S.$	1,000.0	1,000.0
JPY FRN 2011	LIBOR + 5.93%	2001	2008	JPY	17,926.5	160.5
						22,312.7
Total						**27,288.0**

(1) Debt classification by source of finance was adjusted according to the *Sistema de Gestión de Deuda* system criteria.
(2) Expressed in units of original currencies.
(3) Debt incurred in currencies other than U.S. dollars at the respective exchange rates as of December 31, 2007.
(4) Subject to court order suspending payments.
Source: Ministry of Finance.

REGISTRATION AND BOOK-ENTRY SYSTEM

Each Series of the Bonds will be represented by one or more registered global notes (the "Global Bonds"), which will be deposited with the Fiscal Agent, as custodian for DTC, and registered in the name of Cede & Co., as nominee of DTC. Until June 17, 2008, the Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

So long as DTC, or its nominee, is the registered owner or holder of a Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by such Global Bond for all purposes under the Fiscal Agency Agreement and the Bonds (except with respect to the determination of Additional Amounts owing). Payments of the principal, interest and Additional Amounts, if any, on the Global Bonds will be made to DTC or Cede & Co. as its nominee, as the registered owner thereof. None of the Republic, the Fiscal Agent or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Republic expects that DTC, or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a Global Bond representing any of the Bonds held by it or its nominee, will immediately credit DTC Participants' (as defined below) accounts with payments in amounts proportionate (except with respect to Additional Amounts) to their respective beneficial interests in the principal amount of such Global Bond as shown on the records of DTC or its nominee. The Republic expects that payments by Euroclear and Clearstream, Luxembourg to owners of beneficial interests in such Global Bond will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of Euroclear and Clearstream, Luxembourg.

Unless DTC notifies the Republic that it is unwilling or unable to continue as depositary for the Global Bonds or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934 (the "Exchange Act"), or an Event of Default has occurred and is continuing, owners of beneficial interests in a Global Bond will not be entitled to have any portion of such Global Bond registered in their names, will not receive or be entitled to receive physical delivery of the Bonds in certificated form and will not be considered to be the owners or holders of any Bonds under the Fiscal Agency Agreement. In addition, no beneficial owner of an interest in a Global Bond will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable, those of Euroclear and Clearstream, Luxembourg).

If DTC is at any time unwilling or unable to continue as a depositary or ceases to be a "clearing agency" as described in the preceding paragraph and a successor depositary is not appointed by the Republic within 90 days thereafter, or an Event of Default has occurred and is continuing, the Republic will issue certificates for the Bonds in definitive registered form in exchange for the Global Bonds. The Bonds are not issuable in bearer form. The holder of a definitive registered Bonds may transfer such Bonds as described above under "Description of the Bonds—Replacement, Exchange and Transfer". The cost of preparing, printing, packaging and delivering the Bonds shall be borne by the Republic.

Neither the Fiscal Agent nor any other transfer agent shall register the exchange of interests in a Global Bond for definitive Bonds of a Series for a period of 15 days preceding the due date for any payment of principal of or interest on the Bonds of such Series.

A description of the certificated Bonds, and the procedures for transfer, exchange and replacement of certificated Bonds are contained in the Fiscal Agency Agreement, a copy of which is available at 60 Wall Street, 27th Floor, MS NYC 60-2710, New York, New York 10005.

BANCO CENTRAL UNDERTAKING

The description of the Banco Central Undertaking in this section is a summary and is not complete. Because it is only a summary, the description may not contain information that is important to you as a potential investor. Therefore, you should read the Banco Central Undertaking in making your decision on whether to invest in the Bonds.

Venezuela has irrevocably and unconditionally agreed that each payment to be made by Venezuela under the Bonds shall be effected through Banco Central under an agreement referred to as the Banco Central Undertaking. For that purpose, Venezuela has instructed Banco Central to:

- execute and deliver an undertaking in favor of the Fiscal Agent, each paying agent and the holders of the Bonds; and
- in accordance with the terms of that undertaking, remit U.S. dollars in the amount of each payment of principal and interest on the Bonds at the time and place designated for the Bonds.

In conjunction with the Banco Central Undertaking, Venezuela has irrevocably and unconditionally agreed to:

- deposit at Banco Central the Bolívares Fuertes required for each payment prior to the date such payment is required to be made; and
- deliver in a timely fashion to Banco Central the authorizations necessary for it to effect the required conversions of Bolívares Fuertes into U.S. dollars.

Venezuela has agreed that Venezuela's deposit of funds with Banco Central shall not be deemed to constitute payment to any holder of such Bonds of any amount payable to such holder. The law of the State of New York will govern the Banco Central Undertaking.

Once Venezuela deposits with Banco Central the Bolívares Fuertes required for a payment due under the Bonds and provides Banco Central with the authorizations necessary for it to convert the Bolívares Fuertes into U.S. dollars, Banco Central will have a separate and independent obligation to remit U.S. dollars to the Fiscal Agent for payment to the holders of the Bonds.

Banco Central has agreed that any legal proceeding against it or its properties, assets or revenues in connection with a Banco Central Undertaking may be brought exclusively in: the Supreme Court of the State of New York, County of New York; the United States District Court for the Southern District of New York; the High Court of Justice, England, the courts of Venezuela that sit in Caracas and, only in special circumstances described in the Banco Central Undertaking, in another court that has jurisdiction or is otherwise competent to hear and determine the legal proceeding. Banco Central has irrevocably waived any objection which it now has or may later acquire to the laying of venue in any of these courts and has also waived (to the extent it is permitted to do so by applicable law) any right to claim that any of these courts is an inconvenient forum.

Banco Central has agreed to waive and not claim any immunity from suit, from jurisdiction of the court and from any other legal or judicial process or remedy, to which Banco Central or its revenues, assets or properties are entitled, in any legal proceeding in one of the courts specified above with respect to a Banco Central Undertaking, including immunity from post-judgment attachment and execution (but not from pre-judgment attachment and except for certain processes and remedies more fully described in the Banco Central Undertaking).

CLEARING AND SETTLEMENT

Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Bonds through DTC and investors who hold or will hold Bonds through Euroclear and/or Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg.

Upon the issuance of the Global Bonds, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Bonds to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Dealer Managers. Ownership of beneficial interests in a Global Bond is limited to persons who have accounts with DTC ("DTC Participants"), including Euroclear and Clearstream, Luxembourg, or indirect DTC participants. Ownership of beneficial interests in the Global Bonds are shown on, and the transfer of that ownership may be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of indirect DTC participants).

Euroclear and Clearstream, Luxembourg hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn hold such positions in customers' securities accounts in such depositaries' names on the books of DTC.

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in the Global Bonds among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Republic nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Trading between DTC Participants. Secondary market trading of Bonds represented by the Global Bonds between DTC participants will trade in DTC's Same-Day Funds Settlement System and will therefore settle in same-day funds.

Trading between Clearstream, Luxembourg and/or Euroclear participants. Secondary market trading between Clearstream, Luxembourg participants and/or Euroclear participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading between DTC seller and Clearstream, Luxembourg or Euroclear purchaser. When interests are to be transferred from the account of a DTC Participant to the account of a Clearstream, Luxembourg participant or a Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant, as the case may be, at least one business day prior to settlement. Clearstream, Luxembourg or Euroclear will instruct its respective depositary to receive such interest against payment. Payment will include interest accrued on such beneficial interest in the Global Bond from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depositary to the DTC Participant's account against delivery of the interest in the Global Bond. After settlement has been completed, the interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg participant's or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Global Bond will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg or Euroclear cash debit will be valued instead as of the actual settlement date.

Clearstream, Luxembourg participants and Euroclear participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, such participants may

take on credit exposure to Clearstream, Luxembourg or Euroclear until the interests in the Global Bond are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to a Clearstream, Luxembourg or Euroclear participant, as the case may be, such participant may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Clearstream, Luxembourg participants or Euroclear participants purchasing interests in a Global Bond would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Global Bond were credited to their accounts. However, interest on the Global Bond would accrue from the value date. Therefore, in many cases the investment income on the interest in the Global Bond earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC Participants can employ their usual procedures for transferring interests in the Global Bond to the respective depositaries of Clearstream, Luxembourg or Euroclear for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC Participants, a cross-market sale transaction will settle no differently than a trade between two DTC participants.

Trading between Clearstream, Luxembourg or Euroclear seller and DTC purchaser. Due to time zone differences in their favor, Clearstream, Luxembourg and Euroclear participants may employ their customary, procedures for transactions in which interests in a Global Bond are to be transferred by the respective clearing system, through its respective depositary, to a DTC Participant, as the case may be, at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct its respective depositary to deliver the interest in the Global Bond to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in the Global Bond from and including the last interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream, Luxembourg or Euroclear participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would instead be valued as of the actual settlement date.

The information in this section concerning DTC, Euroclear and Clearstream, Luxembourg and their book-entry system has been obtained from sources the Republic believes to be reliable, and the Republic makes no representation or warranty with respect thereto, other than that such information has been accurately extracted and/or summarized from such sources.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the Global Bonds among participants in DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. Neither the Republic nor the Fiscal Agent will have any responsibilities for the performance or by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

VENEZUELAN TAXATION

The following is a general description of certain Venezuelan tax aspects of the Bonds and does not purport to be a comprehensive description of the tax aspects of the Bonds. Prospective purchasers should consult their tax advisors as to the tax laws and the specific tax consequences of acquiring, holding and disposing of the Bonds.

Purchasers of Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase other than Venezuela.

Under existing laws and regulations in Venezuela, interest payments made in respect of the Bonds by the Republic will not be subject to Venezuelan income tax or other Venezuelan taxes.

Capital gains resulting from the sale or other disposition of the Bonds will not be subject to Venezuelan income or other Venezuelan taxes.

NOTICE TO VENEZUELAN INVESTORS

General

The Republic has made the regulatory adjustments described in this section prior to the issuance of the Bonds in order to facilitate the purchase of the Bonds by Venezuelan investors.

The Republic, through the Ministry of Finance and Banco Central, enacted Foreign Exchange Agreement No. 4, dated July 22, 2003 *(Convenio Cambiario No. 4)*, to allow the purchase in Venezuela of the Bonds in exchange for Bolívares Fuertes at the official exchange rate, currently at Bs.F 2.15 = U.S.$1.00. Foreign Exchange Agreement No. 4 authorized the primary purchase of Public External Indebtedness of the Republic by payment in Bolívares Fuertes. In accordance with the provisions of Article 3 of Foreign Exchange Agreement No. 4, secondary market sales and purchases of Bonds in Bolívares Fuertes may not take place without the authorization of Banco Central, which it may grant at its discretion.

Payment for the Bonds on Initial Issuance

Investors in Venezuela may purchase and pay for Bonds in Bolívares Fuertes at the official exchange rate of Bs.F 2.15 = U.S.$ 1.00. Purchases must be made by or through a financial institution or broker/dealer that has an account at Banco Central by instructing Banco Central to debit the institution's account in Bolívares Fuertes in an amount equal to the purchase price of the Bonds at the official exchange rate.

Allocation of the Bonds

The Republic, through the Ministry of Finance, publicly announced that it intends to allocate: (i) up to 50% of the aggregate principal amount of the Bonds to companies domiciled in Venezuela whose corporate purpose includes productive activities in the food, health and capital goods sectors of the Venezuelan economy who are registered with CADIVI's Foreign Exchange System Users' Registry (*Registro de Usuarios del Sistema de Administración de Divisas* or "RUSAD" ("Category I Investors"), and (ii) the rest with investors who are domiciled or resident in Venezuela, including legal entities that do not qualify as Category I Investors.

DEALER MANAGERS

The Republic has entered into a Dealer Manager Agreement dated as of April 21, 2008 with Deutsche Bank Securities, Inc. and Barclays Bank PLC (collectively, the "Dealer Managers") pursuant to which the Republic (a) has retained the Dealer Managers to act on behalf of the Republic as dealer managers in connection with the offering of the Bonds, (b) has paid the Dealer Managers a fee equal to 0.20% of the aggregate principal amount of the Bonds, and (c) has agreed to indemnify the Dealer Managers against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act").

The Bonds have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available. The Dealer Managers have agreed to solicit offers for the Bonds only in offshore transactions in reliance on Regulation S under the Securities Act. Each of the Dealer Managers has agreed that neither it nor any of its affiliates nor any person acting on its behalf would make any directed selling efforts in the United States. Terms used in this paragraph have the meanings given them in Regulation S under the Securities Act.

Until June 17, 2008, any offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering of the Bonds) may violate the registration requirements of the Securities Act.

The Dealer Managers and certain of their affiliates have engaged in transactions with and performed various banking and investment banking and other services for the Republic and may continue to do so from time to time in the future.

No action has been or will be taken in any jurisdiction by the Republic or any of the Dealer Managers that would permit a public offering of the Bonds, or possession or distribution of this Listing Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required.

VALIDITY OF THE BONDS

The validity of the Bonds will be passed upon for Venezuela by Ramos Ferreira y Vera, S.C., Venezuelan counsel to the Republic, and by Arnold & Porter LLP, New York, New York, United States counsel to Venezuela, and for the Dealer Managers by Shearman & Sterling LLP, New York, New York, United States counsel to the Dealer Managers, and by D'Empaire Reyna Abogados, Venezuelan counsel to the Dealer Managers. As to all matters of Venezuelan law, Arnold & Porter LLP may rely on the opinion of Ramos Ferreira y Vera, S.C. and Shearman & Sterling LLP may rely on the opinion of D'Empaire Reyna Abogados. As to all matters of United States law, Ramos Ferreira y Vera, S.C. may rely on the opinion of Arnold & Porter LLP and D'Empaire Reyna Abogados may rely on the opinion of Shearman & Sterling LLP.

GENERAL INFORMATION

Due Authorization

The creation and issuance of the Bonds was authorized pursuant to the Organic Law of the Financial Administration of the Public Sector, the approvals of the Permanent Finance Committee of the Venezuelan National Assembly N° CPF EXT- N° 02-1 and N° CPF EXT- N° 03, dated January 16, 2008 and N° CPF EXT- N° 098, dated February 21, 2008, and by the approvals of the President of the Republic in consultation with the Council of Ministers (*Consejo de Ministros*) N° 559, dated February 26, 2008 and N° 041 dated February 21, 2008. Banco Central's participation in the transaction has been authorized by the Board of Directors of Banco Central on April 29, 2008.

Listing and Listing Agent

Application has been made to list the Bonds on the Official List of the Exchange and to trade the Bonds on the Euro MTF market of the Exchange. For so long as the Bonds are listed on the Official List of the Exchange and the rules of the Exchange so require, notices will be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or by publication on the website of the Exchange at http://www.bourse.lu.

The Luxembourg listing agent, from whom copies of the Listing Memorandum, the Fiscal Agency Agreement and the Dealer Manager Agreement may be obtained in Luxembourg, is Deutsche Bank Luxembourg S.A., 2 Boulevard Konrad Adenauer, 1115 Luxembourg.

Except as disclosed in this Listing Memorandum, there has been no material adverse change in the fiscal, economic or political condition or affairs of the Issue since December 31, 2006, which is material in the context of the issue of the Bonds.

Litigation

Except as described herein, neither the Republic nor any Governmental Agency of the Republic is involved in any litigation or arbitration or administrative proceedings relative to claims or amounts that are material in the context of the issuance of the Bonds and that would materially and adversely affect the Republic's ability to meet its obligations under the Bonds and the Fiscal Agency Agreement with respect to the Bonds. No such litigation or arbitration or administrative proceedings are pending or, so far as the Republic is aware, threatened.

Documents Relating to the Bonds

Copies of the Fiscal Agency Agreement and the form of bond may be inspected during normal business hours on any day, except Saturdays, Sundays and public holidays, at the offices of the Fiscal Agent and the Luxembourg paying agent and transfer agent specified on the inside back cover of this Listing Memorandum.

Where You Can Find Additional Information

The SEC maintains an Internet site (www.sec.gov) that contains reports and other information regarding issuers that file electronically with the SEC. Copies of reports and information filed with the SEC by the Republic, including its

annual report on Form 18-K for the fiscal year ended December 31, 2006, will be available free of charge at the office of the Luxembourg Listing Agent.

Clearing

The Bonds due 2023 have been accepted into DTC's book-entry settlement system. The Bonds due 2023 have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg.

CUSIP	ISIN	Common Code
P17625AA5	USP17625AA59	036133643

The Bonds due 2028 have been accepted into DTC's book-entry settlement system. The Bonds due 2028 have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

CUSIP	ISIN	Common Code
P17625AB3	USP17625AB33	036133678

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